Market Discipline Report 2022

Banco Comercial Português, S.A.

Market Discipline Report 2022

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

2022 Market Discipline Report

BANCO COMERCIAL PORTUGUÊS, S.A.

Public Company

Head Office: Praça D. João I, 28, 4000-295 Porto – Share Capital of 3.000.000.000 euros

Registered at Porto Commercial Registry, under the single registration and tax identification number 501 525 882

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Introduction

This document, denominated “Market Discipline Report 2022 ”, is comprised within the requisites for the provision of information foreseen in Pillar III of the capital agreement complementing the information provided in the 2022 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, the risks assumed, solvency and respective control and management processes.

This report incorporates the requirements for public disclosure of information provided for in Part VIII of Regulation (EU) No. 575/2013 (CRR), of the European Parliament and of the Council, of 26 June 2013, the objective of which is to provide participants of the market with accurate and complete information on the risk profiles of institutions, as well as the complementary information contained in the guidelines of the European Banking Authority (EBA).

Following the regulatory developments in 2022, this report contains new disclosures in comparison with the information provided in previous years:

- The incorporation for the first time of detailed information within the scope of environmental, social and governance risks (ESG factors), including transition risks and physical risks, in accordance with the guidelines of EBA/ITS/2022/01 – 'Final draft ITS on prudential disclosures on ESG risks' and in accordance with Regulation (EU) 2022/2453 of November 30, 2022.
- More detailed disclosure on exposures to interest rate risk on positions not held in the trading book, pursuant to Regulation (EU) 2022/631 of April 13, 2022.
- Disclosure of non-performing and restructured exposures in accordance with EBA/GL/2022/13 Guidelines of 12 October 2022.

The information presented refers to the end of the 2022 financial year.

1. Statement of responsibility of the Board of Directors

I. This declaration of compliance issued by the Board of Directors of Banco Comercial Português, S.A., focuses on the Market Discipline Report 2022, complying with the requirements set forth in CRD IV/CRR.

II. The Market Discipline Report 2022 was made within the scope of Pillar III, in compliance with the regulations and legislation in force and in line with the practices adopted by major international banks.

III. The Regulation (EU) No. 575/2013 and the Directive 2013/36/EU, both dated June 26, (Capital Requirements Regulation / Capital Requirements Directive), this one transposed into the domestic legal order by Decree-Law no. 157/2014 of 24 October, establish the requirements and criteria for disclosure of information and own funds, namely those provided for in articles 431 to 455 of the CRR within the scope of Pillar III requirements.

IV. Since the regulatory requirements do not foresee it, this report was not audited by the Bank's External Auditor. However, the report includes information contained in the Consolidated and audited Financial Statements, reported in the 2022 Annual Report, which was discussed and approved at the General Meeting of Shareholders held on May 24, 2023.

V. Concerning the information presented in the Market Discipline Report 2022, 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;
- Ensures 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;
- Confirms that the risk management systems are adequate and this Report outlines the Bank's risk profile in relation to its business strategy, reflected in the key ratios and figures disclosed in it, namely those previewed in Chapter 2;
- informs that no information related to the one described in paragraph 2 of article 432 of the CRR has been omitted; and
- Commits to timely disclose any significant alterations that may occur in the financial year after the one this report relates to.

Lisbon, 26th of June 2023

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

2. KEY METRICS

The following table provides key regulatory metrics and ratios, comprising own funds, RWAs, capital ratios, additional requirements based on Supervisory Review and Evaluation Process (SREP), capital buffers requirements, leverage ratio, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR).

TABLE 1 – TEMPLATE EU KM1 – KEY METRICS TEMPLATE

(Thousand euros)

		a	b	c	d	e
		Dec 22	**Sep 22**	**Jun 22**	**Mar 22**	**Dec 21**
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	5,442,456	5,360,924	5,320,200	5,164,656	5,372,775
2	Tier 1 capital	5,938,797	5,795,259	5,827,639	5,671,628	5,882,041
3	Total capital	7,278,712	7,122,796	7,146,370	7,005,249	7,212,800
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	43,102,759	46,101,219	46,207,718	46,045,443	45,932,529
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	12.63%	11.63%	11.51%	11.22%	11.70%
6	Tier 1 ratio (%)	13.78%	12.57%	12.61%	12.32%	12.81%
7	Total capital ratio (%)	16.89%	15.45%	15.47%	15.21%	15.70%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional CET1 SREP requirements (%)	2.50%	2.50%	2.50%	2.50%	2.25%
EU 7b	Additional AT1 SREP requirements (%)	1.41%	1.41%	1.41%	1.41%	1.27%
EU 7c	Additional T2 SREP requirements (%)	1.88%	1.88%	1.88%	1.88%	1.69%
EU 7d	Total SREP own funds requirements (%)	10.50%	10.50%	10.50%	10.50%	10.25%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 9a	Systemic risk buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer	0.75%	0.75%	0.75%	0.75%	0.56%
11	Combined buffer requirement (%)	3.25%	3.25%	3.25%	3.25%	3.06%
EU 11a	Overall capital requirements (%)	13.75%	13.75%	13.75%	13.75%	13.31%
12	CET1 available after meeting the total SREP own funds requirements	2,544,454	2,164,788	3,131,419	2,445,097	2,724,478
	Leverage ratio					
13	Leverage ratio total exposure measure	98,339,418	102,560,156	100,518,281	100,889,057	99,785,900
14	Leverage ratio	6.04%	5.65%	5.80%	5.62%	5.89%
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)					
EU 14a	Additional CET1 leverage ratio requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14b	Additional AT1 leverage ratio requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14c	Additional T2 leverage ratio requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14d	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
EU 14e	Applicable leverage buffer	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14f	Overall leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
	Liquidity Coverage Ratio (°)					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	23,539,207	23,415,772	23,060,322	22,719,059	21,896,644
EU 16a	Cash outflows - Total weighted value	11,834,677	11,601,856	11,647,435	11,842,421	12,351,345
EU 16b	Cash inflows - Total weighted value	3,086,660	3,019,765	3,211,738	3,631,059	4,239,083
16	Total net cash outflows (adjusted value)	8,748,016	8,582,091	8,435,697	8,211,362	8,112,262
17	Liquidity coverage ratio (%)	269%	273%	274%	277%	270%
	Net Stable Funding Ratio					
18	Total available stable funding	75,782,802	76,906,597	76,993,583	79,810,812	79,036,420
19	Total required stable funding	49,176,996	50,317,600	50,167,088	53,306,769	52,727,456
20	NSFR ratio (%)	154%	153%	153%	150%	150%

° Liquidity coverage ratio is the average, using the end-of-month observations over the last twelve months at each quarter

3. Scope of application

3.1. Identification of Banco Comercial Português, S.A.

Banco Comercial Português, S.A. is a joint stock company with share capital open to public investment (public company), with registered office at Praça D. João I, 28, 4000-295 Porto, registered at the Porto Companies Registry Office under the single registry and tax number 501525882, registered at Banco de Portugal as a bank institution under code 33, at the Comissão do Mercado de Valores Mobiliários as a Financial Intermediary under registration number 105 and at Autoridade de Supervisão de Seguros e Fundos de Pensões as a connected Insurance Mediator under number 419527602/3.

On 31 December 2022, the Bank's share capital amounted to 3.000.000.000,00 euros, fully paid-up and represented by 15.113.989.952 shares without nominal value. The shares are 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 private capital company, incorporated in Portugal by public deed on 25 June 1985, the parent company of a group of companies that are in a controlling or group relationship with it, under the provisions of article 21 of the Securities Code (hereinafter referred to as "Group" or "BCP Group"), being subject to the supervision of the European Central Bank, on an 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 Management Report and the Financial Statements (individual and consolidated), as well as the Corporate Governance and Sustainability Reports are available on the Bank's website, in Portuguese and in English, on the page with the following address:

https://ind.millenniumbcp.pt/pt/institucional/Pages/Institucional.aspx

3.2. 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, 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 "5. Capital adequacy". As of 31 December 2022, there are no subsidiaries not included in the consolidation perimeter for prudential purposes, whose own funds are lower than the minimum required level. Also, 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, as per CRR articles 92 and 395.

The entities included in the consolidation perimeter of BCP Group as of 31 December 2022 are described in the following Table, 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 (ENTITY BY ENTITY)

a	b	c	d	e	f	g	h
		Method of regulatory consolidation					Description of the entity
Name of the entity	Method of accounting consolidation	Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
Banco ActivoBank, S.A.	Full consolidation	X					Banking
Bank Millennium, S.A.	Full consolidation	X					Banking
BCP África, S.G.P.S., Lda.	Full consolidation	X					Holding company
BCP International B.V.	Full consolidation	X					Holding company
BCP Finance Bank, Ltd.	Full consolidation	X					Banking
BIM - Banco Internacional de Mozambique, S.A.	Full consolidation	X					Banking
Millennium BCP - Escritório de Representações e Serviços, Ltda.	Full consolidation	X					Financial services
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Full consolidation	X					Holding company
Interfundos - Gestão de Fundos de Investimento Imobiliários, S.A.	Full consolidation	X					Investment fund management
Monumental Residence - Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A.	Full consolidation				(1)		Real estate management
Millennium bcp - Prestação de Serviços, A.C.E.	Full consolidation	X					Services
Millennium bcp Teleserviços - Serviços de Comércio Electrónico, S.A.	Full consolidation	X					E-comerce
Millennium Bank Hipoteczny S.A.	Full consolidation	X					Banking
Millennium Consulting S.A.	Full consolidation	X					Brokerage services
Millennium Goodie Sp. z o.o.	Full consolidation	X					Consultant and services
Millennium Leasing Sp. z o.o.	Full consolidation	X					Leasing
Millennium Service Sp. z o.o	Full consolidation	X					Services
Millennium Telecomunication Sp. z o.o.	Full consolidation	X					Brokerage services
Millennium TFI - Towarzystwo Funduszy Inwestycyjnych, S.A.	Full consolidation	X					Investment fund management
Piast Expert Sp. z o.o.	Full consolidation	X					Marketing services
Millennium Financial Services, Sp.z o.o.	Full consolidation	X					Services
Bichorro - Empreendimentos Turísticos e Imobiliários S.A.	Full consolidation				(4)		Real estate company

a	b	c	d	e	f	g	h
		Method of regulatory consolidation					Description of the entity
Name of the entity	Method of accounting consolidation	Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
Finalgarve - Sociedade de Promoção Imobiliária Turística, S.A.	Full consolidation				(4)		Real estate company
Fiparso - Sociedade Imobiliária Lda.	Full consolidation				(4)		Real estate company
Flitptrel Tires, S.A.	Full consolidation				(4)		Real estate company
Fundo de Investimento Imobiliário Imosotto Acumulação	Full consolidation				(1)		Real estate investment fund
Fundo de Investimento Imobiliário Imorenda	Full consolidation				(1)		Real estate investment fund
Fundo Especial de Investimento Imobiliário Oceânico II	Full consolidation				(1)		Real estate investment fund
Fundo Especial de Investimento Imobiliário Fechado Sand Capital	Full consolidation				(1)		Real estate investment fund
Funsita - Fundo Especial de Investimento Imobiliário Fechado	Full consolidation				(1)		Real estate investment fund
Fundial- Fundo Especial de Investimento Imobiliário Fechado	Full consolidation				(1)		Real estate investment fund
Fundipar - Fundo Especial de Investimento Imobiliário Fechado	Full consolidation				(1)		Real estate investment fund
Domus Capital - Fundo Especial de Investimento Imobiliário Fechado	Full consolidation				(1)		Real estate investment fund
Predicapital - Fundo Especial de Investimento Imobiliário Fechado	Full consolidation				(1)		Real estate investment fund
Banco Millennium Atlântico, S.A.	Equity Method					(3)	Banking
Banque BCP, S.A.S.	Equity Method					(3)	Banking
Lubuskie Fabryki Mebli S.A	Equity Method				(2)		Furniture manufacturer
SIBS, S.G.P.S., S.A.	Equity Method					(3)	Banking services
UNICRE - Instituição Financeira de Crédito, S.A.	Equity Method					(3)	Credit cards
Webspectator Corporation	Equity Method				(2)		Services de publicidade digital
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Equity Method					(3)	Holding company
Fidelidade Moçambique - Companhia de Seguros, S.A.	Equity Method					(3)	Insurance
Magellan Mortgages No.3 Limited	Full consolidation	X					Special Purpose Entity (SPE)

(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 registered on the balance sheet assets.

(3) Entity excluded from the consolidation for prudential purposes, for which the financial participation amount is deducted from own funds under article 48 of the CRR.

(4) Entity excluded from the consolidation for prudential purposes, since it is held by one of the investment funds identified in (1).

The consolidation methods used for accounting purposes and the respective selection criteria in force in the Group are described below.

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 "11.2 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 (Consolidation – Special Purpose Entities).

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.

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 2022, the accounting values determined under the scope of regulatory consolidation are distributed according to the regulatory risk categories presented in Table 3:

TABLE 3 – TEMPLATE EU LI1 – DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES

(Thousand euros)

	a	b	c	d	e	f	g
			Carrying values of items				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
ASSETS							
Cash and deposits at Central Banks	6,022,001	6,022,001	6,028,497				
Loans and advances to credit institutions repayable on demand	213,460	212,482	214,098				
Loans and advances to credit institutions	963,434	962,432	991,054				
Loans and advances to customers and debt instruments at amortised cost	67,711,375	67,711,375	64,402,015		3,323,093		59,395
Securities and derivatives	9,139,250	9,417,963	8,665,706	323,788	101	485,076	33,732
Non-current assets held for sale	499,035	301,537	301,537				
Investment property	15,217	12,532	12,532				
Other tangible assets	574,697	511,729	511,729				
Goodwill and intangible assets	182,687	182,687	82,359				100,328
Current tax assets	17,945	17,939	17,939				
Deferred tax assets	2,938,986	2,933,516	2,312,750				620,766
Other assets	1,582,455	1,580,041	950,861				619,000
Total assets	**89,860,542**	**89,866,234**	**84,491,077**	**323,788**	**3,323,193**	**485,076**	**1,433,221**
LIABILITIES							
Resources from credit institutions	1,468,360	1,468,360					
Resources from customers	75,430,143	75,441,450					
Non subordinated debt securities issued	1,482,086	1,482,086		427,240			
Subordinated debt	1,333,056	1,333,056					
Financial liabilities held for trading	241,505	241,505				163,819	
Financial liabilities at fair value through profit or loss	1,817,680	1,817,680				850,682	
Hedging derivatives	178,000	178,000				51,235	
Non-current liabilities held for sale	0	0					
Provisions	561,786	559954					
Current tax liabilities	23,680	23,680					
Deferred tax liabilities	11,708	11,708					
Other liabilities	1,391,972	1,410,644					
Total liabilities	**83,939,976**	**83,968,123**		**427,240**		**1,065,737**	

The difference between columns a) and b) - carrying values as reported in published financial statements and carrying values under scope of regulatory consolidation, respectively - is immaterial. Additionally, the sum of carrying amounts under the regulatory frameworks can be higher than the one reported in column a), as some asset types are subject to capital requirements in more than one regulatory framework.

The following table shows the reconciliation between the carrying values in financial statements and the exposure considered for regulatory purposes. The starting point of this table is the carrying values in financial statements reported in template LI1 (please see note 1 below) and through the detail of relevant differences the exposure amount, as reported in COREP, is reached. Exception only for Market Risk, as for this framework there is EAD definition.

TABLE 4 – TEMPLATE EU LI2 - MAIN SOURCES OF DIFFERENCES BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING VALUES IN FINANCIAL STATEMENTS

(Thousand euros)

		a	b	c	d	e
				Items subject to		
		Total	Credit risk framework	CCR framework	Securitisation framework	Market risk framework
1	Assets carrying value amount under the scope of regulatory consolidation (as per template LI1) (a)	**88,623,134**	**84,491,077**	**323,788**	**3,323,193**	**485,076**
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)	427,240	-	427,240	-	-
3	Total net amount under the regulatory scope of consolidation	88,195,894	84,491,077	- 103,452	3,323,193	485,076
4	Off-balance-sheet amounts (b)	16,287,677	6,617,410	-	-	-
5	Differences in valuations (c)	1,399,256	-	1,399,256	-	-
6	Differences due to consideration of provisions (d)	992,064	992,064	-	-	-
7	Differences due to the use of credit risk mitigation techniques (CRMs)	(193,485)	(101,785)	-	(91,700)	-
8	Differences due to credit conversion factors	(9,670,268)	-	-	-	-
9	Other differences	214,607	268,565	- -	53,958	-
10	Exposure amounts considered for regulatory purposes	**97,225,747**	**92,267,332**	**1,295,804**	**3,177,535**	**485,076**

a) The total of line 1 does not match with Template EU LI1. Assets not deducted to own funds nor those not subject of capital requirements are not considered.

b) The total amount of line 4 does not match with the remaining items since, according to the filling rules, the total amount refers to the original position net of provisions and the item "Credit Risk framework" contains the exposure value after CCF application.

c) Reflects the use of SA-CCR method to calculate the EAD of positions subject to counterparty credit risk.

d) Provisions related to IRB on-balance exposures are considered in EAD.

e) Value refers to "Total", according to note (b).

f) EAD reported in each of the frameworks, except for market risk, since there is no EAD concept in regulatory reporting.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The BCP Group develops its activity aiming to maintain a moderate and sustainable risk profile, with a solid reputation in the market and with comfortable levels of capital and liquidity adequate to the managed business portfolio, always with the objective of strengthening the confidence of its clients. customers, markets, and regulators.

To achieve this objective, the Bank has implemented internal control and risk management systems and a prudent risk appetite structure, in line with the pursued business model and the Bank's profile and strategy. Improvements are continuous and permanently introduced to ensure constant alignment with the dynamics of markets, the economy, and regulations.

4.1. Risk culture

The Group has risk management policies and procedures, embodied in a vast set of risk manuals that define the rules to be observed within the scope of the risk management function and which contribute to the strengthening of an established risk culture in line with the risk appetite statement (RAS) defined by the Board of Directors, supported by the involvement of Management and Senior Management and present in the day-to-day activities of the Bank, framing the internal attitudes and behaviours related to the conscience of risk, risk taking and management and implementation of controls appropriate to business processes and activities concerning rentability and sustainability objectives, respecting social and environmental goals.

The structure of the Group and the Bank is based on the principle of segregation of functions not to harm the interactions between the organic units and the internal control functions, bearing in mind that possible situations of potential conflict of interest are previously identified, minimized and subject to a careful and independent monitoring, in order to guarantee the autonomy and independence of the internal control units.

The Bank's internal regulatory framework establishes detailed rules and standards of conduct, defines efficient business, risk and operating processes and the appropriate competencies for their execution. The internal regulatory framework is subject to constant update considering, particularly, the legal and regulatory dynamics issues and internal self-assessment exercises. The rules that make up the internal regulatory framework are reviewed at least every two years, ensuring its permanent updating and constant search for operational excellence, the maintenance of high ethical standards and an adequate governance model. The existence of a Code of Conduct approved by the Board of Directors that guides proper conduct and ethical values at all levels of the organization, prohibiting practices that may inadvertently provide incentives or temptations to inappropriate activities shall be highlighted.

Regarding remuneration policies, the Bank's effort is to define policies capable of attracting and retaining the best talents and, at the same time, defending the Bank's reputation and long-term objectives, discouraging the focus exclusively on goals and short-term results.

Still within the scope of strengthening the risk culture, it is worth mentioning the periodic training of employees in risk and compliance matters, including e-learning actions under the coordination of the Millennium Banking Academy.

4.2. Risk strategy

The Board of Directors formally reviews and approves the Bank’s Risk Strategy at least once a year, ensuring its alignment with the planning and budgeting process. The definition of the Group's Risk Strategy integrates the conclusions of the risk identification process, the results of the assessment of the adequacy of the internal capital and liquidity and influences the Group's strategic business options by defining the main lines of action to be developed to control, mitigate or eliminate the material risks to which the Group's activity is subject in the medium term. The objective of the Risk Strategy is not to eliminate or avoid risks, but to assume acceptable risks and promote proper management fostering the achievement of the strategic and operational objectives of the BCP Group.

The Risk Strategy is reviewed in coordination with the risk appetite statement update, focuses on the material risks identified by the Bank and before its formal approval by the Board of Directors is subject to the opinion by the Risk Assessment Committee and the Executive Committee. The Risk Strategy is regularly revisited within the scope of the quarterly risk assessment review.

4.3. Internal control

The internal control system governance model encompasses the organizational structure, the lines of reporting and levels of authority, the set of lines of responsibilities and processes, that result from the applicable laws and regulations, as well as the Bank's by-laws and internal regulations, to ensure a prudent and effective management of the Bank and adequate checks and balances.

The governance model promotes a conduct and risk culture across all the areas of the Bank, which is materialized in an overarching set of principles, strategies, policies, systems and functions.

The Board of Directors promotes a strong governance and internal control culture, embedded in all levels of the organization, and based on high standards of ethical behaviour, with rules established in the Code of Conduct, available in the Bank's site.

The Board of Directors provides the Bank's governance, guidance and oversight and sets the broad strategies and major policies of the organization, approves the overall organizational structure, and has the ultimate responsibility for ensuring that adequate governance and internal controls system are established and maintained, being supported in this function by the Audit Committee.

The Audit Committee plays a central role in the development of a governance culture and an internal control system with a direct relation with the Board of Directors, the Bank's internal control units and the external auditors.

For its part, the Risk Assessment Committee advises and supports the Board of Directors in defining the risk appetite and general, current, and future risk strategy, as well as monitoring the respective execution, being also responsible for the assessment the adequacy of the risk management function.

The current management of the Bank is delegated in the Executive Committee. This Committee established different specialized commissions, with the participation of two or more Executive Directors, and first line Managers who directly report to them.

The organizational structure of the Group is based on the principle of the segregation of functions between the business units and internal control functions, aiming that any situations of potential conflict of interests are identified in advance, minimized and subject to careful and independent monitoring.

The internal control system includes a set of principles, strategies, policies, systems, processes, rules, and procedures established in the Group aimed at ensuring:

- Efficient and profitable performance of the activity, in the medium and long-term, ensuring the effective use of the assets and resources, the business continuity and survival of the Group, namely through an adequate management and control of the activity risks, through a prudent and correct assessment of assets and liabilities, as well as through the implementation of mechanisms for prevention and protection against errors and fraud.
- The existence of financial and managerial information, which is complete, pertinent, reliable, and timely, to support decision-making and control processes, both at an internal and external level.
- Observance of the applicable legal and regulatory provisions issued by the Supervision Authorities, including those relative to the prevention of money laundering and financing of terrorism, as well as professional and ethical codes of conduct, standards and practices, internal and statutory rules, guidelines of the Basel Banking Supervisory Committee and European Banking Authority (EBA), so as to preserve the image and reputation of the institution before its Customers, Shareholders, Employees and Supervisors.
- An effective Risk Management Function (RMF) with well-defined processes to identify, manage, monitor, and report the risks that the Group is exposed.
- A Compliance Function ensuring the alignment with legal, regulatory, and statutory requirements, and with internal rules, including rules of conduct and relationship with Clients, Investors, Supervisors' Entities, and others, which rules are established in a Code of Conduct.
- An Internal Audit Function ensuring the effectiveness and consistency of the internal control processes and mechanisms.
- The alignment of subsidiaries operating model with the organizational and managerial principles defined by the Bank, as the consolidating Entity.
- The adoption of sound sustainability principles, namely regarding Environmental, Social and Governance (ESG) factors, and its coherence with the Group's activity.
- The good image and reputation of the Bank towards its stakeholders.

To achieve these objectives, the internal control system is based on the compliance function, the risk management function and internal audit function. The Heads of these three divisions are appointed by the Bank's Board of Directors, by proposal of the Committee for Nominations and Remunerations, after an opinion from the Audit Committee and of the Risk Assessment Committee.

The internal control system is based on:

- A control environment supported by high integrity and honesty standards, promoting a strict compliance with the laws and regulations, by the effective enforcement of a checks and balances' system, including adequate segregation of duties, with the objective of preventing conflicts of interest, and by process based operational management models and control activities, that allow for clear identification of the implemented controls and the assessment of their efficiency.
- A solid risk management system, aimed at the identification, evaluation, follow-up, and control of all risks which might influence the Group's activities.
- An efficient information and communication system, designed to guarantee the collection, processing and transmission of relevant, encompassing, and consistent data, within a timeframe and manner that allows for an effective and timely management and control of the Bank's activity and risks.
- An effective monitoring and correction process, implemented with a view to ensuring the adequacy and effectiveness of the actual internal control system over time, to immediately identify any flaws (defined as the group of existing, potential, or real defects, or opportunities for the introduction of improvements that will strengthen the internal control system), and ensuring the triggering of corrective action.
- Strict compliance with all the legal and regulatory provisions by the Group's Employees in general, and by the people who hold senior or managerial positions, including members of the management bodies.
- A governance model that defines that the business areas are responsible for risk taking, ensuring the effective monitoring, control and management of the risks assumed, and supporting the independent review of the risk levels incurred as compliant with the approval Risk Appetite Framework.

The internal control system is consistently applied across all Group entities, supported on group codes issued by BCP defining global policies, principles, and rules, considering, and complying with local, legal or regulatory requirements of the countries where operations are based.

4.4. Three lines of defence model

The Bank's internal control system is based on the "Three Lines of Defence Model", aiming to ensure:

- A clear accountability of the business areas for the respective assumption of risks.
- The effective monitoring, control and management of the risks assumed.
- An independent evaluation, to be reported to the Board of Directors, to the Executive Committee, Audit Committee and Risk Assessment Committee of the levels of risk assumed, their compliance with the Risk Appetite Framework in place and the effectiveness of the established internal control systems.

The business lines, as the first line of defence, take risks and are responsible for their operational management directly and on a permanent basis. For that purpose, business lines have appropriate processes and controls in place that aim to ensure that risks are identified, analysed, measured, monitored, managed, reported and kept within the limits of the institution's risk appetite and that the business activities comply with the external and internal requirements.

The risk management function and the compliance function form the second line of defence.

The risk management function facilitates the implementation of a sound risk management framework throughout the Bank and has responsibility for further identifying, monitoring, analysing, measuring, managing, and reporting on risks and forming a holistic view on all risks on an individual and consolidated basis. It challenges and assists in the implementation of risk management measures by the business lines to ensure that the process and controls in place at the first line of defence are properly designed and are effective.

The compliance function monitors the Bank's compliance with legal, regulatory, and internal policies requirements, including the reputational defence of the Bank, comprising, among others, the prevention of financial crime activities. It provides advice on compliance matters to the management body and establishes policies and processes to manage compliance risks and to ensure an overall compliance culture within the Bank.

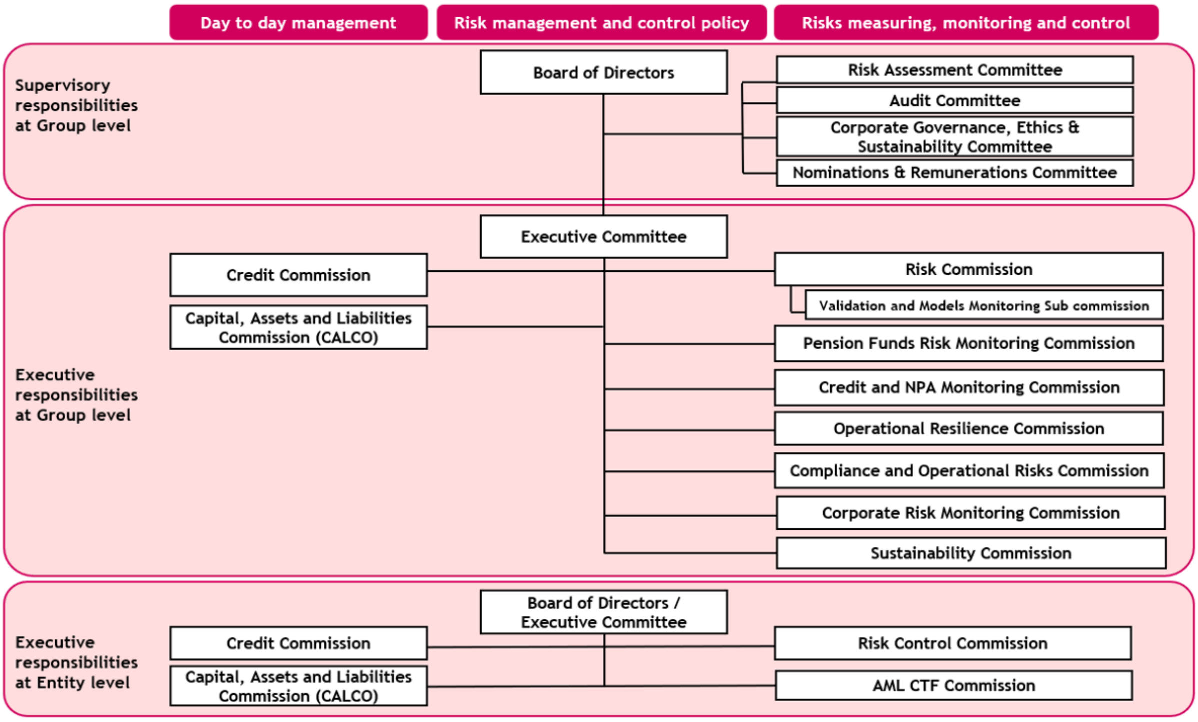
Both the risk management function and the compliance function intervene to ensure the improvement and strengthening of internal control and risk management systems interacting with the first line of defence whenever necessary.

The internal audit function, as the third line of defence, conducts risk-based audits and reviews the internal governance arrangements, processes, and mechanisms to ascertain that they are sound and effective, implemented and consistently applied, to assess the suitability and efficiency of the organizational culture, of the risk management process, of the internal control system and of the governance models in place. The internal audit function performs its tasks fully independently of the other lines of defence.

4.5. Risk management structure and governance

The following figure illustrates the process of risk management's Governance, as of 31st December 2022 exerted through various organizational bodies and units with specific responsibilities in risk management or internal supervision:

TABLE 5 – RMS GOVERNANCE MODEL



Board of Directors

The ultimate body of the BCP Group's risk management structure is the Board of Directors, which, within the scope of the functions assigned to it by the Bank's Articles of Association, has the leading role in the risk management and control structure. The Board of Directors is responsible for defining the Group's global strategic guidelines and objectives, the profile and risk appetite, promoting the risk culture and risk strategy, reserving for itself the approval of group codes that establish policies, principles, rules and risk limits. The Board of Directors monitors the evolution of metrics and risk indicators translated into the RAS (including the approval of remediation measures in case of breaches to the limits) approves the conclusions of the ICAAP and ILAAP processes and the performance of the Internal Control System.

The number of positions held by the executive and non-executive members of the Board of Directors and the Supervisory Board (Audit Committee) of the Bank complies with the provisions of Article 33 of the Legal Framework for Credit Institutions and Financial Companies (LFCIFC), and according to the assessments made, it was concluded that each member showed availability and dedicated to the exercise of their functions the necessary and proportional time to the importance of the matters to be dealt with, assessed taking into account their interest to the Bank.

The identification of the positions held by the executive and non-executive members of the Board of Directors and Supervisory Board simultaneously in other companies, inside and outside the group, and other relevant activities, is indicated on page 768 and following of the 2022 Annual Report, available on the Bank's website.

The Bank has in place an internal policy for selecting and assessing the suitability of members of the management and Supervisory bodies and key function holders compliant with the European regulations, namely the European Banking Authority Guidelines on the internal governance of institutions (EBA/GL/2021/05 of 2 July) and on assessing the suitability of members of the management and Supervisory bodies (EBA/GL/2021/06 of 2 July), as well as with Banco de Portugal's Notice no. 3/2020.

The internal policy for selecting and assessing the suitability of members of the Board of Directors and Supervisory Board and key function holders includes: the general principles; scope and governance of the individual and collective suitability assessment of the members of the Board of Directors and Supervisory Board and key function holders; suitability requirements; training; diversity; corrective measures; and succession plan. The Internal Policy for selecting and assessing the suitability of members of the management and Supervisory bodies is available on the Bank's website, in Portuguese and English, at the following address:

https://ind.millenniumbcp.pt/pt/Institucional/governacao/Pages/normas_regulamentos.aspx

BCP approved a Group wide policy according to which all entities of the Group shall promote diversity among the members of the management body, to ensure a wide range of attributes and competences of the members of the management body, to obtain diversity of perspectives and experiences and to favour independence of opinions and sound decision making within the management body.

The concern with diversity refers to the following aspects: qualifications and professional background, gender, age and geographical origin. The Bank complies with the Portuguese legislation in force, namely Law 62/2017, of 1 August that sets forth a balanced representation regime between men and women in the management and Supervisory bodies of listed companies.

The diversity policy applied by the company regarding its management bodies is described on pages 743 and following of the 2022 Annual Report, available on the Bank's website, in Portuguese and English, at the following address:

https://ind.millenniumbcp.pt/pt/Institucional/investidores/Pages/RelatorioContas.aspx

The composition, capacities and responsibilities of the management and control bodies that intervene in the risk management governance are the following:

Audit Committee

The BoD's Audit Committee is elected by the Shareholders' General Meeting and is composed by three to five non-executive Directors, mainly independent. Within the competences of this Committee, this Committee has global corporate supervising capabilities - e.g. in what concerns financial information, namely risk levels follow-up - as well as those that are attributed within the Internal Control System, namely:

- Overseeing the management activity of the Bank;
- Monitoring the suitability and effectiveness of the Bank's organizational culture, governance models and internal control and risk management systems, including the prevention of money laundering and terrorist financing;
- Monitoring the accounting policies and processes adopted by the Bank, the financial reporting process and submit recommendations aimed at ensuring its integrity;
- Overseeing the performance of the Compliance and Internal Audit functions;
- Supervising and controlling the effectiveness of the risk management system, in conjunction with the Risk Assessment Committee; as well as the internal control system in its different aspects and also the internal audit system itself;
- Issuing an opinion in relation to operations of acquisition of goods and services and involving related parties, aiming to avoid conflicts of interests;
- Analyzing the information is received through the whistleblowing mechanism as well as the clients claims.
- Monitor the activity of the External Auditor and periodically assess its independence and objectivity in the exercise of its activity.

The Audit Committee holds regular meetings with the Heads of the Audit Division, the Risk Office and the Compliance Office.

The Compliance Officer participates in the meetings of this Committee, presenting the evolution of the monitoring of compliance and compliance risks, as well as all developments and interactions with regulation/supervision in terms of regulatory compliance.

The Risk Officer participates in this Committee's regular meetings, reporting on the evolution of the main indicators and metrics concerning risks and credit impairment, as well as on the implementation status of the recommendations that concern the risk management system, issued within the scope of internal control or by the Supervisory/regulatory authorities.

The Head of Audit Division reports regularly to the Audit Committee on interactions and the status of the recommendations of the prudential supervision entities, as well as on the audits carried out on the Bank's processes.

Risk Assessment Committee

The Risk Assessment Committee, appointed by the BoD, is composed by three to five non-executive Directors and has, among others, the following capacities:

- Evaluate the integrity and adequacy of the Risk Management function.
- Advising the BoD on risk appetite and risk strategy, accompanying and intervening in the definition and review of the Group's Risk Appetite Framework and providing an opinion on its adequacy to the BoD.
- Monitoring the evolution of the RAS metrics, verifying their alignment with the defined thresholds and levels and monitoring the action plans designed to ensure compliance with the established risk limits.
- Advising the BoD on the policies regarding the risks' identification, management and control within the Group, monitoring the global risk levels in order to ensure that those are compatible with the goals, the available financial resources and the approved strategies for the development of the Group's activities.
- Oversee the implementation of the strategies for capital and liquidity management as well as for all other relevant risks to the Group, such as market, credit, operational (including legal, IT and compliance), and reputational risks, in order to assess their adequacy against the approved risk appetite and strategy.
- Monitoring the capital and liquidity planning processes (ICAAP and ILAAP), providing an opinion to the BoD concerning the respective conclusions, as well as analyzing and approving the conclusions of the regular follow-up on these processes.
- Monitoring and intervening in the Recovery Plan review, providing an opinion to the BoD on the respective adequacy.

Within the resolution planning, the Risk Assessment Committee approves its annual work plan and monitors its execution.

The Risk Officer functionally reports to this Committee and participates in its meetings, presenting the evolution of the key risk metrics and indicators, as well as all incidences, changes and evolutions relative to the Risk Management System (RMS).

Committee for Corporate Governance, Ethics and Sustainability

This Committee, appointed by the Board of Directors, is composed of a minimum of three and a maximum of five non-executive directors.

Amongst other that may be delegated by the Board of Directors, the competences of the Committee for Corporate Governance, Ethics and Sustainability include:

- Recommend the adoption by the Board of Directors of policies, that observe the ethical and professional conduct principles and best corporate governance practices and social responsibility.
- Support the Board of Directors and its Committees in the evaluation of the systems that identify and solve conflicts of interest.
- Assess the compliance function, analyzing the procedures in place and the identified non-compliances.
- Issue opinions addressed to the Board of Directors on the Code of Conduct and on other documents defining business ethical principles.
- Every time it deems necessary, submit to the Board of Directors a report on the evaluation and monitoring of the structure, ethical and professional conduct principles and corporate governance practices of the Bank and on the company's compliance with the legal, regulatory and Supervisory requirements on these issues.
- Issue an opinion for the Board of Directors on the Annual Corporate Governance Report.
- Issue an opinion on the Annual Sustainability Report, concerning issues for which it is responsible.
- Time it deems necessary, submit to the Board of Directors a proposal on the guidelines for the Company's policies, based on a culture identified with the ethical and professional conduct principles targeted at contributing for the pursuit of social responsibility and sustainability goals. Proposing, particularly, guidelines for the social responsibility and sustainability policies of the Company, including, among other, the values and principles for safeguarding the interests of the shareholders, investors and of those interested in the institution and also principles of social charity and environmental protection.
- Issue an opinion on the Group Codes and respective annexes whenever this competence has been delegated to it by the BoD.

Committee for Nominations and Remunerations

This Committee, appointed by the Board of Directors, is composed of a minimum of three and a maximum of five non-executive Directors.

The BoD delegates in the Committee for Nominations and Remunerations the monitoring on issues related with human resources, assessment and composition of the Board of Directors and of its committees, reviewing the Remuneration Policies of the Directors and Employees, including the Key Function Holders (KFH), and monitoring their respective implementation, in accordance with the powers conferred to it by the law and its own Regulations.

Other functions of this Committee:

- Monitor the existence of specific policies related with selection and recruitment, evaluation of performance, promotion and career management, training, and development of competences.
- Elaborate and report to the BoD recommendations on the candidates to members of the Governance and Supervisory bodies of the Bank, ensuring the Fit & Proper assessment process.
- Issue an opinion to the BoD on the Selection, Assessment and Succession policies for members of the Governance and Supervisory bodies and responsible for control functions.
- Prepare and maintain a succession plan for members of the Board of Directors and KFH.

Executive Committee

The Executive Committee is responsible for the daily management of the Bank aiming to pursue the corporate objectives within the risk limits approved and defined by the Board of Directors. Particularly regarding the risk management function, the Executive Committee is responsible for:

- Implement the Bank's general business strategy and main policies, considering the Bank's long-term financial interests and solvency.
- Implement the global risk strategy approved by the BoD and ensure that management devotes sufficient time to risk issues.
- Ensuring an adequate and effective internal governance model and an internal control framework, including a clear organizational structure and independent internal risk management functions.
- Promote the risk culture across the BCP Group, addressing risk awareness and appropriate risk-taking behaviour.
- Promote a corporate culture and values that foster the ethical and responsible behaviour of employees.
- Promote the development, implementation and maintenance of formal processes for obtaining, producing and processing substantive information, appropriate to the size, nature, scope and complexity of the activities carried out, as well as to the institution's risk appetite, which ensure its reliability, integrity, consistency, integrity, validity, timeliness, accessibility and granularity.

The Executive Committee is supported, to carry out its responsibilities, by several management commissions in a wide range of dimensions: Business Activity; Credit Decisions; Risk and Compliance Management; Planning, Costs and Investments; Capital Structure and Liquidity Management; Human Resources Management; Operational Resilience. These management commissions can benefit from the presence of one or more internal control function units (Risk Office, Compliance Office and Internal Audit) which ensures timely detection of any potential internal control deficiencies.

The Executive Committee delegates in the Risk Commission, the Compliance and Operations Risk Commission (CORC) and the Operational Resilience Commission, the mission of monitoring the risks the Group is exposed to as well as the deficiencies identified regarding the internal control system. These commissions are also responsible for monitoring the adoption of corrective measures and the overall progress of open recommendations. Furthermore, the CORC may also evaluate and propose improvements to be introduced to the internal control system.

Risk Commission

This Commission is appointed by the EC and has the responsibility for defining, at an executive level, the framework and the risk management policies and instruments within the Group, establishing the respective principles, rules, limits and practices for the Group Entities, considering the defined risk thresholds by the Board of Directors.

The Risk Commission monitors the overall levels of credit, market, liquidity and operational risk, as well as all other risks considered materially relevant for the Group, ensuring that the risk levels are compatible with the goals, available financial resources and strategies that have been approved for the development of the Group's activity. This Commission also validates the compliance of risk management with all the applicable laws and regulations.

The Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO), and, optionally, any other Executive Director.

Other members of the Commission are the Risk Officer, the Compliance Officer and the Heads of the following Divisions: Treasury, Markets and International (DTMI), Credit (DCR), Rating (DRAT), Economic Studies, Sustainability and Cryptoassets (DESC) Models Monitoring and Validation Office (GAVM) and Regulatory and Supervision Monitoring Office (GARS). The Head of the Audit Division (DAU) is a permanently invited member of the Risk Commission, without voting rights.

Validation and Monitoring of Models Sub-commission

The Models Monitoring and Validation Sub-Commission monitors the performance and confirms the validity of the rating systems and models used by the Bank within the scope of its risk management functions (e.g. PD, LGD, CCF, market risk and ICAAP) and informs the Risk Commission on their adequacy. Moreover, it presents the model's risk management results and suggests improvement measures to increase the model's performance and adequacy.

The CRO is the chairman of the Sub-commission and other members are the Risk Officer, the head of GAVM, of DCR, of DRAT and of DTMI, as well as the several Model Owners, responsible for developing and monitoring the risk models of the Bank.

Credit and Non-Performing Assets Monitoring Commission

This Commission is appointed by the EC and has the responsibility of monitoring the evolution of credit risk, under various aspects:

- Monitoring of the evolution of the credit exposure and the credit underwriting process.
- Monitoring the evolution of the credit portfolio's quality and of the main performance and risk indicators.
- Monitoring the results achieved by the credit monitoring systems.
- Follow-up the counterparty risk and the largest exposures concentration risk.
- Monitoring the impairment evolution and the main cases of individual analysis.
- Assessment of the recovery procedures performance.
- Monitoring the divestment in the foreclosed assets portfolio.
- Follow-up the execution of the operational plans to be developed within the scope of credit at risk and reduction of certain asset classes.

The CEO, the CRO, the CRetO and the COO are members of this Commission, as well as, optionally, the CFO. Any other executive Directors may participate in this body's meetings if they deem convenient to do so. The Heads of the following Divisions are also members of this Commission: Risk Office (ROFF), DCR, DRAT, Specialized Monitoring (DAE), Retail Recovery (DRR), Specialized Recovery (DRE), Legal Advisory and Litigation (DAJC), Management Information (DIG), Specialized and Real-Estate Credit (DCEI), Corporate, Business and Institutional Marketing (DMENI) and Marketing and Network Support (DMAR). The Head of DAU is a permanently invited member of the Risk Commission, without voting rights.

Pension Funds Risk Monitoring Commission

This Commission is appointed by the EC and has the following competences:

- Assessing the performance and risk of the Group's Pension Funds in Portugal;
- Establishing, for these, the appropriate investment policies and hedging strategies.

The Commission members are the CEO, the CFO and the CRO. Any other members of the EC may participate in the Commission's meetings, if they deem convenient to do so. The other Commission's members are the Heads of the following Divisions: ROFF, Research, Planning and ALM (DEPALM), Wealth Management (DWM) and Human Resources (DRH). Representatives of the Pension Funds management entity and of AGEAS Pensões also participate in the Commission's meetings, by invitation and without voting rights.

Compliance and Operational Risks Commission

This Commission, appointed by the EC has a number of tasks and responsibilities, with a view to ensuring that the Bank's activity contributes to an adequate culture of risk and internal control, including ensuring and monitoring the adoption and compliance by all the Group's institutions with the internal and external rules that shape its activity, the relevant contractual commitments and ethical values of the organization, in order to contribute to the mitigation of compliance and operational risks, strengthening the internal control environment, mitigating or eliminating the imputation of significant sanctions or property or reputational losses.

The Commission members are the CEO, the COO and the CRO. Any other members of the EC may participate in the Commission's meetings, if they deem convenient to do so. The Heads of the following Divisions are also members of the Commission: COFF, ROFF, DIT, DSI, DMAR, DO, and the Bank ActivoBank. The Head of DAU, the AML Officer and the managers responsible for the COFF areas that deal with the matters under discussion are also permanently invited members of this Commission, without voting rights.

Operational Resilience Commission

This Commission is appointed by the EC and has the following capacities and responsibilities:

- Definition of guidelines and approval of the management policies for IT systems, data management and quality, physical security, business continuity and data protection.
- Regular review of the emerging threats and most relevant trends in terms of data security and information technologies, with a particular focus upon cyber-security.
- Analysis of the periodical security incident's reports (regarding systems/data and physical), identifying the appropriate remediation and improvement measures.
- Monitoring of performance metrics of information security systems, physical security and protection and data quality;
- Review of the results of information security evaluation and business continuity;
- Follow-up of initiatives and projects in the area of systems/data security, physical security and data protection and monitoring of the respective performance metrics;
- Approval of the annual plans for the exercises of security assessment, Disaster Recovery Plan (DRP) and business continuity, and their respective quantitative/qualitative evaluation;
- Articulation with subsidiaries on the themes of physical security policies, information security, business continuity and protection and data quality.

The Commission members are the CRO, the COO and the CRetO. Any other members of the EC may participate in the Commission's meetings if they deem convenient to do so. The Heads of the following Divisions are also members of this Commission: COFF, ROFF, DIT, DSI, DMAR, DO and Logistics and Procurement (DCM) and the Bank ActivoBank. The head of the Physical Security (DSF), the Data Protection Officer (DPO) and the Chief Data Officer (CDO) are also permanent members of this Commission.

Corporate Risk Monitoring Commission

This Commission is appointed by the EC and has the following duties and responsibilities:

- Monitor the evolution recorded by the main performing corporate Clients credit exposures, particularly assessing the implications from the COVID-19 pandemic versus the specific risk factors of each client (sector of activity, financial standing, cost structure, etc.), issuing opinions regarding the credit strategy to adopt.
- Follow-up the counterparty risk and the largest exposures concentration risk.

The members of this committee are: the CEO, CRO, CCorpO and CRetO. Any other members of the EC may participate in the meetings of this Committee, whenever they consider it convenient to do so. Members of this Committee are also primarily responsible for the following directorates: ROFF, DRE, DCR, DRAT and DMENI.

Sustainability Commission

This Commission is responsible for the definition and monitoring of the initiatives that will allow the implementation of the Sustainability Master Plan (SMP) in its strategic components (Environmental, Social and Governance), in compliance with the guidelines of the Plan.

It has the following duties and responsibilities:

- To assist the EC in integrating the principles of Sustainability (Environmental, Social and Corporate Governance) in the decision and management processes of the Bank.
- To assess and approve the initiatives required to implement the actions defined to materialise the strategic axes of the Sustainability Master Plan in force, as well as other changes or adaptations necessary to meet the defined objectives.
- To follow-up and monitor the progress of approved initiatives, compliance with the respective deadlines and budgets and the evolution of the results achieved, as well as the key performance indicators of the plan's dimensions.

The members of this committee are the CEO (Executive Director responsible for the Sustainability area) and the CRO. Any other members of the EC may participate in the meetings of this Committee, whenever they consider it convenient to do so. Members of this Committee are also primarily responsible for the following directorates: DESC, DRH, COFF, ROFF, DRAT, DMAR, DMENI and Fundação BCP (not entitled to vote).

CALCO

The CALCO - also referred to as the Capital, Assets and Liabilities Management Commission - is responsible for the management of the Group's overall capital, for assets and liabilities management and for the definition of liquidity management strategies at a consolidated level. Specifically, the CALCO is responsible for the structural management of interest rate and liquidity risks, including, among others, the following aspects:

- Establishment of management guidelines for assets, liabilities and off-balance sheet items at consolidated level.
- Definition of the capital allocation and risk premium policies.
- Definition of transfer pricing policy, in particular with regard to liquidity premiums.
- Monitoring of the capital and liquidity indicators, of the Recovery Plan indicators and of the execution of the Liquidity Plan.
- Definition of policies and strategies to access wholesale funding markets and definition of the liquidity buffer composition.
- Definition of the investment policy of the Investment Portfolio and monitoring of its performance.
- Definition of the strategy and positioning within the scope of the interest rate risk and structural FX risk management, as well as of the respective policies and limits, considering the market conditions at any given moment.

The Group CALCO meets every month and is composed of the following executive Directors: CEO, CFO, CRO and, optionally any other Executive Director. The other members of the Group CALCO are the Risk Officer, the Chief Economist and the Heads of DEPALM, DIG, DTMI, DWM, DMAR, DMENI and the responsible for the ALM Department of DEPALM.

Credit Commission

This Commission is appointed by the EC and its functions are to assess and decide on credit granting to Customers of Banco Comercial Português, in accordance with the competences established by internal regulation ('Credit Granting, Monitoring and Recovery'). This commission may also issue advisory opinions on credit proposals from the subsidiary companies of the Group entities.

The members of this Commission are the CEO, the CCorpO, and the CRO (the former only with veto rights). Any other Executive Director may, whenever he/she sees fit, participate in the Commission. Other members are the Heads of the following Divisions: DCR, DAJC, DRAT, Companies Network Coordination North and Center (DCEN), Companies Network Coordination South (DCES) and Large Corporates (DCL), as well as Level 3 credit managers and, depending on the proposals to be decided upon, the coordination managers of other proposing areas (e.g., Private Banking, Retail, Recovery Department) or members of the subsidiaries' Credit Commissions. The Risk Officer and the Compliance Officer are permanently invited members of this Commission, without voting rights. Other Group Employees may also be invited to participate (without voting rights), if they are relevant for the matters under discussion.

At Subsidiary Companies Level, the local Credit Commission, CALCO, Risk Control Commission and AML/CTF Commission replicate the roles of equivalent commissions at BCP level.

Risk Office

The Risk Office (ROFF) is the structure unit responsible for the risk control function at Group level, promoting the overall alignment of concepts and procedures concerning risk monitoring and assessment. The ROFF is responsible for informing the Executive Committee, the Committee for Risks Assessment, and the Risk Commission on the general risk level, for proposing measures to improve the control environment and for the implementation of controls which assure compliance with the approved limits. The ROFF has the following functions:

- Supporting the establishment of risk management policies and methodologies for the identification, measurement, limitation, monitoring, mitigation and reporting of the different types of risk.
- Promoting the revision of the Group's Risk Appetite and the risk identification process.
- Issuing opinions related with the Group Strategic Plan and compatibility of the risk management decisions considering the approved RAS limits.
- Participate in the definition of the risk strategy and decisions related with risk management.
- Issuing opinions on the assumption of significant risks by the Bank and its subsidiaries, ensuring they are properly identified and adequately assessed.
- Coordinating the NPA (non-performing assets) Reduction Plan and of the ICAAP and ILAAP processes.
- Ensuring the existence of a body of rules and procedures, of an effective IT platform and of a database for the robust and complete management of risk.
- Controlling, on an ongoing basis, the evolution of the different risks and compliance with the applicable policies, regulations, and limits.
- Participating in the Internal Control System.
- Preparing information relative to risk management for internal and market disclosure.
- Supporting the works of the following Commissions: Risk, NPA Monitoring, Pension Funds Risk Monitoring and participating in the Credit Commission, CALCO, Operational Resilience, Compliance and Operational Risk and Corporate Risk Monitoring Commission.

The Risk Officer is appointed by the BoD, and reports to the CRO of the Group.

Compliance Office

The Compliance Office (COFF) is part of its organizational structure, construed upon "3 lines of defence model". It ensures the compliance function assigned to the "second line of defence", which includes control and regulatory compliance activities, analysing and advising the corporate bodies and the various Divisions of the Bank prior to the making of decisions that may involve the assumption of specific risks which are monitored by the compliance function.

Furthermore, the COFF has also the mission to:

- Verify if the respective regulatory requirements are complied with, as well as the ethical values of the organization, fulfilling all the attributions that are legally conferred on it, ensuring the existence of a culture of internal control, thus contributing to the mitigation of the risk of attribution to the Group Entities of sanctions or significant assets or reputation damages.
- Promoting the preparation, approval, application, verification of compliance and periodic updating of the Code of Conduct.
- Ensure compliance with the regulatory framework on the prevention and fight against money laundering and terrorism financing (hereinafter "AML/CTF").
- Participate in the definition of policies and procedures related with Conflicts of Interest and transactions with Related Parties, following-up their implementation and effective application.
- Ensure the management and controls adequacy of the whistleblowing process.
- Provide support to the International Entities in the development of their activities, seeking to normalise their action principles, systems and processes, in compliance with local regulatory specifications.

The Compliance Officer is appointed by the BoD, reports directly to the Executive Committee and, functionally, to the Audit Committee, exercising his/her functions in an independent, permanent and effective manner, defining the policies, guidelines and tools that are appropriate for a proactive and preventive risks' assessment.

As a second line of defence structure responsible for compliance risk, for the risks associated with money laundering and the financing of terrorism, with conduct and market abuse, with conflict of interests and for other risks of an operational nature, the COFF issues decisions, with binding force for its recipients, aiming at the legal and regulatory compliance of the various business and business support areas.

The functions attributed to the COFF are exercised in accordance with the law or with other applicable normative source, as well as by the Bank's corporate bodies, and the performance of the Compliance Office should be based on a risk approach, at the level of the business, Customers and transactions, allowing the identification, assessment, monitoring and control of compliance risks that may influence the strategy, reputation and objectives defined for the Bank.

Within the scope of opinions and the associated analyses produced at request of several Group areas and Divisions, the COFF:

- Identifies and evaluates the various types of risks – either concerning in what refers to products and services approval process, corporate processes and conflicts of interest;
- Issues proposals for the correction of processes and risks mitigation;
- Permanently analyses the general Supervisory environment and, in general, provides specialised support in matters of control and regulatory compliance.

Within the scope of its specific functions, the COFF also ensures an assessment and intervention in what concerns:

- The control and monitoring of compliance risks;
- The Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT);
- The mitigation of reputation risk at all Group entities, aiming at the alignment of concepts, practices and goals in these matters.

In compliance with the Principle of Coherence of the Group's internal control, the 1st responsible for the Compliance Officer of BCP is also responsible for the follow-up and monitoring of the compliance activities and Policies at Group level, highlighting the follow-up and monitoring of the AML/CFT risk through the International AML/CFT Committees, with the participation of the management and Compliance Bodies of the local units.

The COFF is also responsible for coordinating the process of structuring, drafting and approving the annual self-assessment reports on the effectiveness of the organisational culture and the governance and internal control systems, both individual and consolidated, and on the ML/FT prevention system to be submitted to the Banco de Portugal and the Securities Market Commission, under the terms of the respective Notices and Regulations, and as well for the preparation and submission of reports to the management body, at least once a year, identifying the compliance flaws verified and the recommendations issued for their correction.

The COFF fosters, intervenes and actively participates in the training policy of Employees, namely, through training actions in Compliance, for the entire universe of the Group, maintaining a large knowledge repository for matters of its competence, namely, in what concerns the AML/CFT.

Audit Division

The Audit Department (DAU) provides functions of the third line of defence, under the scope called "Model of the 3 lines of defence" and is responsible for assessing the adequacy and effectiveness of the risk management process, the internal control system and the governance models. DAU performs its function on a permanent and independent basis and in accordance with the internationally accepted principles and best practices of internal auditing, carrying out internal audit inspections to assess the systems and processes of internal control and risk management which can give rise to recommendations aimed at to improve its efficiency and effectiveness.

The main functions of the DAU in the scope of risk management are to ensure that:

- The Risks are properly identified and managed and that the controls implemented are correct, adequate and proportional to the Bank's risks.
- The Bank's internal capital assessment system is adequate in terms of the risk exposure level.
- Transactions are recorded correctly in the systems of the Bank, and the operational and financial information is true, appropriate, material, accurate, reliable and timely.
- The Employees perform their duties in accordance with internal policies, codes of conduct, rules and procedures and with the legislation and other applicable regulations.
- The goods and services necessary for the Bank's activity are purchased economically, are used efficiently and are properly protected.
- The Legal and regulatory provisions with a significant impact on the organization are recognized, properly assimilated, and integrated into the operational processes.
- The Bank's governance model is adequate, effective, and efficient.

The Head of DAU reports hierarchically to the Chairman of the Board of Directors and functionally to Audit Commission, is responsible for the general supervision and coordination of the internal audit activities of the BCP Group subsidiaries and attends the meetings of the Audit Committee of the subsidiaries of the BCP Group.

4.6. Risk management

4.6.1. Risk management principles

The BCP Group carries out its business activities in a controlled, prudent and sustainable manner, always based on the adequacy and compatibility between the objectives set for the business and the levels of risk tolerance defined in terms of sustainability and profitability, in the long-term.

Thus, the Group establishes and implements controls and limits on the material risks to which its activities may be subject, based on its “Risk Appetite Statement” (RAS) which concurs, in a relevant way, for a standing of prudence and sustainability of the business, in view of its profitability, as well as of the satisfaction of the different stakeholders: Shareholders, Customers and Employees.

The Group RAS is composed by a broad set of indicators that are considered of primary importance and representative of risks assessed as material, within the formal risks’ identification and quantification process, that is regularly updated. For each risk assessed as material at least one RAS metric is defined and monitored. The RAS metrics are grouped in five blocs covering solvency, funding, profitability, reputation and franchise and also sustainability risks.

For each of the indicators concerned, two levels of limitation are established: an 'alert level', up to which the level of risk represented is still acceptable but from which corrective measures must be taken immediately (aiming to return the level of risk to a comfortable level) and a 'level of breach’, which requires immediate measures with significant impact, aimed at correcting a risk situation considered excessive.

Stemming from the RAS indicators, other lower-level indicators (and respective limits) are established, with a higher level of granularity, ensuring a more detailed monitoring, appropriate for a day-to-day approach to the risks' control of business processes, based on specialized metrics and with a marked technical nature. All risk limits are approved by the competent Governance bodies defined in the internal regulations and are periodically reviewed and updated.

For the main geographies in which the Group operates, specific risk appetite indicators ("individual" RAS) are also established. Thus, the definition of RAS involves indicators for Portugal, Poland and Mozambique, some of which are part of the Corporate RAS, which is a set of obligatory metrics for all geographies (but with appropriate limits for each of the operations and structure in question), disaggregating the Group's risk appetite into the local geographies risk appetite. Besides the Corporate RAS metrics, local RAS include other metrics aiming to measure idiosyncratic risks in each geography.

The above definition of RAS - as primary set of indicators that render and materialize the risk appetite - is one of the guiding vectors of the Group's "Risk Strategy", which is approved by the Board of Directors, by proposal of the Risk Assessment Committee. Based on the RAS, several lines of action are established, to be developed by different organizational units of the Group, to address the mitigation or control of the risks classified as material within the risks' identification and assessment process. These lines of action formally constitute the Group's Risk Strategy. Hence, the RAS and the Risk Strategy are inseparable and central elements of the Group's risk management, both aiming to control and mitigate risks classified within the risks' identification process.

The risk appetite structure - which includes the identification of material risks, the RAS and the Risk Strategy and is reviewed at least once a year or whenever the risks´ monitoring so advises (e.g. conclusion that there are new material risks) - provides a reference framework for the permanent monitoring of risks affecting the business and business support activities developed, for the monitoring of the variables, indicators and limits that are derived from RAS. Therefore, the permanent follow-up based on this structure is the result of a strong link between the risk management framework thus defined the methods and indicators applicable to the activities carried out, this link being essential for the performance of the Group's risk management.

In addition, there is an interaction between the definition of the Group's risk appetite structure and its business objectives, represented in the business planning and budgeting. Thus, the risk appetite structure conditions the definition of the business objectives, since the business plan as to respect the risk limits established by the Board of Directors.

In its turn, the business objectives and risk appetite structures are the foundations for all activities and lines of business carried out, also setting out the global controls on the Group's strength, such as the stress tests and the internal processes to assess capital (ICAAP) and liquidity adequacy (ILAAP) as well as the recovery plan and the activities in the scope of the resolution planning.

4.6.2. Main developments and accomplishments in 2022

In 2022, the Risk Management Function maintained focused on the continuous improvement of the Group's risk control framework, on permanently monitoring the risk levels in relation to the RAS tolerance limits, while ensuring, at the same time, full compliance with regulatory and Supervisory requirements, updating the internal risk management, control policies and regulations.

The most relevant activities developed during 2022 were, synthetically, as follows:

- Realization of the Risk Identification Process (RIP) and subsequent update of the Risk Appetite Statement (RAS) and of the Risk Strategy to 2023;
- Monitoring the level of compliance with risk limits, in particular the RAS, at consolidated and at the main geographies level;
- Development and validation of new methodologies for calculating economic capital;
- Completion of the ICAAP and ILAAP reports, while performing their ongoing monitoring to ensuring the Group's capital adequacy and liquidity continuously. Participation in other planning processes carried out, namely the Funding and Capital Plan;
- Continuous improvement of the internal governance model, management, measurement and risk control at Group level, with special focus on strengthening the credit risk function monitoring and the inclusion of climate and environmental risk factors in the risk management framework;
- Consolidation of the customers' monitoring model, with the objective of identifying and close monitoring the customers potentially most affected by the macroeconomic context, anticipating possible difficulties in fulfilling their responsibilities;
- Extension of the process of attribution of pre-defined credit strategies to almost all corporate segment clients, assigning with differentiated review periods according to the selected strategy' level of risk. A

periodic revision of the macroeconomic environment in which companies develop their activities, is made with a view to identifying potentially more vulnerable sectors at each moment;

- Revision of the impairment and overlays models to incorporate the most critical risk factors arising from the current macroeconomic and geopolitical environment;
- Production of the annual self-assessment reports of the Risk Management Function of BCP and ActivoBank;
- Review, update and implementation of the NPA/NPE Reduction Plan;
- Pursuit the plan for the integration of sustainability themes (ESG) in the Bank's risk management framework and monitoring its implementation within the Bank's RAS;
- Carrying out the ECB's climate stress tests exercise and further development of the framework for governance and control of climate risks;
- Continuous improvement of liquidity and funding risk management and control systems at Group level, including the review of the internal liquidity stress testing process, the improvement of the liquidity risk management framework in Poland and Mozambique and the definition of a liquidity management model in the context of resolution planning;
- Participation in the SSM Liquidity Exercise of the ECB;
- Provision of requirements for the integrated reporting to the Single Resolution Board;
- Reinforcement of the market risk monitoring and control processes and continuation of the FRTB implementation project - Fundamental Review of the Trading Book;
- Submission of an application to ECB requesting authorization to apply the Article 352(2) of the CRR for the exclusion of foreign exchange positions from the calculation of the net open currency positions (the authorization was granted by ECB in March 2023);
- Continued ongoing improvement of data quality to support decisions and risk control metrics according to BCBS239 and development of the technology platform upgrade to support management risk;
- Continuous improvement of the quality and scope of reporting information to the Management Bodies and Specialized Committees and Commissions, Supervisory entities and disclosure to the market;
- Monitoring and redevelopment of the model to support the calculation of regulatory capital requirements (IRB model);
- Presentation of the results for the 2021 Risk Self-Assessment exercise of operational processes, which confirmed the moderate operational risk levels;
- Consolidation of the outsourcing risk management and monitoring, in conjunction with the Contract Managers and the 1st line of defence organizational units;
- Global review of key risk indicators (KRI) of the Bank's activity support processes;
- Simulation of the new regulatory capital methodology for operational risk, within an exercise/questionnaire conducted by the ECB.
- Participation in the update of the Group Recovery Plan 2022;
- Follow up of the several On-Site Inspections and Deep-Dive exercises of Supervisory Entities.

In 2022, the compliance function maintained its focus on the continuous improvement of the Group's compliance risks´ control environment, ensuring, full fulfillment with regulatory and Supervisory requirements and updating the internal regulation’s structure that is appropriate for compliance risk management and control.

The most relevant activities and initiatives developed during 2022 were, as follows:

- In the context of AML/CFT, the COFF's action, based on a risk-based approach, focused on complying of the following duties:
    a) Of identification and diligence, for the appropriate pre-validation, substantive and formal, of opening and maintaining entities and accounts and credit operations, in a context of increased risk, highlighting the effect of the war in Ukraine.
    b) Of examination of operations, highlighting the process of filtering operations, an essential process for compliance with the systems of sanctions and embargoes decreed by the competent national and supranational authorities, and their monitoring, with a view to detecting and preventing potentially irregular situations.

c) Of control, with the improvement of IT systems and monitoring mechanisms, adapting them to the new regulatory requirements and new risk factors, contributing to the effectiveness of the AML/CFT risk management model.

d) Of communication, by adopting appropriate governance and processes, to timely inform the competent authorities whenever there are suspicions or sufficient reasons to suspect that certain funds or other assets, regardless of the amount or value involved, come from criminal activities or are related to financing, in a context of growing risk factors in this area.

e) Of training, by complying with a training and communication plan.

- Compliance with the AML/CFT duties defined by law is based on dedicated technological solutions, in the definition and management of risk models in accordance with the evolution of the various competing variables for the establishment of scorings to be applied to operations. Also noteworthy is the development of new, more efficient solutions, based on automation processes for the analysis of risk factors inherent to new account openings and transaction screening, and the effort to update internal rules to align them with recent changes in the legislative environment. Among the various initiatives undertaken in 2022, we highlight the following:

f) The implementation of automatic transaction filtering processes to ensure permanent and timely compliance with the sanctions and embargoes decreed by the various international institutions, in a more demanding international context resulting from the war in Ukraine.

g) The reinforcement of the control of the AML/CFT risk in terms of Customer onboarding, regarding the segments and jurisdictions involved in the business relationships.

h) Optimisation of the alarm system and monitoring of business relations with the objective of increased efficiency in the alerts generated.

i) The implementation of a new AML/CFT Client risk model, which includes a new sets of risk factors, in compliance with the latest regulatory requirements.

j) The implementation of a new technological platform and a process that promotes the updating of Customers' information and supporting documentation in the Bank, in compliance with AML/CFT - related regulations.

k) The strengthening of controls over Correspondent Banks, ensuring a timely periodic review of their AML/CFT practices and policies according to their risk, whose assessment began to include a set of new risk factors, in compliance with recent regulatory changes.

l) The continued strengthening, training and specialization of the Compliance Office teams within the scope of AML/CFT, in its various dimensions.

m) Implementation of the Training and Communication Plans on compliance matters for all the Bank's Employees and commercial structures, with the most important aspects to be taken into account both in terms of the risk of financial crime and in terms of other compliance and regulatory risks.

n) Regarding the updating of internal regulations, of particular note is the Policy on Preventing and Combating Money Laundering and the Financing of Terrorism, mainly with the aim of accommodating, in the light of Notice no. 1/2022 of the Banco de Portugal and the EBA Guidelines on policies and procedures in relation to compliance management, the new powers attributed to the Bank's Management and Supervisory Bodies, as well as to the Compliance Officer.

- Proceeding with the alignment of strategies and priorities in the risk management of the Group's Operations, efforts continued to update the group's policies, also applicable to International Operations. In addition, the COFF strengthened its monitoring of the compliance function's activity in those Operations, implementing a series of initiatives, of which the following are highlighted:

o) Reinforcement of the Compliance Office Team, in Portugal, which supports the International Operations, scaling and adapting its response capacity to the challenges that Compliance and regulatory issues have been posing.

p) Operationalisation of obtaining the consent of the Customers of its operations abroad, or of the respective Supervisors, to have access to Customer and operations data, which allow their analysis by BCP, both in the establishment of new business relationships and in the subscription of products with increased risk, which was complemented with access to the AML/CFT systems and applications of the units located in third countries.

q) Issue of monthly analysis reports on the movement of high-risk accounts and high-risk customer transactions for higher risk operations.
r) Updating the methodology for assessing the AML/CFT risk of international operations, using the independent assessment of an external auditor, including new risk factors and assessment metrics, in compliance with the applicable related regulations.

4.6.3. Credit risk

The granting of credit is based on the previous classification of risk of Customers, on the respective capacity for the repayment of credit to be made through the cash flows generated in the customer's activity, on the rigorous assessment of the level of protection provided by the underlying collateral and in line with the guidelines that reflect the Bank's credit risk appetite.

For the purposes of rating the customer's risk, a single rating system, the Rating Master Scale, based on the Expected Probability of Default (PD) is used, allowing a greater discriminating capacity in the evaluation of Customers and a better hierarchy of 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 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 calibrated for the Rating Master Scale.

The Group also uses an internal scale of “protection levels” as an instrument aimed at assessing 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 the Customers’ 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 the 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 Division and are revised/updated periodically or whenever justified by events. The worst rating on Master Scale corresponds to customers classified in default (Default).

The development, implementation and calibration of rating models and systems is carried out by the Rating Division (non-individual customers) and the Risk Office (individual customers), with the respective monitoring and validation being guaranteed periodically by the Office for Validation and Monitoring of Models (GAVM). The models are reviewed / updated periodically or whenever events occur that justify it.

The internal estimates of Loss Given Default (LGD) and Credit Conversion Factors (CCF) are supported by internal approaches validated by the Supervisor within 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 almost 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 approval, by the Supervision, of 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 of 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 consistency of the credit granting framework with the Group's risk appetite is ensured by the alignment of the credit regulations with the credit risk strategy and policy guidelines approved by the Board of Directors and by the Executive Committee, respectively.

The Group adopts a policy of continuous monitoring of its credit risk management processes, promoting changes and improvements whenever deemed necessary, aiming at greater consistency and effectiveness of these processes. In this context, the Credit Risk Monitoring Area of the Risk Office is responsible for developing and implementing the appropriate processes for credit life cycle monitoring, in line with the RAS and the Risk Strategy, policies and procedures implemented by the Bank, namely with regard to the evolution of the relevant risk parameters, both for existing credit portfolios and for new businesses and restructured loans, implementing preventive alert systems adjusted to the various credit portfolios.

Still within the Risk Office, the Credit Risk Area is responsible for permanently monitoring the levels of Non-Performing Exposures (NPE), ensuring the processes of marking and unmarking Customers in default, and of restructuring due to financial difficulties of Customers, monitoring the quality and effectiveness of the credit recovery process and also for the analysis of the impairment of the Bank's loan portfolio.

The Bank adjusted its credit portfolio management and monitoring processes, namely with regard to the assessment of the potential impacts of the macroeconomic context on the risk profile of the different portfolios/segments of exposure, an approach that was consolidated in 2022.

This modification, that began in 2020, was based on the creation of a specific approach with the objective of identifying and closely monitoring the customers potentially more affected by the macroeconomic context or exposed to climate and environmental (C&E) risk factors, anticipating possible difficulties in complying their responsibilities and defining credit and performance strategies adjusted to the specific specificities of each customer/group of customers, with a view to both maintaining support to customers considered viable and mitigating credit risk.

The importance of this new approach is reinforced by the uncertainty that impacted the activity in recent times. In fact, while it is true that the effects of the pandemic have faded, new risks have emerged in the meantime, especially those resulting from the geopolitical conflict between Russia and Ukraine, reinforcing threats that were already appearing in areas such as constraints in logistics and distribution chains, limitations in access to raw materials and certain goods, increased energy costs, inflationary pressure and rising interest rates.

The main guidelines of the credit portfolio monitoring approach can be characterized as presented below:

- Global and transversal: Is supported by an analysis of the entire credit portfolio of the Bank, being excluded from the special monitoring only customers with a better risk profile (in the case of retail) or with exposures of a lower size (in the case of retail and corporate).
- Specialized: Monitoring by the “Comité de Acompanhamento de Risco de Empresas” (CARE), and Credit Division in coordination with the Rating Division for the corporate segment and by the Retail Recovery Division for individuals and small businesses. The cases monitored by the CARE Committee, which is conducted at least monthly, are related to clients covered by a set of criteria that combine exposure size and risk factors like the rating assigned, IFRS 9 staging and, for the corporate segment, the level of leverage and whether the sector in which it operates is considered highly vulnerable.
- Segmented: Prioritization of approach/analysis recurrence based on risk signs, in order to gather additional information and agree on appropriate and sustainable financial restructuring solutions in a timely manner.
- Prospective: Definition of predictive models, in order to anticipate potential future defaults, avoiding a reactive approach.
- Standardized: Both in terms of risk models and monitoring, and in terms of credit solutions for which it is possible to identify pre-defined alternatives (retail segments).
- Convenient and innovative: Making the restructuring journey simpler and more convenient both in terms of credit solutions and channels, extending the restructuring offer to the App for consumer credit and mortgages.

Specifically in the corporate segment, the process of portfolio follow-up and monitoring can be generically characterized as described below, having as a fundamental component the attribution of credit strategies, among pre-defined options, with review periods differentiated according to the level of risk associated to the strategy attributed:

- Client Assessment and presentation of Indicative Credit Strategy by the Rating Division (for customers with ratings assigned by corporate rating models);
- Approval, by the competent credit decision levels, of a credit strategy for each customer, taking into consideration the Indicative Credit Strategy received from the Rating Division, the proposals received from the area that follows the client and the inputs received as a result of the customer interaction process;
- Decision, negotiation and formalisation of the operations that will ensure that the approved strategy is pursued and the approved credit limits are met (Credit Division, Areas that follow the client and Operations Division);
- Monitoring the Credit Strategy and the evolution of the customer's activity (Credit Division, Areas that follow the client and Specialised Committees - CARE);
- Monitoring of the credit portfolio and effectiveness of the portfolio monitoring process and credit strategy attribution (Risk Office), based on a set of KPIs, (e.g. percentage of the credit portfolio with valid risk

strategy; evolution of credit exposure to customers with a reduction strategy; adequacy of the credit strategy to the customer's performance);

- In the attribution of the customer's credit strategy, besides the intrinsic factors of the customer, more transversal factors are taken into consideration, such as the evaluation of the sectorial risk and ESG impacts (periodically reviewed with the support of the Economic, Sustainability and Cryptoassets Studies Division)
- The occurrence of effective and/or potential risk events (signs of default/delinquency; breach of contractual covenants; severe alteration in sector risk; alteration in the corporate/shareholder structure), trigger an extraordinary revision of the strategy.

Within the scope of this monitoring process and with an impact on other and differentiated procedures adopted by the Bank, namely for reporting purposes, the Bank defines a list of sectors considered as more vulnerable to the macroeconomic environment, which is reviewed periodically (at least annually).

As part of credit origination monitoring process and in the scope of credit risk strategy definition, the Bank also defined a set of key risk indicators related to climate risks, which are regularly analyzed.

At least once a year the Bank produces a report presenting a detailed characterisation of its loan portfolio under a sectoral perspective.

Macroeconomic scenarios update

Taking into account the changes and uncertainty of the context and the economic perspectives essentially marked by a transition from a pandemic context to one conditioned by expressive rises in the inflation and interest rate levels, as well as by crisis in various supply chains, it was decided to update the regressions and macroeconomic scenarios considered in the collective analysis model in Portugal, namely with the aim to capture the effect of variables such as inflation and interest rates.

Specifically, in what regards the macroeconomic scenarios, at the end of December the macroeconomic assumptions used in the impairment calculation were updated, based on three scenarios (Central Scenario, Upside and Downside) prepared by the Bank's Economic Studies Department.

The referred scenarios, which are used in the Bank for several purposes other than the impairment calculation, took into consideration the existing projections of reputed entities.

Impairment overlays

In order to incorporate an additional level of conservatism in the impairment values, the Bank defined and implemented a methodology of complementary identification of situations of significant increase in credit risk and signs of impairment. This approach adopts complementary and distinct criteria in relation to the methodologies in force, with distinct processes having been adopted for the calculation of overlays for the corporate and individual customers segments.

In fact, the impacts related to the COVID-19 pandemic have been losing expression, namely as a result of the time elapsed since the end of the large majority of the moratoria (September 2021) and given that some of the most affected sectors have already overcome the challenges posed by this crisis. However, there is a level of uncertainty associated with the current geopolitical crisis, disruption in distribution chains, rising energy costs and inflationary pressures.

Under this framework, in Portugal, the Bank has changed its methodology for the overlays calculation, adopting an approach which reflects the context described above, which implied a disruption to the framework which prevailed up to the end of 2021, characterized by low levels of interest rates and inflation.

This positioning is in line with the guidelines on this matter issued by the Supervisors in what regards the identification and measurement of credit risk in contexts of uncertainty, so that the release of overlays constituted in the context of the pandemic should be carried out with prudence and taking into account the possible need for new overlays to respond to the current context.

The exercise carried out reflected, in terms of impairment value, in the calculation of the estimated impact arising from potential migrations of customers with higher risk to Stage 2 and Stage 3, based on the various factors considered in the analysis. It should be noted that the most significant impact occurred in the corporate segment.

In Poland, the Bank also adopted a policy of recording overlays. Taking into consideration the country's specific reality, adjustments to the overlay's methodology had already been incorporated in the first half of the year to address the impacts of the geopolitical crisis.

As a result of the implementation of this methodology, the Bank calculated an additional impairment to that resulting from the collective analysis model, therefore with characteristics of overlays, whose amount on 31 December 2022 was approximately Euros 95.0 million in Portugal and Euros 33.9 million in Poland.

Risk Grade freeze of clients rated by behavioural models

Assuming a conservative perspective, in Portugal, the Bank implemented a procedure whereby it identified the customers subject to moratorium with internal risk rating awarded by behavioural models that at the end of December showed an improvement in the risk level in comparison with the one existing before the moratoria and, for these cases, assumed for purposes of staging criteria and impairment calculation the maintenance of that pre-moratoria risk rating.

This procedure did not imply a change in the internal risk rating attributed by the Bank.

From March 2022 onwards the above-mentioned procedure was no longer applied, given that the vast majority of moratoria had ended in September 2021 and the remaining in the end of December 2021. As such, the Bank considered that an elapsed period is more than enough to consider that the behavioural rating models are no longer affected by the previous existence of moratoria.

Analysis of the impacts of geopolitical conflict in Eastern Europe

Since the outbreak of the Russia/Ukraine conflict, the Bank has performed a set of quantitative and qualitative analysis to assess the potential impacts in the performance of the credit portfolio.

This evaluation was carried out, particularly, in Portugal and Poland, the latter being a geography potentially more exposed to the impacts of this event, considering it is a neighbouring country of Ukraine.

Taking into consideration that it is not possible to foresee how the conflict will evolve, it is difficult to determine to the full extent of the economic consequences in the Bank's business and near/mid-term prospects, namely regarding the effects of the impacts on the energy sector, on the distribution chains of several products and commodities, on inflationary pressures and on the level of interest rates.

Nevertheless, specific portfolios were identified as being potently more vulnerable and for which more closely monitoring procedures were putted in place.

Application of Decree-Law 80-A/2022 - Mitigation of impacts on mortgage contracts

Specifically with regard to Decree-Law 80-A/2022, a Portuguese Government act of 25 November 2022 that established measures to mitigate the effects of the increase in the reference indexing factors of credit contracts for the acquisition or construction of permanent house ownership, it is worth highlighting the fact that it introduced the obligation for Financial Institutions to approach individual customers with mortgage credit who potentially fit into the requirements set out in that act.

In what concerns Millennium bcp, a contact was promoted with about 180 thousand customers, requesting information in order to calculate the respective effort rate. At the end of December 2022, the number of customers who showed interest in joining the mechanisms provided for in Decree-Law 80-A/2022 was limited, especially given that the deadline for replying to the Bank's contact only ended in January 2023.

On 28 February 2023 the number of restructuring requests under Decree Law 80-A/2022 amounted to only 5 thousand customers, of which only 4 thousand meet the conditions for potential implementation of restructuring measure.

4.6.4. Market risks

For the purposes of profitability analysis and market risks quantification and control, the following management areas are defined for each entity of the Group:

- Trading - Management of positions whose objective is the achievement of short-term gains, through sale or revaluation. These positions are actively managed, tradable without restriction and may be valued frequently and accurately. The positions in question include securities and derivatives of sales activities
- Funding - Management of institutional funding (wholesale funding) and money market positions.
- Investment - Management of all the positions in securities to be held to maturity (or for a longer period of time) or positions which are not tradable on liquid markets.
- Commercial - Management of positions arising from commercial activity with Customers.
- Structural - Management of balance sheet items or operations which, due to their nature, are not directly related to any of the management areas referred to above.
- ALM - Assets and Liabilities Management.

The definition of these areas allows for an effective management separation of the Trading and Banking Books, as well as for the correct allocation of each operation to the most suitable management area, according to its respective context and strategy.

The Trading Book includes financial instruments, such as bonds, currencies, equities, and derivatives, that are actively traded in the market and are held for the purpose of sale or purpose or to profit from short-term market movements. The Banking Book portfolio includes all other positions held for longer-term investment or resulting from banking activities, namely the wholesale funding, the securities held for investment, the commercial activity and the structural activity.

In order to ensure that the risks levels incurred in the different portfolios of the Group comply with the pre-defined levels of risk tolerance, various market risk limits are established, at least yearly, being applicable to all portfolios of the management areas over which the risks are incident. These limits are monitored daily (or intra-daily, in the case of financial markets' areas) by the Risk Office.

Stop loss limits are also defined for the financial markets' areas – Trading and Funding – based on multiples of the risk limits defined for those, aiming to limit the maximum losses that may occur in these areas. If these limits are reached, a review of the underlying business strategy and assumptions relating to the management of the positions in question is mandatory.

Also, within the scope of risk appetite, the Group has defined the products and currencies in which the dealing rooms of the different entities are authorized to trade. The introduction of any new product or currency is subject to approval by the Group's Risk Committee, based on a reasoned proposal from the business areas subject to Risk Office's opinion.

The Group has in place procedures that aim to ensure the effective control of positions considering the entities' trading strategy, including the monitoring of transaction volume and compliance with expected holding periods.

For the daily measurement of general market risk – including interest rate risk, exchange rate risk, equity risk and price risk of credit default swaps (CDS) – a VaR (value-at-risk) model is used, considering 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 holding of securities (debt instruments, equities, certificates, etc.) and of derivatives whose performance is directly related with the securities' value. With the necessary adjustments, this model follows the standard methodology defined in the CRD IV/CRR.

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 the appropriateness of the internal VaR model for the assessment of the risks involved in the positions held, several validations are conducted over time, of different scopes and frequency, which include a backtesting process, carried out daily through which the VaR indicators are compared with those that really occurred. The backtesting is performed using both hypothetical (based on the static portfolio used for the estimation of the VaR and the market variations occurred subsequently) and actual outcomes (using the actual results of the portfolio, writing off the intermediation results).

In the context of market risk management, in 2021, 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), to the update of Risk Appetite for market risks, namely, in what concerns the revision of the limits established for the different areas, and to the revision and formalisation of internal manuals that accordingly define the operationalisation of market risks' control.

Moreover, in what regards the management of the Banking Book foreign exchange position, the Bank revised its risk management framework aiming to minimizie the sensitivity of the CET 1 consolidated ratio to changes in foreign currency exchange rates, namely in what regards the positions in PLN and in MZN resulting from the participations held in, respectively, Bank Millennium in Poland and Bim in Mozambique.

On March 24, 2023, BCP was notified of the favourable decision of the Supervisory authority on the request for the application of Article 352(2) of the CRR for the exclusion of the calculation of weighted assets for market risk of certain structural exchange positions for hedging of regulatory ratios against changes in exchange rates.

The Risk Office's Market Risks Area is responsible for the following main activities:

- 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 risk, particularly in the planning processes, in ICAAP and Recovery Planning.

- Measuring, monitoring and reporting the risk positions and the results of stress test exercises, as well as compliance with the established internal limits, computing the capital requirements (or RWA) for market risks and ensure the calculation of the Credit Valuation Adjustment (CVA / DVA) for OTC derivatives.
- Modelling the market risk management system and ensure the respective updates as well as verify its operational implementation on the Bank's front-office platform.
- Reporting to the Executive Committee any excess over limits, as well as verifying the compliance with the required ratification and approval processes.
- Analysing the new products prior to their launching and the trading in new currencies.
- Defining and reporting the classification of financial instruments, in the fair value hierarchy under the terms defined in terms of IFRS 13.
- Coordinating with the relevant Group entities the definition of the negotiation strategies, validating their compliance with the defined policy and limits.

The Market Risks Area acts independently – both organically and functionally – from all risk-taking areas, which ensures the autonomy of its management functions, oriented towards a risk profile in accordance with the Group's strategic goals.

4.6.5. Operational risk

Operational risk materialises in the occurrence of losses resulting from failures or inadequacies of internal processes, systems, or people, or resulting from external events.

In the management of this type of risk, the Group adopts duly documented principles and practices, which are expressed in control mechanisms subject to continuous improvement. This framework has a variety of features, such as: functions segregation, definitions for lines of responsibility and respective authorisations, tolerance limits for exposures to risks, appropriate internal regulations' framework (including ethical codes and codes of conduct), risks self-assessment (RSA) exercises, key risk indicators[1] (KRI), access controls (physical and logical), reconciliation activities, exception reports, loss events data capture, a structured process for new products approval, contingency plans, contracting of insurance (for the total or partial transfer of risk), follow-up of the Bank's outsourcing contracts and internal training on processes, products and systems.

The operational risk management system is framed by the 3 lines of defence corporate Governance model and is based on a structure of end-to-end processes, considering that a vision which is transversal to the functional units of the organisational structure is the most suitable approach for the perception of risks and to estimate the effects of the corrective measures introduced for their mitigation. Furthermore, this processes' structure also underlies other strategic initiatives related to the management of this risk such as the actions to improve operating efficiency and the management of business continuity.

The metrics and indicators for the operational risk management are regularly reported to the Compliance and Operational Risks Commission (CORC), the top management body specialised in operational risk. In what concerns the issues regarding ICT (information and communications' technologies), cybersecurity, personal data protection and physical security, those are addressed by (and discussed at) the Operational Resilience Commission (OpRC).

The Group's subsidiaries have their own process's structure, which is periodically adjusted according to business evolution, to ensure suitable coverage of the business activities (or business support activities) developed.

The responsibility for the day-to-day management of operational risk lies with the 1st line of defence which is composed of process owners (seconded by process managers), whose mission is to characterise the operational losses captured under their processes, to monitor the respective KRI, to perform the RSA exercises, as well as to identify and implement suitable actions to mitigate operational risk exposures, thus contributing to the strengthening of control mechanisms and the improvement of the internal control environment. The periodic review of the processes' structure in each geography is ensured by their own structure units.

[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.

The Risk Management function (materialised in the Risk Office) and the Compliance function (materialised in the Compliance Office) represent the 2nd Line of Defence and are responsible for implementing the risk policy defined for the Group, proposing and developing approaches for managing this risk, supervising their implementation and challenging the 1st Line of Defence regarding the risk levels incurred. The Audit function embodies the 3rd Line of Defence and supervises the remaining two lines of defence.

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 specific controls (Inherent Risk); assessment of the risks exposure of the different processes, considering the influence of the existing specific controls (Residual Risk); and identification of the impact of the improvement opportunities in the reduction of the most significant exposures (Target Risk).

These exercises are based on workshops, attended by the Risk Office and with the participation of the process owners and process managers or questionnaires sent to the process owners to update the results, according to pre-defined updating criteria. Representatives from the Internal Audit (3rd Line of Defence), the Compliance Office, the IT Division, the Business Continuity Area and the Personal Data Protection Office are invited to participate in the RSA workshops.

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 management and insurance claims data.

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, besides providing some feedback measure on the assessment made for each risk.

The identified operational losses are related to a process and risk and are registered 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. Depending on the events' categorization and on pre-defined thresholds of loss for each category, process owners must produce "Lessons learned" templates for the most relevant loss events, which are presented to (and discussed at) the CORC.

Each process has a set of identified KRI, the continuous monitoring of which allows to assess changes to the risk profile of the processes, thus trying to anticipate risk situations that have not yet materialised.

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.

The Risk Office incorporates an Operational Risk Area that ensures the following main activities:

- Plan and carry out the annual Self-Assessment exercise on operational risks in all Bank processes.
- Monitor and control the recording of operational losses in the event database, ensuring their completeness, quality and timeliness.
- Monitor the risk indicators (KRI) and plan and carry out the Scenario Analysis exercise.
- Promote the assessment of the operational risks in terms of IT, cybersecurity and outsourcing risks.
- Propose operational risk mitigation actions and monitor their implementation together with the respective Process Owners.
- Support the design of measures to remedy internal control weaknesses and monitor the implementation of the respective mitigation plans.

4.6.6. 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 non-existent funding, 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.

Regarding the evolution of liquidity, short-term indicators such as the LCR (Liquidity Coverage Ratio, a regulatory indicator) and the ratio between the buffer available for discount with central banks and customer deposits, and structural indicators such as the loan to deposits ratio and the NSFR (Net Stable Funding Ratio, a regulatory indicator) are monitored in the scope of the "Risk Appetite Statement" of the Group and each subsidiary. These high-level indicators are complemented at the operational level by metrics defined within the Group's liquidity risk management framework and adopted at the level of each of the main subsidiaries. All these indicators are regularly monitored and reported to the Bank's management bodies.

Liquidity risk management also includes the preparation of an annual Consolidated Liquidity Plan, which is an integral part of the Group's planning process and defines the desired financing structure for the expected evolution of the Group's assets and liabilities, including a set of initiatives and an action plan to achieve the financing structure at both Group level and for the major subsidiaries and currencies.

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 Risk Commission is responsible for the continuous assessment of the liquidity risk methodological framework and for controlling the approved limits for exposure to that same risk.

The Risk Office has a Liquidity Risk Area that has the following responsibilities:

- Permanently monitor liquidity risk levels and promote the implementation of the respective control mechanisms.
- Prepare limit proposals in the area of liquidity risks.
- Coordinate the Group's ILAAP process.
- Proceed with the design and performance of liquidity stress tests.
- Monitor the appropriate implementation of the liquidity regulatory indicators (LCR and NSFR).
- Support local risk offices in the implementation of the approved methodologies for the entire Group.

4.6.7. Defined Benefit Pension Fund risk

The responsibilities assumed by the BCP Group associated with the Bank's defined benefit Pension Fund are related with the payment of retirement pensions for old age, disability, and survival to its employees.

This risk arises from the potential devaluation of the assets of the Fund associated with the Defined Benefit Plan or from the reduction of its expected returns as well as from actuarial differences that may occur from the evolution of demographical factors, in relation to the actuarial assumptions considered. Confronted with such scenarios, the Group may have to make unplanned contributions to maintain the benefits defined by the Fund. The responsibility for the regular monitoring of this risk and the follow-up of its management lies with the Pension Funds Risk Monitoring Commission.

In 2022 the BCP Group Pension Fund had a net performance of -5,07%.

This performance is explained by the negative contribution recorded in some asset classes except alternative investments, real estate investments and national actions that contributed positively to performance.

The share stock portfolio contributed negatively to profitability and recorded sharp devaluations in both the European and the International share stock components. The Portuguese shares component performed positively.

In 2022, with the general increase in interest rates (around 275 bps in the 10 years in Germany since the beginning of the year), the bond component contributed negatively to the fund's performance.

At the level of allocation in shares and bonds the fund maintained a close allocation of neutrality against its benchmark throughout the year. As the end of the year approaches, and after the significant rise in interest rates, a reduction in the duration of the fixed rate component and exposure to shares was implemented, thereby reducing the Fund's overall sensitivity to market volatility.

The evolution of market interest rates in 2022 led to the update of the discount rate of the Fund's liabilities. Thus, the discount rate in force on December 31, 2021, from 1.35%, was changed to 3.30% on 30 June 2022 and to 4.17% on December 31, 2022. At the same time, as a result of the current inflation environment, the growth rate of pensions increased to 3.5% in 2023, 2% in 2024 and 0.75% from 2025 and the base wage growth rate moved to 3.75% in 2023, 2.25% in 2024 and 1% from 2025.

As of 31 December 2022, the pension fund's liabilities coverage was over €593 million, corresponding to 21.3% of total liabilities.

4.6.8. Compliance risk

The compliance risk is materialized by the occurrence of financial losses (e.g. fines and indemnities) or reputational damages resulting from non-compliance with laws, regulations or contractual commitments to which the Bank is obliged in its activity.

The Compliance Office is part of the Bank's organizational structure. It ensures the compliance function assigned to the "second line of defence", which includes control and regulatory compliance activities, analysing and advising the corporate management bodies and the various Divisions of the Bank prior to the making of decisions that may involve the assumption of specific risks which are monitored by the compliance function.

The Compliance Office's main mission is to promote the adoption of internal and external principles and rules that frame the Group's activity, and to ensure that all Group's entities comply with the legal and regulatory standards as well as with the contractual commitments and ethical values of the Group. The Compliance Office promotes the existence of a strong internal control culture, in order to contribute to the mitigation of the risk of imputation to the Group's entities of significant sanctions or damage to property or reputation.

In this context, compliance with the AML / CFT (Anti-Money Laundering and Counter Financing of Terrorism) regulatory framework is particularly important, both in correspondence banking and trade finance operations involving jurisdictions classified as high-risk, in the monitoring the financial and transactional behaviour of the Bank's clients and in the risk analysis of new customers in the onboarding activity.

For AML / CFT risk control, the Bank has implemented in the central operating system a set of rules, procedures and operational criteria applied to customer processes and transactions that generate alerts to drive acceptance or refusal decisions, including refusal with report to competent authorities. In addition, the Bank monitors, through the exercise of due diligence procedures, the customers that were once participated to the authorities as well as all those that offer a higher AML / CFT risk, in accordance with the AML rating system implemented.

The Compliance Office also carries out an enhanced due diligence analysis of entities involved in credit operations, with a special focus on non-client entities or those in the beginning of a commercial relationship and ensures the updating and conformity of the information related to the identification data of Customers, representatives and beneficial owners, promoting their regularization whenever inconsistencies or outdated documents are detected.

Regarding the onboarding activity, simplified or enhanced due diligence is carried out to new customers, deciding whether to continue or cancel account opening processes, through KYC (Know Your Customer) validation, existence of PEP (Politically Exposed Persons), and other AML / CFT risk factors considered relevant, including the verification of the existence of sanctions or embargoes, or belonging to "black" lists published by international entities.

The Compliance Office ensures the regulatory compliance of the new products approval policy, including the verification that the duties of informing customers are fulfilled. It also analyses the compliance of internal regulations with the current regulatory and legal framework and issues opinions on situations established in internal policies, such as those concerning related parties and conflicts of interest.

In matters related to regulators, the Compliance Office, with the Supervisory entities, monitors inspections in matters of behavioural and prudential supervision, ensuring compliance with various reporting duties. In this context, the role of prevention, control and monitoring of Market Abuse stands out.

It is also the responsibility of the Compliance Office to ensure the consistency and compliance with legal and regulatory requirements of the Document Management Model in the BCP Group, as well as the preparation and review internal documentation.

4.6.9. Environmental and social risks

Since 2010, BCP's management bodies have defined and monitored a Sustainability Master Plan (SMP), in which the Group's priorities for action are defined and the respective operational initiatives implemented, in their own calendar and with the attribution of responsibilities for their execution to the different departments and entities of the Group.

Aware of the impact of environmental and social risks on the planet and on its own activity, the Bank defined in its SMP an approach to environmental and social risk management that is based on the implementation of several initiatives, such as: a) recognizing the potential impacts of ESG (Environmental, Social and Governance) risk factors on the financial performance of clients and their operations; and b) determine the best actions, whether in terms of business structuring or the introduction of additional conditions/risk mitigation, that best protect the Group's sustainability.

The Bank's sustainability governance model and ESG risk management model reflect a structure designed to identify, review and prioritize the risks and opportunities of the topic, with clearly defined responsibilities, ensuring an effective response to the different challenges and responsibilities posed to the Group.

This model follows an organization based on three lines of defence, which under the leadership of the Board of Directors (and their delegations in the Executive Committee), ensure its proper evaluation and management.

It should be noted the responsibility of the Sustainability Commission that supports the Executive Committee in the integration of ESG aspects in the Group's business and risk management system and is responsible for monitoring the implementation of the SMP, including its degree of execution, compliance with the respective deadlines and the validation of the results obtained in each initiative. On the other hand, the role of the Sustainability Function, ensured in Portugal by the Economic Studies, Sustainability and Cryptoassets Division (DESC), is established within the scope of the first line of defence, with responsibilities that include: the overall management of the strategy and sustainability plans; direct guidance and operational support to the first and second lines of defence in the performance of their main responsibilities; policy-making, methodologies and reports that address ESG issues; and management of the Bank's and the Group's external commitments and communications in this regard.

The Bank has been integrating environmental and social risks, considering them relevant factors with an impact on several of the risks assessed within the risk identification process and incorporating policies, standards and procedures for their management. The Bank has an annual process to identify, evaluate and manage more than 60 types of risks, a process that considers the impact of ESG risk factors, which have gained increasing relevance in the Bank's activity, both by densifying the legal and regulatory framework and by deepening good practices in risk management. The risk management process has been adapted to reflect the strategic priority given by the Bank to ESG topics with the implementation of several initiatives that include: the establishment of an internal taxonomy that allows the classification of clients and operations more aligned with the transition objectives of the European economy; the development of methodologies for the evaluation of ESG risk factors integrated into the credit risk assessment models for large companies, allowing their integration into business decision processes; the application of risk classification matrices at the portfolio level, allowing the identification of the sectors, companies and exposures most subject to transition and/or physical risks; the design of methodologies for quantifying the GHG (greenhouse gas) financed emissions, promoting the strategic discussion regarding the management of these emissions and their alignment (in the long term) with the objectives of the Paris Agreement; the performance of analyses of sensitivity and stress testing with an impact on climatic risk factors.

The Bank continues to offer products and services that embody social principles and respect for the environment and nature and is working on the development of a complete and comprehensive offering of ESG financial products and services. It is also aware that the implementation of social and environmental criteria and standards in the commercial offer translates into more effective risk management, reputational value and better quality of the available products and services.

The Group also meets the needs of investors who value social and environmental risk factors by develping Responsible Investment Funds based on the new directives in force (MiFID II and SFDR) available for underwriting, and by integrating ESG factors in the building of portfolios.

The Bank monitors legal and regulatory initiatives related to climate change as a systemic risk to the financial sector. It is thus, realizing the ongoing transformative dynamics that places sustainability at the centre of the financial system's strategy, that it adopts the guidelines of the Task Force on Climate Related Financial Disclosures (TCFD), sponsored by the Financial Stability Board, and is part of the United Nations Global Compact and the United Nations Environment Programme – Finance Initiative (UNEP-FI), being a signatory to its Principles of Responsible Banking (PRB).

The Bank is also attentive to the changes that will occur in the prudential and Supervisory areas, following the development of criteria and technical standards to be adopted in a broad and unambiguous way in the market, which favor uniformity and transparency.

Finally, the Bank is also developing an integrated platform for all ESG data, both internal and from external sources / data providers, comprehensive and aiming at responding to the varied requirements of risk management and monitoring, reporting and business support. Among others, it will integrate data at customers, operations and collaterals' levels, whether real data or estimates and proxies in case of absence or unavailability of information.

More information on environmental and social risk management is available in the BCP Group Sustainability Report on the Bank's website.

4.6.10. Litigation risk in Swiss francs portfolio in Poland

The Group is subject to litigation risk in the polish operation, within related to the claims formulated by the clients in individual proceedings primarily concern the declaration of invalidity of the contract and payment for reimbursement of paid principal and interest instalments as undue performance, due to the alleged abusive nature of indexation clauses, or maintenance of the loan agreement in PLN and with interest rate indexed to CHF Libor.

In addition, Bank Millennium is a party to the group proceedings (class action) subject matter of which is to determine Bank Millennium's liability towards the group members based on unjust enrichment (undue benefit) ground in connection with the FX mortgage loans. A judgment in these proceedings will not directly grant a right to any compensation amounts to the group members that have initiated this class action. The number of credit agreements covered by these proceedings is 3,273. On 24 May 2022, the court issued a judgment on the merits, dismissing the claim in full. Both parties requested a written justification of the judgment. On 13 December 2022, the claimant filed on appeal against the judgment of 24 May 2022 and the Bank Millennium also filed its response to the that appeal.

Legal risk from former Euro Bank portfolio is fully covered by Indemnity Agreement with Societé Génerale, when the bank was acquired by Bank Millennium.

On 29 January 2021, a set of questions addressed by the First President of the Polish Supreme Court to the full Civil Chamber of the Supreme Court was published. This may have important consequences in terms of clarifications of relevant aspects of the court rulings and their consequences. The Civil Chamber of the Supreme Court has been requested for answering the questions concerning key matters related to FX mortgage agreements: (i) is it possible to replace - with a legal provisions or according commons practices - the abusive provisions of an agreement which refer to FX exchange rate determination; moreover, (ii) in case of impossibility of determining the exchange rate of a foreign currency in the indexed/denominated credit agreement - is it possible to keep the agreement still in force in its remaining scope; as well as (iii) if in case of invalidity of the CHF credit there would be applicable the theory of balance (i.e. does arise a single claim which is equal to the difference between value of claims of bank and the customer) or the theory of two conditions (separate claims for the bank and for the client that should be dealt with separately). The Polish Supreme Court has also been requested for answering the question on (iv) from which point in time there shall be starting the limitation period in case of bank's claim for repayment of amounts made available as a loan and (v) whether banks and consumers may receive remuneration for using their pecuniary means by another party.

On 11 May 2021, the Civil Chamber of the Polish Supreme Court requested opinions on Swiss franc mortgage loans from five institutions including the National Bank of Poland (NBP), the Polish Financial Supervision Authority (UKNF), the Commissioner for Human Rights, the Children's Rights Ombudsman and the Financial Ombudsman.

The positions of the Commissioner for Human Rights, the Children's Rights Ombudsman and the Financial Ombudsman are in general favourable to consumers, while the National Bank of Poland and the Polish Financial Supervision Authority present a more balanced position, including fair principles of treatment of FX mortgage borrowers vis-à-vis PLN mortgage borrowers, as well as balanced economic aspects regarding solutions for the problem that could be considered by the Polish Supreme Court.

In the next meeting of the Supreme Court that took place on 2 September 2021, the Court did not address the answers to the submitted questions and no new meeting date is known.

On 12 August 2021, in the case for payment brought by a consumer against Bank Millennium, the CJEU was asked for a preliminary ruling (C-520/21) whether, in the event that a loan agreement concluded by a bank and a consumer is deemed invalid from the beginning due to unfair contract terms, the parties, in addition to the reimbursement of the money paid in contracts (bank - loan capital, consumer - instalments, fees, commissions and insurance premiums) and statutory interest for delay from the moment of demanding for payment, may also claim any other benefits, including receivables in particular, remuneration, compensation, reimbursement of costs or valorization of the performance.

The hearing was held on 12 October 2022. The hearing was oftended by representatives of Bank Millennium, the consumer's representative, representatives of the European Commission, the Polish government, the Financial Ombudsman, the Commissioner for Human Rights, the Polish Financial Supervision Authority and the prosecutor. In its position, the European Commission opposed granting banks the right to an additional financial benefit for the consumer's use of the capital provided. At the same time, the Commission concluded that granting consumers the right to an additional financial benefit will not be contrary to the EU law.

The representatives of the Polish government, the Financial Ombudsman, the Commissioner for Human Rights and the prosecutor also objected to granting banks the right to an additional benefit. The Chairman of the Polish Financial Supervision Authority pointed out that the essence of the problem is not the abusiveness of contractual clauses, but the appreciation of the Swiss Franc (CHF) against the zloty (PLN). In the opinion of the Chairman of the Polish Financial Supervision Authority, banks are entitled to economic compensation for allowing another entity to use the capital.

Regarding the case C-520/21 which is awaiting decision by the CJEU, whose object essentially concerns possible compensation for financing when a mortgage loan agreement indexed to foreign currency concluded between a consumer and a bank is declared void from the beginning due to unfair contract terms, the Advocate General issued an opinion on 16 February 2023 in the sense that the Article 6 no. 1 and Article 7 no. 1 of Council Directive 93/13/EC of 5 of April 1993, concerning unfair terms in contracts concluded with consumers, must be interpreted as:

- do not preclude a jurisprudential interpretation of national law under which the consumer, in addition to reimbursement the amounts paid under that contract and paying default interest at the statutory rate from the date of the reimbursement request, may present additional claims to the bank as a result of that declaration of invalidity. It is thus a matter for the national court to determine, by reference to its domestic law, whether consumers have the right to assert claims of that nature and, if so, to rule on their merits.
- preclude a jurisprudential interpretation of national law under which, the Bank in addition to the reimbursement of the amounts paid under that contract and paying default interest at the statutory rate from the date of the reimbursement request, may present additional claims against the consumer as a result of that declaration of invalidity.

If the final decision of the CJEU judge comes in the same direction as that of the Advocate General, this may lead to an increase in provisions for legal risk related to mortgage loans in CHF, especially if this results in a revision of the expected influx of new cases in court.

On 9 December 2022, in the case brought by Bank Millennium against the borrower for payment - return of the capital made available to the borrower on the basis of an invalid capital contract and the equivalent value of the benefit related to the borrower's use of capital, the court referred a question to the CJEU for a preliminary ruling whether, if it is found that the loan contract concluded by the bank and the consumer is invalid from the beginning due to the conclusion of unfair contractual terms, in addition to the return of money paid in the performance of this contract (loan principal) and statutory late payment interest from the moment of the request for payment, the bank may also demand any other benefits, including receivables, in particular remuneration, compensation, reimbursement of costs or valorisation of the benefit. The case was registered under the reference number C-756/22. Referring the question, the court asked the CJEU to join the case with the above-mentioned ongoing proceedings under reference number C-520/21. The CJEU decided not to join the cases and simultaneously suspended case C-756/22 up to judgment in case C- 520/21.

With the scope of settlements between Bank Millennium and borrower following the fall of the loan agreement is also connected the legal issue directed to the seven-person composition of the Polish Supreme Court (case sign: III CZP 54/21). The date of case review has not been specified yet.

On 31 December 2022, Bank Millennium had 16,008 loan agreements and additionally 1,272 loan agreements from former Euro Bank under individual ongoing litigations (excluding claims submitted by the bank against clients i.e. debt collection cases) concerning the use of indexation clauses of FX mortgage loans submitted to the courts (78% loans agreements before the court of first instance and 22% loans agreements before the court of second instance) with the total value of claims filed against the Bank Millennium by the plaintiffs amounting to PLN 2,758.4 million (EUR 589.20 million) and CHF 201.9 million (EUR 204.53 million). [(Bank Millennium portfolio: PLN 2,536 million (EUR 541.70 million) and CHF 197.3 million (EUR 199.87 million) and former Euro Bank portfolio: PLN 222.5 million (EUR 47.53 million) and CHF 4.6 million (EUR 4.66 million)]

4.7. Concise risk apetite statement

The BCP Group carries out its business activities in a controlled, prudent and sustainable manner, always based on the adequacy and compatibility between the objectives set for the business and the levels of risk tolerance defined in terms of sustainability and profitability, in the long-term.

Thus, the Group establishes and implements controls and limits on the material risks to which its activities may be subject, based on its “Risk Appetite Statement” (RAS) which concurs, in a relevant way, for a standing of prudence and sustainability of the business, in view of its profitability, as well as of the satisfaction of the different stakeholders: Shareholders, Customers and Employees.

The Group RAS is composed by a broad set of indicators that are considered of primary importance and representative of risks assessed as material, within the formal risks’ identification and quantification process, that is regularly updated. The RAS metrics are grouped in five blocks covering solvency, funding, profitability, reputation and franchise and also sustainability risks.

For each of the indicators concerned, two levels of limitation are established: an 'alert level', up to which the level of risk represented is still acceptable but from which corrective measures must be taken immediately (in order to that the level of risk regained to a comfortable level) and a 'critical level', which requires immediate measures with significant impact, aimed at correcting a risk situation considered excessive.

Stemming from the RAS indicators, other lower-level indicators (and respective limits) are established, with a higher level of granularity, ensuring a more detailed monitoring, appropriate for a day-to-day approach to the risks’ control of business processes, based on specialized metrics and with a marked technical nature. All risk limits are approved by the competent Governance bodies defined in the internal regulations and are periodically reviewed and updated.

For the main geographies in which the Group operates, specific risk appetite indicators (“individual” RAS) are also established. Thus, the definition of RAS involves indicators for Portugal, Poland and Mozambique, some of which are part of the Corporate RAS, which is a set of obligatory metrics for all geographies (but with appropriate limits for each of the operations and structure in question), disaggregating the Group’s risk appetite into the local geographies risk appetite. Besides the Corporate RAS metrics, local RAS include other metrics aiming to measure idiosyncratic risks in each geography.

The indicators of the Group’s and Portugal’s RAS are approved by the Board of Directors of Banco Comercial Português, S.A., from a proposal of BCP’s Risk Office – the structure unit that coordinates the implementation and maintenance of the mechanisms and definitions of the RMS – after an opinion from the BoD’s Executive Committee and Risk Assessment Committee.

The RAS is reviewed at least once a year (or whenever the risk circumstances identified at any given moment so determine), both in terms of the list of indicators considered and their limits thresholds. For each indicator, the limits are fixed using a "RAG" approach (red, amber, green):

- Red = critical level, represented by an excess or insufficiency, that must be corrected in the shortest time possible.
- Amber = alert level, representing a negative evolution towards an excess or insufficiency, which should prompt immediate corrective and/or mitigation measures.
- Green = comfort level, within the defined risk tolerance.

Breaches to the amber or red zones initiate an event escalation process from the metric owner (the Division of the Bank responsible for the risk that is associated with the metric) to the Board of Directors, involving the Executive and Risk Assessment Committees and the Risk Office. The RAS breach management follows a process clearly defined in the internal regulations of the Bank. An eventual breach to the risk appetite may require defining a plan to return to acceptable risk level. The decision on launching a mitigation plan is taken by the Executive Committee, challenged by the Risk Assessment Committee, and ratified by the Board of Directors. In case a mitigation plan is approved, the results should be presented regularly for Executive Committee steering. Similar process is implemented at subsidiaries level with reporting of the conclusions to the BCP management bodies.

The implementation of a comprehensive and diversified structure of mechanisms necessary for the identification, measurement, monitoring, control, prevention and mitigation of the various risks incident on the Group's activities is based on criteria of economic and financial rationality (based, inter alia , on a cost/benefit analysis), in order to allow the sustained (and sustainable) development of all business activities, in a simultaneously profitable and prudent manner, adequate to the defined objectives.

4.8. Recovery Plan

Complying with the applicable law - Directive 2014/59/EU and its transposition to the Regime Geral das Instituições de Crédito e Sociedades Financeiras (RGICSF) through Decree-Law 23-A/2015, from the 26th of March – the Group annually revises the Recovery Plan for its business and activities, in which a set of recovery options that could be implemented in a timely manner to respond to financial stress circumstances that may be originated by events of both idiosyncratic and/ or systemic order is identified.

Considering that the Recovery Plan aims to restore the financial viability of the Group, several scenarios are defined, supported on hypothetical and forward-looking events, against which the impacts of recovery options, the Recovery Plan feasibility and the overall recovery capacity are tested.

In order to monitor the performance of the Group's business activity, a set of quantitative and qualitative key indicators is presented in the Recovery Plan, in line with the guidelines defined by the European Banking Authority (EBA). This set of indicators is permanently monitored, allowing for immediate management actions whenever there are deviations that exceed alert or activation thresholds (also defined in the Plan). The report of these situations are mandatory to the Group's management and Supervision Bodies.

The priorities, responsibilities and specific measures to be taken in a capital and/or liquidity contingency situation are defined by the Recovery Plan, which complements the Early Warning Signals (EWS) system, for the anticipation of the occurrence of possible crises, namely, of liquidity. Simultaneously, the Recovery Plan contains a 'playbook', intended to provide key information for rapid decision-making in a crisis.

The Recovery Plan includes components of Bank Millennium's Recovery Plan (Poland) and information from Millennium bim's Recovery Plan (Mozambique). It is aligned with the definition of the business continuity framework and its respective plans (see the Operation Risk section), the Communication Plan – towards the market and stakeholders (in contingency situations) and the results from the capital and/or liquidity adequacy assessment processes already mentioned (ICAAP e ILAAP).

4.9. Risk identification and risk taxonomy

The Risk Identification Process (RIP) is a formal process at Group level, covering a large set of risk types listed in the Group Risk Taxonomy and aiming to ensure that all potential risks to capital, earnings and liquidity are regularly considered, identifying which risks are quantified during the ICAAP and serving as input for scenario generation and sensitivity analysis.

The risk taxonomy revision and RIP update are followed by the approval of the material risks and the conclusions of the risk identification by the Executive Committee and the Risk Assessment Committee. Together with the Risk Strategy and the budget, the outcome of the RIP is subject to discussion and approval by the Board of Directors.

The BCP Group risk taxonomy, containing the list of risks that are formally assessed in the annual risk identification process is regularly updated in order to reflect all the risk types that may impact in or arise from the activity of the BCP Group.

TABLE 6 – RISK TAXONOMY

Risk Name	Credit risk
Credit default risk	The current or prospective risk to earnings, capital and liquidity arising from an obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed. This risk also includes the consideration of climate-related risks, such as transition risks (i.e., new climate policies, technological updates, reputational repercussions, market or sectorial risks and legal considerations) and physical risks (i.e., acute and chronic risks).
Issuer credit risk	The current or prospective risk to earnings, capital and liquidity arising from default or downgrade of issuer of security or contractual trading party. This includes e.g. loans, bonds and potential future exposure through OTC derivatives. This risk also includes the consideration of climate-related risks, such as transition risks (i.e., new climate policies, technological updates, reputational repercussions, market risks and legal considerations) and physical risks (i.e., acute and chronic risks).
Counterparty credit risk	The current or prospective risk to earnings, capital and liquidity arising from the risk of a trading counterparty defaulting before the settlement date of a transaction. This risk also includes the consideration of climate-related risks, such as transition risks (i.e., new climate policies, technological updates, reputational repercussions, market risks and legal considerations) and physical risks (i.e., acute and chronic risks).
Settlement risk	The current or prospective risk to earnings, capital and liquidity arising from the risk that the credit institution will deliver the asset sold or cash to the counterparty and will not receive the purchased asset or cash as expected. As such a settlement risk comprises credit risk and liquidity risk.
Securitization risk	The risk of loss associated with buying or selling asset-backed securities (investor perspective). The current or prospective risk to earnings, capital and liquidity arising from an obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed, in a securitized exposure that is not de-recognized for risk purposes (originator perspective).
Country risk	The current or prospective risk to earnings, capital and liquidity arising from the risk of exposure to losses caused by events in the particular country (countries where Bank does not have a local presence), which may be under the control of the government but not under the control of a private enterprise or individual.
Residual risk	The current or prospective risk to earnings, capital and liquidity arising from the risk that recognized risk measurement and mitigation techniques used by the firm prove less effective than expected.
Transfer risk	The current or prospective risk to earnings, capital and liquidity arising from the risk that the government will impose restrictions on the transfer of funds by debtors in the country in question to foreign creditors, either for financial or other reasons. This risk is almost exclusively related to foreign currency exposure.
Wrong way risk	The current or prospective risk to earnings, capital and liquidity arising from the risk that occurs when the exposure to a counterparty is adversely correlated with the credit quality of that counterparty.
Sovereign risk	The current or prospective risk to earnings, capital and liquidity arising from the credit risk related with all Sovereign exposures, including the risk associated with the impact of changes of rating of Sovereign debt or events of default (Banking Book) and the risk arising from the possibility that changes in credit spreads will affect the value of financial instruments or contracts (fair value Banking Book exposures). This risk does not include Central Bank related exposures.
Migration risk	The current or prospective risk to earnings, capital and liquidity arising from the risk that a portfolio's credit quality will materially deteriorate over time without allowing a repricing of the portfolio to compensate the creditor for the now higher default risk being undertaken.
FX Lending	The current or prospective risk to earnings, capital and liquidity arising from an obligor's failure to meet the terms of any lending contract in non-local currency or increased probability of default in such contracts only due to changes in FX rates and not by the deterioration of the credit quality of the debtor.
Central Banks risk	The current or prospective risk to earnings, capital and liquidity arising from the credit risk related with Central Bank exposures.

Risk Name	Credit concentration risk
Single name	The current or prospective risk to earnings, capital and liquidity arising from the risk associated with large individual exposures.
Sector	The current or prospective risk to earnings, capital and liquidity arising from significant exposures to groups of counterparts whose likelihood of default is driven by common industrial sector underlying factors.
Geography	The current or prospective risk to earnings, capital and liquidity arising from significant exposures to groups of counterparts whose likelihood of default is driven by common geographical underlying factors.

Risk Name	Liquidity risk
Intra-day liquidity risk	The current or prospective risk to earnings, capital and liquidity arising from liquidity constraints during the daily operations.
Short term cash flow risk	The current or prospective risk to earnings, capital and liquidity arising from the Bank's inability to meet its liabilities when they come due in the short term. This risk also includes the consideration of climate-related risks, such as transition risks (i.e., new climate policies, market environment and legal considerations) and physical risks (i.e., acute risks).
Structural liquidity	The current or prospective risk to earnings, capital and liquidity arising from an institution's inability to meet its liabilities when they come due arising from balance sheet structural imbalances of assets and liabilities terms NSFR. This risk also includes the consideration of climate-related risks, such as transition risks (i.e., new climate policies, market environment and legal considerations) and physical risks (i.e., acute risks).
FX Liquidity Risk	The current or prospective risk to earnings, capital and liquidity arising from an institution's inability to meet its liabilities in foreign currency.
Funding concentration risk	The current or prospective risk to earnings, capital and liquidity arising from the potential cost to obtain additional funding to compensate significant and sudden withdraw from large funding providers.
Funding cost risk	The current or prospective risk to earnings, capital and liquidity arising from an increase in the cost of the wholesale funding of the Bank. This risk also includes the consideration of climate-related risks, such as transition risks (i.e., new climate policies, market environment and legal considerations) and physical risks (i.e., acute risks).

Risk Name	Market risk
Traded market risk	The current or prospective risk to earnings, capital and liquidity arising from adverse movements in bond prices, security or commodity prices, interest rates or foreign exchange rates in the trading book. It can arise from market making, dealing, and position taking in bonds, securities, currencies, commodities, or derivatives (on bonds, securities, currencies, or commodities). This risk also includes the consideration of climate-related risks, such as transition risks (i.e., new climate policies, technological updates, reputational repercussions, market or sectorial risks and legal considerations) and physical risks (i.e., acute and chronic risks).
CVA risk	The current or prospective risk to earnings, capital and liquidity arising from the fair value adjustment, required for OTC derivatives, due to the additional risk implied for positive fair values due to the counterparty inability to pay the required cash flows.
Non-traded market risk - FX rate risk BB	The current or prospective risk to earnings, capital and liquidity arising from the risk of holding or taking positions in foreign currencies in the banking book (e.g. in the form of loans, bonds, deposits or cross-border investments, including financial participations in foreign currencies).
Market concentration risk	The current or prospective risk to earnings, capital and liquidity arising from the risk of loss arising from a large position in a single asset or market exposure. An excessive concentration can give rise to liquidity risk or market risk losses (Trading Book).
Credit spread risk	The current or prospective risk to earnings, capital and liquidity arising from the possibility that changes in credit spreads will affect the value of financial instruments or contracts (including both trading and banking book positions) excluding fair value Banking Book Sovereign debt portfolio.
Financial instruments Price Risk (BB)	The current or prospective risk to earnings, capital and liquidity arising from adverse movements in bond prices, security or commodity prices in the banking book (BB). This risk also includes the consideration of climate-related risks, such as transition risks (i.e., new climate policies, technological updates, reputational repercussions, market risks and legal considerations) and physical risks (i.e., acute and chronic risks).
Default and migration risk	The current or prospective risk to earnings, capital and liquidity arising from the materialization of credit default and credit migration risk types.
Market liquidity risk	Also named "asset illiquidity risk". The current or prospective risk to earnings, capital and liquidity arising from positions that cannot easily be unwound or offset at short notice without significantly influencing its market price, because of insufficient market depth or market disruption. Includes risk from holding illiquid equity assets.
Valuation risk	The current or prospective risk to earnings, capital and liquidity arising from mispricing or pricing adjustments, due to complex pay-offs/pricing models or illiquidity / unobservability of pricing model's input parameters as well as adjustments made to the mid-price of fair valued positions (e.g. valuation adjustments on derivatives due to collateral, liquidity, funding costs, model risk, close out costs, etc.).

Risk Name	Real estate risk
Real estate risk	The current or prospective risk to earnings, capital and liquidity arising from changes in value of firm-owned real estate.

Operational risk	
Damage to physical assets	The current or prospective risk to earnings, capital and liquidity arising from damages to the Bank's physical assets, caused by accidental or deliberate events such as climate risks (i.e., acute and/or chronic events), natural disasters, terrorism or vandalism acts, etc.
Execution, delivery & process management	The current or prospective risk to earnings, capital and liquidity arising from errors in execution of operative processes (e.g., "fat finger errors"; lack of or loosing documentation), including failed process management and relations with counterparties and vendors (e.g. outsourcing), excluding ICT related risks.
External fraud risk	The current or prospective risk to earnings, capital and liquidity arising from external fraud.
Employment practices and workplace safety	The current or prospective risk to earnings, capital and liquidity arising from losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or

	from diversity/discrimination events. This risk also includes the consideration of climate-related risks, such as transition risks (i.e., employee and legal risks).
Model risk	The current or prospective risk to earnings, capital and liquidity arising from the development or the use of any flawed of inappropriately applied models/algorithms, within the scope of pricing or transactions' decision making, internal capital quantification models or business decisions.
Internal fraud risk	The current or prospective risk to earnings, capital and liquidity arising from internal fraud.
ICT - Security risks	The current or prospective risk to earnings, capital and liquidity arising from a financial loss, disruption or damage to the reputation connected with activity online, internet trading, electronic systems and technological networks, as well as storage of personal data, (e.g., disruptive cyber-attacks and other external based attacks; inadequate IT physical or logical security).
ICT - Availability and continuity risk	Or "Business disruption and system failures". The current or prospective risk to earnings, capital and liquidity arising from disruption of business or system failures (e.g., inadequate capacity management; inadequate continuity and disaster recovery planning; dysfunctional data processing or handling; ill designed data validation controls in systems; ill designed and/or managed data architecture, data flows, data models or data dictionaries).
ICT - Data integrity risk	The current or prospective risk to earnings, capital and liquidity arising from data stored and processed by ICT systems incomplete, inaccurate or inconsistent across different ICT systems, for example as a result of weak or absent ICT controls during the different phases of the ICT data life cycle, impairing the ability of an institution to provide services and produce (risk) management and financial information in a correct and timely manner.
ICT change risk	The current or prospective risk to earnings, capital and liquidity arising from the inability of the institution to manage ICT system changes in a timely and controlled manner, in particular for large and complex change programmes (e.g., inadequate controls over systems changes and development; inadequate architecture; inadequate lifecycle and patch management).
ICT Outsourcing risk	The current or prospective risk to earnings, capital and liquidity arising from engaging a third party, or another Group entity (intra-group outsourcing), to provide ICT systems or related services adversely impacts the institution's performance and risk management (e.g. inadequate SLA, breaches in the SLA, fail of the providers).
Compliance and conduct risk	Or "Clients, products & business practices". The current or prospective risk to earnings, capital and liquidity arising from violations or non-compliance with laws and regulations due to unintentional or negligent failure to meet a professional obligation to specific clients, including fiduciary and suitability requirements, from the nature or design of a product, or from market manipulation, antitrust or improper trade and customer conduct risk.
Financial crime risk	The current or prospective risk to earnings, capital and liquidity arising from violations or non-compliance with financial regulations (includes AML-Anti money laundering and CTF - Counter terrorism financing, sanctions and bribery).
Data protection risk	The current or prospective risk to earnings capital and liquidity arising from failing to ensure the data protection legal requirements.
Litigation risk	The current or prospective risk to earnings, capital and liquidity arising from court processes started by clients due to contractual disagreements.
Governance risk	The current or prospective risk to earnings capital and liquidity arising from violations or non-compliance with principles of good governance within the firm.

Risk Name	IRRBB - Interest rate risk in the Banking Book
Behavioral and optional risk	The current or prospective risk to earnings, capital and liquidity arising from early unscheduled return of principal on interest rate sensitive asset and liabilities (e.g. changes in the behavioral profile of classes of customers and products, including embedded options.
Gap risk	The current or prospective risk to earnings, capital and liquidity arising from direct or indirect financial losses in the banking book due to movements in interest rates and mismatch between assets and liabilities, making the bank vulnerable to changes in the yield curve, under the current behavioral and prepayment customer and product profiles
Basis risk	The current or prospective risk to earnings, capital and liquidity arising from imperfect hedges.

Risk Name	Business risk
Economic risk	The current or prospective risk to earnings, capital and liquidity arising from the uncertainty in revenues in the short run (< 1 year) due to unforeseen changes in the economic and competitive environment as well as risk of regulatory changes and requirements. This risk also includes the consideration of climate-related risks, such as transition risks (i.e., new climate policies, and legal risks) and physical risks (i.e., acute).
Strategic risk	The current or prospective risk to earnings, capital and liquidity arising from changes in strategy and from adverse business decisions, including strategic decisions that must be taken to comply with regulatory ratios, namely capital, liquidity or leverage ratio. This also comprehends climate-related risks, such as transition risks (i.e., new climate policies, and legal risks) and physical risks (i.e., chronic).
Participations	The current or prospective risk to earnings, capital and liquidity arising from the risk of depreciation of strategic financial participations outside the consolidation perimeter.
IT Strategy risk	The current or prospective risk to earnings, capital and liquidity arising from misalignment between the IT framework and the strategy of the Bank.

Risk Name	Reputational risk
Reputational risk	The current or prospective risk to earnings, capital and liquidity arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators due to actions of any BCP Group entity or its employees. This also includes the consideration of climate-related risks, such as transition risks (i.e., reputational repercussions).
Industry-wide reputational risk	The current or prospective risk to earnings, capital and liquidity arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators due to actions of the wider industry.
Insurance reputation	The current or prospective risk to earnings, capital and liquidity arising from reputational risk associated with the selling process of financial insurance.

Risk Name	Other risks
Step-in risk	The current and prospective risk to earnings, capital and liquidity due to the need of the Bank, by reputational reasons, to provide financial support to an entity beyond or in the absence of contractual obligations, should the entity experience financial stress (unconsolidated entities, only).
Pension fund risk	The current or prospective risk to earnings, capital and liquidity arising from the risk associated with the uncertainty surrounding required contributions to defined benefit pension schemes or with market rates movements that could lead to direct or indirect financial losses in the pension fund assets.
Underwriting risk	The current or prospective risk to earnings, capital and liquidity arising from the risk associated with underwriting issuance of equity or debt securities.
Equity risk	The current or prospective risk to earnings, capital and liquidity arising from the risk associated with the issuance stock at incorrect risk premiums.
Insurance risk	The current or prospective risk to earnings, capital and liquidity arising from the risk associated with future income/expenses due to life insurance business arm.
Re-hypothecation risk	The current or prospective risk to earnings, capital and liquidity arising from the risk associated with the use of assets that have been posted as collateral by bank´s clients.
Geo-political risks	The current or prospective risk to earnings, capital and liquidity arising from the risk associated with political and/or economic and/or military developments in particular geographies where the Group operates or which may indirectly impact Group operations.
Financial System protection schemes risk	The current or prospective risk to earnings, capital and liquidity arising from the value of an unexpected the increase in the future contributions to the Resolution Fund and to other financial system protection schemes.

Risk Name	Circumstantial risks
FX Lending Conversion	The current or prospective risk to earnings, capital and liquidity arising from economic losses due to potential approval of legislation that could have negative impact on bank capital position from lower net profit coming from potential conversion of FX denominated loans into PLN or return of FX spreads or from increased risk weights for FX mortgage loans, namely denominated in CHF.
Assistance Programme Risk in Poland	The current or prospective risk to earnings, capital and liquidity arising from a higher-than-expected utilization of credit holidays in Poland or other assistance programs that might imply direct losses to the Bank.

The set of risks identified as material risks in the Risk Identification Process of 2022 are disclosed in the Table 20 of this report.

4.10. Reporting and risk measurement systems

The BCP Group has implemented an IT infrastructure – SAS Solution for Risk Management - that includes the Risk Office Data Mart (RODM) and SAS Risk Dimensions that captures the risk exposure at a Group level.

SAS Solution for Risk Management is a complete end-to-end application for measuring, exploring, managing, regulatory reporting (COREP/FINREP) and ALM (Assets & Liabilities Management), among other objectives. This solution integrates data access, mapping, enrichment, and aggregation with advanced analytics and flexible calculation and reporting, all in an open, extensible, client server framework.

The Risk Office DataMart (RODM) is an information repository that was designed to support the risk analysis and capital calculation. This application allows the collection of specific and relevant information in terms of risk, from all relevant systems of the Group (domestic and international operations).

RODM aggregates and manages several types of information, namely financial, transactions, customer details, ratings, customer limits, collaterals / guarantees.

The data is obtained directly from the Group's IT systems through automated procedures, which regularly stores data into the RODM, corresponding to the Group's position by the end of each month. The procedures for the loading of updated data were designed by the Group's IT Division at the Risk Office's request and involve the feeding of data from the Group's operational systems, concerning transactions, positions or entities (clients and counterparties) registered into those systems.

The information stored in RODM is used to feed the SAS Risk Dimensions, a simulation software that implements advanced methods for credit risk management, performs risk assessment and mitigation of credit risks through an optimized allocation process, calculates the capital requirements for Pillar I and produces sensitivity analysis and feeds into stress tests exercises. This solution also covers liquidity risk and interest rate risk management.

The main outcomes from this system are:

- Assets & Liabilities Management (ALM), including interest rate risk identification and calculation for all balance sheet (and off-balance) interest-sensitive items, and Gap Analysis for liquidity risk control.
- Capital requirements calculation.
- Impairment calculation.
- Regulatory reporting, namely COREP and FINREP.

It also enables Credit risk analysis, monitoring and reporting, such as exposures, risk weighted assets, Non-Performing Loans, concentration risk, impairment and other credit risk indicators that can be aggregated by geography, business line, product, etc.

Data quality is an essential tool for risk information and therefore to a sound and effective risk management. The Bank is implementing the BCBS 239 Project - Governance and Data Quality, which develops permanently processes and enhancements to comply with the principles for effective risk data aggregation and risk reporting, as presented in BCBS 239, the Basel Committee on Banking Supervision (BCBS) Principles for effective risk data aggregation and risk reporting.

The Bank has established an operating model for Data Quality and Governance, based on segregated responsibilities:

- In the first line of defence, roles deal with the Bank's daily operations and, as a result, ensure a proper usage of data and fulfilment of its requirements.
- In the second line of defence, functions aid the first line by monitoring and providing recommendations, such as setting standards, policies, and procedures.
- In the third line of defence, functions are independent from the Governance and Data Quality framework, allowing them to ensure compliance with the BCBS 239 principles and guarantee that the Bank's objectives and strategy are also aligned.

The process is supported by a complete set of internal regulations and procedures detailing the Bank's Data Governance and Quality model, in accordance with the guidelines of the Group Data Officer (CDO), responsible for defining the global principles and rules applicable throughout the Group and published in the form of Group Codes. In addition, the Group CDO is also responsible for monitoring compliance across the group, in coordination with the CDOs of the subsidiaries.

The Governance and Data Quality Supervisory functions were incorporated in the Operational Resilience Commission.

Data quality metrics were added to the BCP Group RAS and subsidiaries.

The risk management and control information need of the governing bodies are fulfilled by the production of several periodic risk reports, presented to the Committees and Commissions of the Bank. The most high-level reports are the RAS Monitoring Report, presented monthly to the Board of Directors, the Executive Committee and the Risk Assessment Committee and the Key Risk Indicators, covering in detail all material risks of the Bank and presented monthly to the Executive Committee and Risk Assessment Committee.

4.11. 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 Bank Millennium, 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.

In the following table is shown 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 7 – CALCULATION METHODS AND SCOPE OF APPLICATION

	31 Dec. 22	31 Dec. 21
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 the following exposures: those derived from the SOE rating systems and the simplified rating system and purchased receivables 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.

5. Capital adequacy

5.1. 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 and additional Pillar 2 requirements.

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 BCP Group has been considered an O-SII (other systemically important institution) and is obliged to comply with an additional buffer.

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 sitauations, 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 30 September 2022, 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 2022 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.

On March 12, 2020, the European Central Bank announced a set of measures intended to guarantee the continue financing of households and corporates experiencing temporary difficulties, due to the economic effects that are felt worldwide. These Supervisory measures aimed to support banks in serving the economy and addressing operational challenges ahead, including the pressure on their staff.

Capital buffers required by the regulator were established with the objective of allowing banks to face adverse shocks. While the European banking sector has built up a significant amount in capital buffers, the ECB has allowed banks to operate temporarily below the capital level defined by Pillar 2 Guidance (P2G), the capital conservation buffer (CCB) and the systemic buffer (O-SII). Furthermore, several National Supervisory Authorities have reduced or temporarily eliminated the need for the creation of countercyclical buffers (CCyB).

On the scope of the Supervisory Review and Evaluation Process the minimum Own Funds requirements for 2022 were as follows:

TABLE 8 – MINIMUM CAPITAL REQUIREMENTS FROM SREP

31/12/2022

	Minimum required Pillar 1	Aditional requirements Pillar 2	Capital conservation buffer	O-SII capital buffer	Total
CET1	4.5%	1.41%	2.500%	0.750%	9.156%
T1	6.0%	1.88%	2.500%	0.750%	11.125%
Total	8.0%	2.50%	2.500%	0.750%	13.750%

The Bank complies with all Supervisory requirements and other recommendations in this area.

The consolidated capital ratios, as of 31 December 2022, 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.

5.2. Own funds and capital adequacy on 31 december of 2022 and 2021

Own funds, calculated according to the applicable regulatory norms, include tier 1 and tier 2. Tier 1 comprises common equity tier 1 (CET1) and additional tier 1 (AT1).

Common equity tier 1 includes:

- paid-up capital, share premium, reserves and retained earnings with the deduction of expected dividends and non-controlling interests;
- 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, goodwill and other intangible assets, the additional value adjustments required by applying prudent valuation requirements to all assets valued at fair value, adjustments related to minimum commitment with collective investments undertakings, with the insufficient coverage for non-performing exposures and with the amount of securitisation positions, eligible for deduction as an alternative to a 1 250 % risk weight.

Reserves and retained earnings are adjusted by the reversal of unrealised gains and potential 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 Group's capital requirements, attributable to minority shareholders.

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.

The additional value adjustments under SREP as well as the irrevocable payment commitments for the Single Resolution Fund, the fair value of the collateral for irrevocable commitments from the Deposits Guarantee Fund and the additional coverage of non-productive exposures are also deducted.

Additional tier 1 comprises preference shares and other hybrid instruments and perpetual bonds representing subordinated debt 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 own funds include 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. Tier 2 instruments held in financial institutions and insurers of at least 10% are deducted.

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, to exclude some elements previously considered (phase-out) and to include new elements (phase-in). The transitional period for most of the elements lasted until the end of 2017, except for the deferred tax assets already recorded on the balance sheet of 1 January 2014, that has a longer period until the end of 2023.

With the IFRS9 introduction the Group has decided to gradually recognise the impacts, according to artº 473º-A of CRR. The group also decided to adopt, until the end of 2022, the option to gradually recognise the change in unrealized gains and losses measured at fair value through other comprehensive income, according to artº 468 of the CRR.

By decision of the General Meeting of Shareholders the Bank decided to join the special regime applicable to the deferred tax assets.

The Bank has no restrictions applied to the own funds calculations, on the scope of the CRR article 437º e).

The Group does not qualify as a financial conglomerate; therefore, the capital requirements were not assessed.

The main aggregates of the consolidated own funds and own funds requirements, as of 31 December 2022, 30 September 2022 and 31 December 2021 as well as the respective capital ratios are shown in Table 9:

TABLE 9 – CAPITAL RATIO AND SUMMARY OF THE MAIN AGGREGATES

(Thousand euros)

	Fully implemented			Phased-in		
	Dec 2022	Sep 2022	Dec 2021	Dec 2022	Sep 2022	Dec 2021
OWN FUNDS						
Tier I	5,874,922	5,635,143	5,884,053	5,938,797	5,795,259	5,882,041
of which: Common Equity Tier I	5,382,350	5,235,143	5,375,123	5,442,456	5,360,924	5,372,775
Tier II	1,366,507	1,327,537	1,363,288	1,339,915	1,327,537	1,330,758
Total capital	**7,241,429**	**6,962,680**	**7,247,340**	**7,278,712**	**7,122,796**	**7,212,800**
RWA						
Credit risk and counterparty credit risk	36,268,830	38,986,702	39,740,416	36,265,788	39,090,645	39,810,329
Market risk	2,611,404	2,841,503	1,947,366	2,611,404	2,841,503	1,947,366
Operational risk	4,178,551	4,123,409	4,123,409	4,178,551	4,123,409	4,123,409
Credit Valuation Adjustments (CVA)	47,016	45,663	51,426	47,016	45,663	51,426
Total	**43,105,801**	**45,997,277**	**45,862,616**	**43,102,759**	**46,101,219**	**45,932,529**
CAPITAL RATIOS						
Common Equity Tier I	**12.5%**	**11.4%**	**11.7%**	**12.6%**	**11.6%**	**11.7%**
Tier I	**13.6%**	**12.3%**	**12.8%**	**13.8%**	**12.6%**	**12.8%**
Total capital	**16.8%**	**15.1%**	**15.8%**	**16.9%**	**15.5%**	**15.7%**

Note: The September 2022 ratios do not include the accumulated net income.

The reports CET1 ratio as of 31 December 2022 stood at 12.6% phased-in and 12.5% fully implemented, compared to the 11.7%, reported in the same period of 2021, both phased-in and fully implemented and above the minimum ratios defined on the scope of SREP for the year 2022 (CET1 9.156%, T1 11.125% and Total 13.75%).

The evolution of capital ratios in the period continued to be significantly conditioned by the impacts on Bank Millennium, related to the increase in provisions for legal risks associated with loans in foreign currency and with the new regime of moratoriums on mortgage loans adopted in Poland. These effects were offset by the positive performance of the recurrent activity in Portugal, as well as by the capital reinforcement measures adopted in 2022.

In March 2023, the Bank received, from the Supervisory Authority, the authorization for the application of Article 352(2) of the CRR for the exclusion from the calculation of risk weighted assets for market risk of structural exchange positions taken or maintained to immunize regulatory capital ratio against changes market exchange rates.

As of December 2022, this change would have an estimated impact on the CET1 ratio above 50 basis points, resulting from the decrease in relevant market risk exposure by circa 1.880 million euros.

The table below shows the BCP Group risk weighted assets as of 31/12/21 and 30/09/2021.

TABLE 10 – TEMPLATE EU OV1 – OVERVIEW OF RISK WEIGHTED EXPOSURE AMOUNTS

(Thousand euros)

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		Dec 22	Sep 22	Dec 22
1	**Credit risk (excluding CCR)**	**35,737,943**	**38,695,995**	**2,859,035**
2	Of which the standardised approach	12,487,153	13,247,980	998,972
3	Of which the foundation IRB (FIRB) approach	4,850,438	841,914	388,035
4	Of which: slotting approach	870,501	841,914	69,640
EU 4a	Of which: equities under the simple riskweighted approach	1,193,231	1,841,102	95,458
5	Of which the advanced IRB (AIRB) approach	14,590,142	15,895,726	1,167,211
6	**Counterparty credit risk - CCR**	**196,796**	**179,068**	**15,744**
7	Of which the standardised approach	128,161	130,464	10,253
8	Of which internal model method (IMM)			
EU 8a	Of which exposures to a CCP	21,573	2,883	1,726
EU 8b	Of which credit valuation adjustment - CVA	47,016	45,663	3,761
9	Of which other CCR	46	58	4
10	Empty set in the EU			
11	Empty set in the EU			
12	Empty set in the EU			
13	Empty set in the EU			
14	Empty set in the EU			
15	**Settlement risk**	0	0	0
16	**Securitisation exposures in the non-trading book (after the cap)**	378,065	261,246	30,245
17	Of which SEC-IRBA approach	329,580	-	26,366
18	Of which SEC-ERBA (including IAA)	1,256	1,256	101
19	Of which SEC-SA approach	47,229		3,778
EU 19a	Of which 1250%/ deduction			
20	**Position, foreign exchange and commodities risks (Market risk)**	**2,611,404**	**2,841,503**	208,912
21	Of which the standardised approach	2,007,384	1,997,727	160,591
22	Of which IMA	604,021	843,776	48,322
EU 22a	**Large exposures**			
23	**Operational risk**	**4,178,551**	**4,123,409**	334,284
EU 23a	Of which basic indicator approach			
EU 23b	Of which standardised approach	4,178,551	4,123,409	334,284
EU 23c	Of which advanced measurement approach			
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	1,899,128	2,083,442	151,930
25	Empty set in the EU			
26	Empty set in the EU			
27	Empty set in the EU			
28	Empty set in the EU			
29	**Total**	**43,102,759**	**46,101,219**	**3,448,221**

Note: Item 21: Considering the impact resulting from the Supervisor's permission to apply the Article 352(2) of the CRR the estimated amount of RWEAs would be 125.212 thousand euros, as the result of the estimated reduction of the structural foreign exchange position by circa 1.884 million euros.

The following table presents the full reconciliation of own funds items to audited financial statements as of 31 December 2022, according to the Commission Implementing Regulation (EU) No 1423/2013:

TABLE 11 – RECONCILIATION BETWEEN ACCOUNTING AND REGULATORY CAPITAL

(Thousand euros)

		Dec 2022
1	Share capital	3,000,000
2	Own shares	
3	Share premium	16,471
4	Preference shares	
5	Other capital instruments	400,000
6	Reserves and retained earnings	1,514,484
7	Net income for the period attributable to Shareholders	207,497
	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	**5,138,451**
8	Non-controlling interests (minority interests)	759,659
	TOTAL EQUITY	**5,898,110**
9	Own shares of CET1 not eligible instruments	-855
10	Preference shares not eligible for CET1	
11	Other capital instruments not eligible for CET1	-400,000
12	Subordinated debt fully subscribed by the Portuguese State eligible for CET1	-6,184
13	Non-controlling interests not eligible for CET1	-325,892
14	Other regulatory adjustments	277,276
	Of which: Intangible assets	-58,987
	Of which: Goodwill	-75,073
	Of which: Deferred tax assets	-188,693
	Of which: Other	600,030
	COMMON EQUITY TIER 1 (CET1)	**5,442,456**
15	Subordinated debt	400,000
16	CET1 transferred adjustments	96,341
17	T2 transferred adjustments	
18	Other Adjustments	
	Of which: Intangible assets	
	Of which: Shortfall of impairment to expected loss	
	Of which: Residual amounts of CET1 instruments of financial entities in which the institution has a significant investment	
	Of which: Other	
	TIER 1 (T1)	**5,938,797**
19	Subordinated debt	1,047,875
20	Non-controlling interests eligible for T2	271,800
22	Preference shares eligible for T2	79,040
22	Adjustments with impact in T2, including national filters	-58,800
23	Adjustments that are transferred for T1 for insufficient T2 instruments	
	TIER 2 (T2)	**1,339,915**
	OWN FUNDS	**7,278,712**

Notes:
The sum of items 1, 2, 3 e 9 is equivalent to the item 1 of Template CC1.
Item 6 is equivalent to the sum of items 2 and 3 of Template CC1.
The sum of items 7 e 12 is equivalent to the item 5a of Template CC1.
Item 14 is equivalent to the item 28 of Template CC1.
Item 15 is equivalent to the item 30 of Template CC1.
Item 16 is equivalent to the item 34 of Template CC1.
Item 19 is equivalent to the item 46 of Template CC1.
Item 20 is equivalent to the item 48 of Template CC1.
Item 22 is equivalent to the item 55 of Template CC1.

In accordance with the instructions in the ITS (Implementing Technical Standards) issued by EBA (EBA / ITS / 2020/04), regarding the public disclosure of the information referred to in Titles II and III of part VIII of Regulation (EU) No. 575/2013, we present below the information referred to in Article 437, points a), d), e) and f), of Regulation (EU) No. 575/2013 using the EU CC1 and CC2 templates and detailed information about the main characteristics of the main equity funds instruments of level 1, additional level 1 and level 2, as defined in point 1 (b) of the said article, using the EU CCA template.

TABLE 12 – TEMPLATE EU CC1 – COMPOSITION OF REGULATORY OWN FUNDS AT 31 DECEMBER 2022

(Thousand euros)

		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	3,015,616	
	of which: Instrument type 1	3,000,000	37
	of which: Instrument type 2	0	
	of which: Instrument type 3	0	
2	Retained earnings	834,752	41;43
3	Accumulated other comprehensive income (and other reserves)	679,731	41;43
EU-3a	Funds for general banking risk	0	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-59,280	45
5	Minority interests (amount allowed in consolidated CET1)	493,047	45
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	201,313	44
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**5,165,179**	

		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-5,961	
8	Intangible assets (net of related tax liability) (negative amount)	-134,060	14;18
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)	-188,693	20
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	1,209,224	43
12	Negative amounts resulting from the calculation of expected loss amounts	0	
13	Any increase in equity that results from securitised assets (negative amount)	0	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-125	43
15	Defined-benefit pension fund assets (negative amount)	-457,965	21
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-38	
17	Direct, indirect and synthetic 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)	0	
18	Direct, indirect and synthetic 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)	0	
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)	0	
20	Empty set in the EU		
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-53,958	
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	0	
EU-20c	of which: securitisation positions (negative amount)	-53,958	
EU-20d	of which: free deliveries (negative amount)	0	
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)	0	20
22	Amount exceeding the 17.65% threshold (negative amount)	0	
23	of which: 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	0	14
24	Empty set in the EU		
25	of which: deferred tax assets arising from temporary differences		20
EU-25a	Losses for the current financial year (negative amount)	0	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	0	
26	Empty set in the EU		
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	0	
27a	Other regulatory adjusments (including IFRS 9 transitional adjustments when relevant)	-91,147	14, 20, 21
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**277,276**	
29	**Common Equity Tier 1 (CET1) capital**	**5,442,456**	

		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	400,000	40
31	of which: classified as equity under applicable accounting standards	400,000	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) of CRR	0	
EU-33a	Amount of qualifying items referred to in Article 494a(1) subject to phase out from AT1	0	
EU-33b	Amount of qualifying items referred to in Article 494b(1) subject to phase out from AT1	0	
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	96,341	45
35	of which: instruments issued by subsidiaries subject to phase out	3,770	45
36	Additional Tier 1 (AT1) capital before regulatory adjustments	496,341	
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	
39	Direct, indirect and synthetic holdings of the AT1 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)	0	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	
41	Empty set in the EU		
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	0	
42a	Other regulatory adjustments to AT1 capital	0	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	
44	Additional Tier 1 (AT1) capital	496,341	
45	Tier 1 capital (T1 = CET1 + AT1)	5,938,797	

		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	1,047,875	26
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 as described in Article 486 (4) CRR	0	
EU-47a	Amount of qualifying items referred to in Article 494a (2) subject to phase out from T2	0	
EU-47b	Amount of qualifying items referred to in Article 494b (2) subject to phase out from T2	0	
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	271,800	26, 45
49	of which: instruments issued by subsidiaries subject to phase out	-15,419	
50	Credit risk adjustments	27,683	
51	Tier 2 (T2) capital before regulatory adjustments	1,347,358	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0	
53	Direct, indirect and synthetic 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)	0	
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 in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	
54a	Empty set in the EU		
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)	-58,800	5
56	Empty set in the EU		
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	0	
56b	Other regulatory adjusments to T2 capital	51,357	
57	Total regulatory adjustments to Tier 2 (T2) capital	-7,443	
58	Tier 2 (T2) capital	1,339,915	
59	Total capital (TC = T1 + T2)	7,278,712	
60	Total risk exposure amount	43,102,759	

		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	12.63%	
62	Tier 1 (as a percentage of total risk exposure amount)	13.78%	
63	Total capital (as a percentage of total risk exposure amount)	16.89%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	9.16%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement		
67	of which: systemic risk buffer requirement		
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.75%	
EU-67b	of which: additional capital requirement to address risks other than the risk of excessive leverage	1.41%	
68	Common Equity Tier 1 available to meet buffer (as a percentage of risk exposure amount)	8.13%	
National minima (if different from Basel III)			
69	[non relevant in EU regulation]		
70	[non relevant in EU regulation]		
71	[non relevant in EU regulation]		
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	56,104	
73	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 (amount below 17.65% thresholds and net of eligible short positions)	264,985	
74	Empty set in the EU		
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	494,666	
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)	0	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	157,387	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	12,786	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	132,977	

		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		
82	Current cap on AT1 instruments subject to phase out arrangements		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		
84	Current cap on T2 instruments subject to phase out arrangements		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		

The table below highlights the difference in the basis of consolidation for accounting and prudential purposes as it compares the carrying values as reported under IFRS with the carrying values under the scope of the regulatory consolidation. References in the last column of the table provide the mapping of regulatory balance sheet items used to calculate regulatory capital. The reference-columns presented below reconcile to the references-columns as presented in the template “EU CC1– Composition of regulatory own funds”.

TABLE 13 –TEMPLATE EU CC2 – RECONCILIATION OF REGULATORY OWN FUNDS TO BALANCE SHEET IN THE AUDITED FINANCIAL STATEMENTS

(Thousand euros)

		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference to Template CC1
		Dec 22	Dec 22	
ASSETS				
1	Cash and deposits at Central Banks	6,022,002	3,181,686	
2	Loans and advances to credit institutions repayable on demand	213,460	212,482	
3	Financial assets at amortised cost			
4	Loans and advances to credit institutions	963,434	3,802,748	
5	Loans and advances to customers	54,675,793	54,675,793	
	Of which:			
	Subordinated loans		58,800	55
6	Debt instruments	13,035,582	13,035,582	
7	Financial assets at fair value through profit or loss			
8	Financial assets held for trading	766,597	766,597	
9	Financial assets not held for trading mandatorily			
	at fair value through profit or loss	552,680	796,527	
10	Financial assets designated at fair value			
	through profit or loss			
11	Financial assets at fair value through			
	other comprehensive income	7,461,553	7,478,490	
12	Assets with repurchase agreement			
13	Hedging derivatives	59,703	59,703	
14	Investments in associated companies	298,717	316,647	
	Of which:			
	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			23
	Other regulatory adjustments to CET1 capital			27a
	Goodwill		33,732	8
15	Non-current assets held for sale	499,035	301,537	
16	Investment property	15,217	12,532	
17	Other tangible assets	574,697	511,729	
18	Goodwill and intangible assets	182,687	182,687	
	Of which:			
	Goodwill and intangible assets, excluding software classified as intangible assets not within the scope of article 13a of Regulation 241/2014		100,328	8
19	Current tax assets	17,945	17,939	
20	Deferred tax assets	2,938,986	2,933,516	
	Of which:			
	Deferred tax assets that rely on future profitability excluding those arising from temporary differences		188,693	10
	Arising from temporary differences (amount above 10% threshold)			21
	Arising from temporary differences (amount above 17.75% threshold)			25
	Other regulatory adjustments to CET1 capital		0	27a
21	Other assets	1,582,455	1,580,041	
	Of which:			
	Defined-benefit pension fund assets		457,965	15
	Single resolution fund		25,506	27a
	Total Assets	**89,860,544**	**89,866,237**	

LIABILITIES

22	Financial liabilities at amortised cost			
23	Resources from credit institutions	1,468,360	1,468,360	
24	Resources from customers	75,430,143	75,441,450	
25	Non subordinated debt securities issued	1,482,086	1,482,086	
26	Subordinated debt	1,333,056	1,333,056	
	Of which:			
	Capital instruments and the related share premium accounts		1,047,875	46
	Qualifying own funds instruments issued by subsidiaries and held by third parties		216,290	48, 49
27	Financial liabilities at fair value through profit or loss			
28	Financial liabilities held for trading	241,505	241,505	
29	Financial liabilities at fair value			
30	through profit or loss	1,817,680	1,817,680	
31	Hedging derivatives	178,000	178,000	
32	Non-current liabilities held for sale			
33	Provisions	561,786	559,954	
34	Current tax liabilities	23,680	23,680	
35	Deferred tax liabilities	11,708	11,708	
36	Other liabilities	1,391,975	1,410,648	
	Total Liabilities	**83,939,979**	**83,968,127**	

EQUITY

37	Share capital	3,000,000	3,000,000	1
38	Share premium	16,471	16,471	1
39	Preference shares			
40	Other equity instruments	400,000	400,000	31
41	Legal and statutory reserves	268,534	268,534	2;3
42	Treasury shares			1
43	Reserves and retained earnings	1,245,950	1,245,950	2;3;11;14
44	Net income for the year attributable to Shareholders	207,497	207,497	5a
	Total Equity attributable to Shareholders	**5,138,451**	**5,138,451**	
45	Non-controlling interests	782,114	759,659	
	Of which:			
	Amount allowed in consolidated CET1		433,767	4, 5
	Amount allowed in consolidated AT1		100,111	34, 35
	Amount allowed in consolidated T2		40,091	48, 49
	Total Equity	**5,920,565**	**5,898,110**	
	Total Liabilities and Equity	**89,860,544**	**89,866,237**	

The following table shows the main features of own funds' instruments in December 2022.

TABLE 14 – TEMPLATE EU CCA – MAIN FEATURES OF OWN FUNDS' INSTRUMENTS

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Bank Millennium S.A.	Bank Millennium S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	PTBCPWOM0034	PTBIT3OM0098	PTBCPGOM0067	PTBCPJOM0056	PLBIG0000453	PLBIG0000461	PTBCPFOM0043	PTBCP0AM0015
2a	Public or private placement	Public placement	Public placement	Public placement	Public placement	Public placement	Public placement	Public placement	Public placement
3	Governing law(s) of the instrument	English and Portuguese law	English and Portuguese law	English and Portuguese law	English and Portuguese law	Polish law	Polish law	English and Portuguese law	Portuguese law
3a	Contractual recognition of write down and conversion powers of resolution authorities	Yes	Yes	Yes	Yes	N/A	N/A	Yes	N/A
REGULATORY TREATMENT									
4	Current treatment taking into account, where applicable, transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Additional Tier 1	Common Equity Tier 1
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Additional Tier 1	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Other Capital Instruments	Ordinary Shares
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) [(1)]	164,175,056	450,000,000	300,000,000	133,700,000	98,956,076	117,333,633	399,999,980	2,999,145
9	Nominal amount of instrument	166,300,000	450,000,000	300,000,000	133,700,000	PLN 700,000,000 (153,498,673)	PLN 830,000,000 (182,005,570)	400,000,000	N/A
9a	Issue price	100%	100%	100%	100%	100%	100%	100%	N/A
9b	Redemption price	100%	100%	100%	100%	100%	100%	100%	N/A
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Shareholders' equity	Shareholders' equity
11	Original date of issuance	07 December 2017	27 September 2019	17 November 2021	5 December 2022	07 December 2017	30 January 2019	31 January 2019	N/A
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated	Dated	Perpetual	No maturity
13	Original maturity date	07 December 2027	27 March 2030	17 May 2032	5 March 2033	07 December 2027	30 January 2029	N/A	N/A
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A
15	Optional call date, contingent call dates and redemption amount	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.	27 March 2025. 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.	From 17 November 2026 to 17 May 2027. 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.	From 5 December 2027 to 5 March 2028. 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.	30 January 2024. 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.	First date: 31 January 2024. 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.	N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	N/A	First call date and on each interest payment date thereafter	N/A

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Bank Millennium S.A.	Bank Millennium S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.
COUPONS/DIVIDENDS									
17	Fixed or floating dividend/coupon	Fixed (reset)	Fixed (reset)	Fixed (reset)	Fixed	Floating	Floating	Fixed	Floating
18	Coupon rate and any related index	6,888%, year	First 5,5 years. 3.871%. Refixing at the end of the 5,5th year: MS 5y rate + Initial Margin (4,231%)	First 5,5 years. 4%. Refixing at the end of the 5,5th year: MS 5y rate + Initial Margin (4,065%)	First 5,5 years. 8,75%. Refixing at the end of the 5,5th year: MS 5y rate + Initial Margin (6,051%)	Wibor 6M + 2,30%	Wibor 6M + 2,30%	MS 5y rate + 941.4 bps first 5 years; Refixing every 5 years. Until 31 Juanuary 2019: 9.25%	N/A
19	Existence of a dividend stopper	No	No	No	No	No	No	No	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Fully discretionary	N/A
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No	No	N/A
22	Noncumulative or cumulative	N/A	N/A	N/A	N/A	N/A	N/A	Noncumulative	Noncumulative
23	Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	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	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	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	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	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	N/A	N/A	N/A

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Bank Millennium S.A.	Bank Millennium S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.
30	Write-down features	N/A	No	No	No	N/A	No	Yes	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A	N/A	CET1 ratio below 5.125%	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A	N/A	Partial	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A	N/A	Permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	N/A	(2)	N/A
34a	Type of subordination (only for eligible liabilities)	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual	Legal
34b	Ranking of the instrument in normal insolvency proceedings	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Additional Tier 1	Tier 1
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt Non-Preferred	Senior Debt Non-Preferred	Senior Debt Non-Preferred	Senior Debt Non-Preferred	Senior Debt Non-Preferred	Senior Debt Non-Preferred	Tier 2	Additional Tier 1
36	Non-compliant transitioned features	N/A	No	No	N/A	N/A	N/A	N/A	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
37a	Link to the full term and conditions of the intrument (signposting)	PTBCPWOM0034_FT_EMTN-Sr854_180109.pdf (millenniumbcp.pt)	PTBIT3OM0098_Final_Terms_OpTagus_MTN855.PDF (millenniumbcp.pt)	PTBCPGOM0067_MTN858_BCP_Signed_Final_Terms_10122021.pdf (millenniumbcp.pt)	PTBCPJOM0056_BCP-MTN-860.pdf (millenniumbcp.pt)	Seria-C-Warunki-Emisji-EBK-C-01122021.pdf (bankmillennium.pl)	NOTA_INFORMACYJNA_Millennium_seriaW.pdf (gpwcatalyst.pl)	FINAL_Offering_Circular_29012019.pdf (millenniumbcp.pt)	N/A

(1) Amount included in the calculation of Bank's Own Funds (phased-in) as of 31 December 2022

(2) Always subject to compliance with the regulations in force and with the terms and conditions of the issue, if, at any moment, while the issued bonds are written down, the issuer records a profit, he can, at his exclusive and absolut discretion, Decide to increase the nominal value of the bonds by an amount stipulated by him.

The Prudent Valuation Adjustment based on the methodology defined in the Commission Delegated Regulation (EU) 2016/101 is disclosed below in accordance with Regulation (EU) 2019/876, Article 436 (e) CRR for exposures from the trading book and the non-trading book that are adjusted in accordance with Article 34 and Article 105, a breakdown of the amounts of the constituent elements of an institution's prudent valuation adjustment, by type of risks, and the total of constituent elements separately for the trading book and non-trading book positions.

TABLE 15 – TEMPLATE EU PV1 – PRUDENT VALUATION ADJUSTMENTS (PVA)

(Thousand euros)

		a	b	c	d	e	EU e1	EU e2	f	g	h
		Risk category					Category level AVA - Valuation uncertainty		Total category level post-diversification		
	Category level AVA	Equity	Interest Rates	Foreign exchange	Credit	Commodities	Unearned credit spreads AVA	Investment and funding costs AVA		Of which: **Total core approach** in the trading book	Of which: **Total core approach** in the banking book
1	Market price uncertainty										
2	Set not applicable in the EU										
3	Close-out cost										
4	Concentrated positions										
5	Early termination										
6	Model risk										
7	Operational risk										
8	Set not applicable in the EU										
9	Set not applicable in the EU										
10	Future administrative costs										
11	Set not applicable in the EU										
12	**Total Additional Valuation Adjustments (AVAs)**								**5,961**		

TABLE 16 – UNIFORM DISCLOSURE OF IFRS9 TRANSITIONAL ARRANGEMENTS

Given that the Bank decided to adopt the option of recognizing the impacts of IFRS9 in stages, in accordance with the provisions of article 473-A of the CRR, the following is a model for comparing own funds, own funds and leverage ratios of institutions with and without the application of the IFRS9 transitional regime or similar expected credit losses, as referred to in the EBA / GL / 2018/01 guidelines, regarding the uniform disclosure of the transitional regime to reduce the impact of the introduction of IFRS 9 on own funds. On the other hand, under the guidelines EBA / GL / 2020/12, the Bank decided not to apply the temporary treatment regime for unrealized gains and losses valued at fair value through other comprehensive income, in accordance with article 468 of CRR.

(Thousand euros)

		Dec 22	Sep 22	Jun 22	Mar 22	Dec 21
AVAILABLE CAPITAL (AMOUNTS)						
1	Common Equity Tier 1 (CET1) capital	5,442,456	5,360,924	5,320,200	5,164,656	5,372,775
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5,392,846	5,315,385	5,288,736	5,141,049	5,293,951
2a	CET1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI (other comprehensive income) in accordance with Article 468 of the CRR had not been applied	5,372,680	5,269,627	5,176,089		
3	Tier 1 capital	5,938,797	5,795,259	5,827,639	5,671,628	5,882,041
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5,889,187	5,749,720	5,796,175	5,647,841	5,803,217
4a	Tier 1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	5,869,021	5,703,962	5,683,527		
5	Total capital	7,278,712	7,122,796	7,146,370	7,005,249	7,212,800
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,240,275	7,077,258	7,114,907	6,982,747	7,154,494
6a	Total capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	7,208,936	7,031,500	7,002,259		
RISK-WEIGHTED ASSETS (AMOUNTS)						
7	Total risk-weighted assets	43,102,759	46,101,219	46,207,718	46,045,443	45,932,529
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	43,045,340	46,027,836	46,156,694	45,997,366	45,832,830
CAPITAL RATIOS						
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	12.6%	11.6%	11.5%	11.2%	11.7%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.5%	11.5%	11.5%	11.2%	11.6%
10a	CET1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	12.4%	11.4%	11.2%		
11	Tier 1 (as a percentage of risk exposure amount)	13.8%	12.6%	12.6%	12.3%	12.8%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.7%	12.5%	12.6%	12.3%	12.7%
12a	Tier 1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	13.6%	12.4%	12.3%		
13	Total capital (as a percentage of risk exposure amount)	16.9%	15.5%	15.5%	15.2%	15.7%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.8%	15.4%	15.4%	15.2%	15.6%
14a	Total capital (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	16.7%	15.3%	15.2%		
LEVERAGE RATIO						
15	Leverage ratio total exposure measure	98,339,418	102,560,156	100,518,281	100,889,057	99,785,900
16	Leverage ratio	6.04%	5.65%	5.80%	5.62%	5.89%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.99%	5.61%	5.77%	5.60%	5.82%
17a	Leverage ratio as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	5.97%	5.57%	5.66%	5.62%	5.89%

The main objective of the countercyclical reserve is to ensure that the Bank has an adequate capital buffer to allow it to absorb unexpected losses in a situation of negative systemic shock, thus not compromising the granting of credit to the real economy. Banco de Portugal is responsible for defining the value of the countercyclical reserve, measured as a percentage of the total amount of exposures (between 0% and 2.5%). Banco de Portugal decided that the percentage of countercyclical capital reserve to be in force in the 4th quarter of 2022 would be 0%, for counterparties domiciled in Portugal. In compliance with the information disclosure requirements provided in Article 440, paragraph 1, point a) of the CRR, table 17 shows the geographic distribution of the credit risk positions relevant for calculating the cyclical reserve of own funds and in the table 18 the determination of the countercyclical reserve for capital requirements (cf. Delegated Regulation (EU) 2015/1555).

TABLE 17 – TEMPLATE EU CCYB1 – GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL BUFFER

(Thousand euros)

		a	b	c	d	e	f	g	h	i	j	k	l	m
		General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures Exposure value for non-trading book	Total exposure value	Own fund requirements				Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
		Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models			Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total			
010	Breakdown by country:													
	AO													
	BR													
	CH													
	DE													
	ES													
	FR													
	GB													
	HK													
	KW													
	LU													
	MZ													
	NL													
	PL	9,361,175	7,533,408	0		530,659	17,425,241	647,658	0	3,778	651,436	8,142,947	31%	0%
	PT	5,645,063	45,642,756	340,747		2,700,834	54,329,399	1,418,071	39	26,467	1,444,577	18,057,210	69%	0%
	UA													
	US													
020	**Total**	**15,006,238**	**53,176,163**	**340,747**	**0**	**3,231,493**	**71,754,640**	**2,065,728**	**39**	**30,245**	**2,096,013**	**26,200,158**		

TABLE 18 – TEMPLATE EU CCYB2 - AMOUNT OF INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

(Thousand euros)

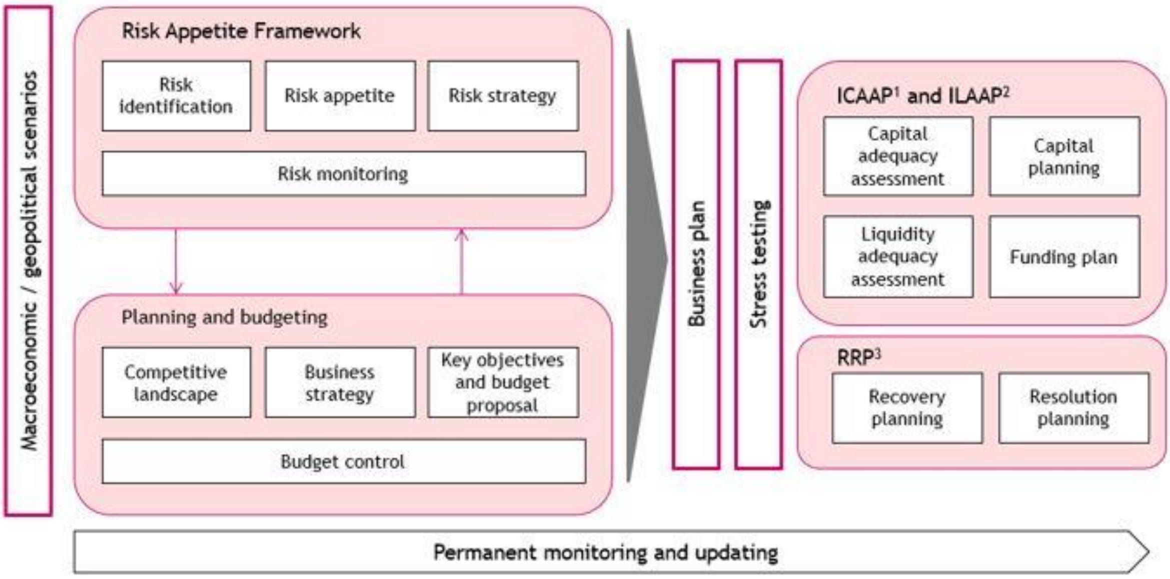
		a
1	Total risk exposure amount	43,102,759
2	Institution specific countercyclical capital buffer rate	0
3	Institution specific countercyclical capital buffer requirement	0

5.3. Internal capital adequacy assessment process (ICAAP)

The Bank's internal capital adequacy to cover the level of risks to which the Group's activity is subject to permanent monitoring in the scope of the ICAAP (Internal Capital Adequacy Assessment Process).

The following figure summarizes the process in question:

TABLE 19 – ICAAP PROCESS



1 Internal Capital Adequacy Assessment Process
2 Internal Liquidity Adequacy Assessment Process
3 Recovery and Resolution Planning

The ICAAP is a key process within the BCP Group's risk management function and is developed under an internal governance model that guarantees the involvement of the Board of Directors (the body responsible for approving the results) and its Risk Assessment Committee, the EC and the top management of the Group, in its various phases.

The results of the ICAAP and the conclusions of its regular monitoring are a key input for the definition of the risk appetite of and of the risk strategy of the BCP Group. 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, allowing the Bank to anticipate possible situations of weakness and, if necessary, to develop active capital management policies in order to ensure the adequacy of both the solvency levels and the return on capital.

For this purpose, the ICAAP starts from a prospective view of the impacts of the materialization of the various risks on the Group's capital (capital requirements), considering the respective scale or dimension, complexity, frequency, probability of occurrence and materiality, having as a backdrop fund the developments projected for the Group's activity in a medium-term time horizon (3 years). The impacts are estimated from a normative and economic perspective and consider different scenarios, including stress scenarios with a severely penalizing evolution of macroeconomic indicators. Through this process, it is possible to test the Group's resilience, checking if the capital levels are adequate to cover the risks to which its activities may be subject. To this end, the different risks are modelled or incorporated within the framework of the Group's stress testing methodology.

The process of identifying the material risks to which the Group's activity is subject (risk identification process) constitutes the first phase of each ICAAP cycle. This process involves the top management of the Bank and the main subsidiaries abroad, following a methodological approach based on an internal taxonomy of risks covering more than 60 different types of risks and defined materiality limits, assessing the importance for the Group's activity of each type of risk, based on the probability of occurrence and the magnitude of the impacts - either before or after the application of risk mitigation measures.

The result of this stage is the list of material risks to be considered by the ICAAP, as well as supporting data for the definition of the variables to be considered for the establishment of the base and the stressed scenarios, mentioned ahead. The approval of the results of the risks identification process is a capacity attributed to the Risk Assessment Committee.

Besides 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 material, at Group level.

In parallel, the base and stressed scenarios that are the ICAAP's framework are defined taking into consideration the main geographies in which the Group develops its business. While the baseline scenario corresponds to the Group's view on the most probable evolution of the medium-term business constraints, the stress scenarios incorporate extreme conditions, with a low probability of occurrence and with a severe expected impact over the Group's activity. The approval of the scenarios to be considered in ICAAP is also a responsibility assigned to the Risk Assessment Committee.

In the third phase, the impact of the risks identified on the reference date is modelled, determining the capital requirements for that date. All material risks identified by the Bank are quantified in terms of impact at the level of the RWA, or in results, according to a set of methodologies and internal models, formally approved, documented, validated and audited internally, considering a level of significance aligned with capital requirements under Regulation (EU) 575/2013 (CRR - Capital Requirements Regulation) or Solvency 2 and a time horizon of 1 year. Non-quantifiable or non-material risks are considered through an additional capital buffer. The approval of the methodologies for estimating the impact of risks on the Group's activity is the responsibility of the Risk Committee.

In the prospective component, scenarios for the projections of the Group's activities are considered with a medium-term time horizon (3 years): a baseline scenario – corresponding to the current vision of the Group's management – and adverse scenarios that severely penalise the macroeconomic indicators, in order to test the Group's resilience under extreme scenarios and if it has adequate capital levels to cover the risks to which its activity may be subject, even in adverse conditions.

Within the ICAAP with reference 31 of December of 2022, the Group has considered the following risks (as materially relevant ones, after mitigation effects, or considered within the scope of Pillar I):

TABLE 20 – MATERIAL RISKS

Credit risk	Default risk
	Issuer risk
	Sovereign risk Securitisation risk
	Securitisation risk
Market risks	Non-traded market risk - FX rate risk BB
	Traded market risk
Business risks	Economic risk
	Strategy risk
	IT strategy risk
	Participation risk
Operational risk	Processes - External fraud risk
	ICT risk – Change risk
	ICT risk – Security risk
	ICT risk – Data integrity risk
	Legal - Financial crime risk
IRRBB – Interest rate risk of the Banking book	Gap risk
Real Estate risk	Real Estate market risk
Other risks	Insurance risk
	Pension fund risk
	Litigation risk (CHF loans)
	Geopolitical risk
	Assistance program risk

These risks are modelled or incorporated into the Group's stress testing methodology framework, producing estimated impacts on capital levels both through the impact on operating results or through changes in the risk-weighted assets (RWA) levels.

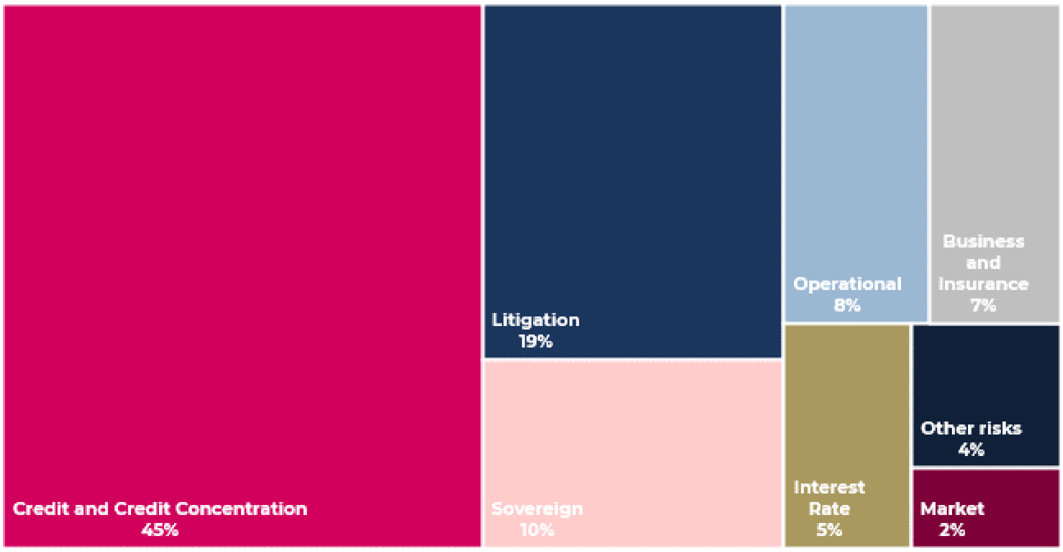
Once the impacts of the various risks on the Group's operating account and balance sheet - in particular, over own funds - have been estimated, the Group is able to assess the adequacy of its risk-absorbing capacity against the expected profile for its activity.

The Group assumes a high-quality Risk-Taking Capacity (RTC) in line with the definition of regulatory capital ratios under Directive 2013/36 / EU and CRR, including some adjustments to include others capital elements or instruments that the Group considers appropriate to cover existing risks, prudently projected over the time horizon under analysis.

The Bank considers that in December 2022 the amounts of economic and regulatory capital held were sufficient to adequately capitalize the risks to which the Group was exposed on that date.

The table below shows the distribution of the capital requirements per type of risk:

TABLE 21 – INTERNAL CAPITAL REQUIREMENTS PER TYPE OF RISK



Given the nature of the Bank's activity, credit risk presents itself as the most relevant risk, justifying 45% of the internal capital needs. The litigation risk, arising from the Swiss Franc mortgage loan portfolio at Bank Millennium, represents 19% of the total internal capital requirements. Sovereign risk, which represents 10%, is influenced by the volume of investments of the Group's excess liquidity in public debt securities.

On a quarterly basis, the Bank updates the quantification of ICAAP's main material risks, reporting the results to the Bank's management bodies.

ICAAP is subject to independent validation carried out by the Office for the Validation and Monitoring of Models (GAVM) and audited by the Audit Division.

6. Leverage ratio

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 and by the Regulation (EU) 876/2019 of 20 May 2019.

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, namely those related to intra-group exposures, securities financing transactions (SFTs), items deducted from the total capital ratio's numerator and off-balance sheet items, and to account for different risk profiles of each type of exposure (in SFTs 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 leverage ratio is included in the Risk Appetite Framework of the Group, as part of its commitment to preserve robust capital adequacy ratios. In this way, the leverage ratio is monitored and reported in order to ensure that any significant change in any of the main driver of this indicator are analysed and reported internally so as to avoid limits being breached. In the case of a risk appetite breach for the leverage ratio, the Group will undertake the necessary actions based on its source and severity.

The following tables show the leverage ratio exposure and the leverage ratio in December 2022.

TABLE 22 – TEMPLATE EU LR1 - LRSUM: SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

(Thousand euros)

		a
		Applicable amount
1	Total assets as per published financial statements	89,860,544
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	5,693
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	0
4	(Adjustment for temporary exemption of exposures to central bank (if applicable))	0
5	(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 point (i) of Article 429a(1) CRR)	0
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	0
7	Adjustment for eligible cash pooling transactions	0
8	Adjustments for derivative financial instruments	564,828
9	Adjustment for securities financing transactions (SFTs)	0
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	7,633,878
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	0
EU-11a	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-5,961
EU-11b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (j) of Article 429a(1) CRR)	0
12	Other adjustments	280,435
13	**Leverage ratio total exposure measure**	**98,339,418**

TABLE 23 – TEMPLATE EU LR2 – LRCOM: LEVERAGE RATIO COMMON DISCLOSURE

(Thousand euros)

		CRR leverage ratio exposures	
		a	b
		Dec 22	**Jun-22**
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	89,281,033	94,559,262
2	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0	0
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-167,053	-754,048
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	0	0
5	(General credit risk adjustments to on-balance sheet items)	0	0
6	(Asset amounts deducted in determining Tier 1 capital)	292,788	-188,136
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	89,406,767	93,617,077
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	762,643	166,621
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	0	0
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	533,125	144,667
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	0	0
EU-9b	Exposure determined under Original Exposure Method	0	0
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	0	0
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	0	0
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	0	0
11	Adjusted effective notional amount of written credit derivatives	1,968	1,984
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0
13	**Total derivatives exposures**	1,297,736	313,272
	Securities financing transaction (SFT) exposures		
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	1,037	1,750
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0	0
16	Counterparty credit risk exposure for SFT assets	0	0
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	0	0
17	Agent transaction exposures	0	0
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)	0	0
18	**Total securities financing transaction exposures**	1,037	1,750
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	15,617,543	17,224,782
20	(Adjustments for conversion to credit equivalent amounts)	-7,983,665	-10,638,600
21	(General provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	0	0
22	**Off-balance sheet exposures**	7,633,878	6,586,182

		CRR leverage ratio exposures	
		a	b
		Dec 22	Jun-22
	Excluded exposures		
EU-22a	(Exposures excluded from the leverage ratio total exposure measure in accordance with point (c) of Article 429a(1) CRR)	0	0
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a (1) CRR (on and off balance sheet))	0	0
EU-22c	(-) Excluded exposures of public development banks - Public sector investments	0	0
EU-22d	(Excluded promotional loans of public development banks: - Promotional loans granted by a public development credit institution - Promotional loans granted by an entity directly set up by the central government, regional governments or local authorities of a Member State - Promotional loans granted by an entity set up by the central government, regional governments or local authorities of a Member State through an intermediate credit institution)	0	0
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units): - Promotional loans granted by a public development credit institution - Promotional loans granted by an entity directly set up by the central government, regional governments or local authorities of a Member State - Promotional loans granted by an entity set up by the central government, regional governments or local authorities of a Member State through an intermediate credit institution)	0	0
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	0	0
EU-22g	(Excluded excess collateral deposited at triparty agents)	0	0
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)	0	0
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)	0	0
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	0	0
EU-22k	**(Total exempted exposures)**		
	Capital and total exposure measure		
23	**Tier 1 capital**	5,938,797	5,827,639
24	**Leverage ratio total exposure measure**	98,339,418	100,518,281
	Leverage ratio		
25	Leverage ratio	6.0%	5.8%
EU-25	Leverage ratio (without the adjustment due to excluded exposures of public development banks - Public sector investments) (%)	6.0%	5.8%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	6.0%	5.8%
26	Regulatory minimum leverage ratio requirement (%)	3.0%	3.0%
EU-26	Additional leverage ratio requirements (%)	0.0%	0.0%
27	Required leverage buffer (%)	0.0%	0.0%
	Choice on transitional arrangements and relevant exposures		
EU-27	Choice on transitional arrangements for the definition of the capital measure	Transitional definition	Transitional definition
	Disclosure of mean values		
28	Mean value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	3,566	6,234
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	1,037	1,750
30	Total exposures (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	98,341,947	100,522,765
30a	Total exposures (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	98,341,947	100,522,765
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	6.0%	5.8%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	6.0%	5.8%

TABLE 24 – TEMPLATE EU LR3-LRSPL – SPLIT-UP OF ON BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND EXEMPTED EXPOSURES)

(Thousand euros)

		a
		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	89,115,948
EU-2	Trading book exposures	334,565
EU-3	Banking book exposures, of which:	88,781,383
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	22,531,910
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	1,233,825
EU-7	Institutions	1,220,198
EU-8	Secured by mortgages of immovable properties	28,630,942
EU-9	Retail exposures	10,601,179
EU-10	Corporate	13,296,817
EU-11	Exposures in default	1,845,459
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	9,421,054

7. Credit risk

7.1. Evolution and breakdown of the loan portfolio

The next table presents the evolution of the Group's portfolio subject to credit risk and counterparty credit risk between December 31, 2021 and December 31, 2022, in terms of EAD (Exposure at Default), in the three main geographies in which the Group operates - Portugal, Poland and Mozambique.

TABLE 25 – EVOLUTION OF THE GROUP'S PORTFOLIO SUBJECT TO CREDIT RISK AND COUNTERPARTY CREDIT RISK

(million euros)

Geography	Dec. 22	Dec. 21	Change	
			Amount	%
Portugal	61,716	65,881	(4,165)	(6.3)%
Poland	24,023	23,281	742	3.2%
Mozambique	2,446	2,377	69	2.9%
TOTAL	**88,185**	**91,539**	**(3,354)**	**(3.7)%**

Note: The EAD represents the expected exposure if the customer defaults. For commitments and financial guarantees, the value of the EAD will consider both the amount of credit used and the expectation of future potential value that may be used in accordance with the agreement. Without impairment deduction to the exposures treated prudentially under the Standardized Approach (STD) and including all risk classes (i.e. besides credit to Customers, debt positions from Sovereign entities and Institutions are included).

Considering the position on December 31, 2021, as a basis for comparison, the Group's loan portfolio, measured in euros (EUR), registered a decrease of 3.7% during 2022, contrary to that verified in 2021 (growth of 9.3%). This evolution is explained by a decrease in Portugal, with growth in the other geographies.

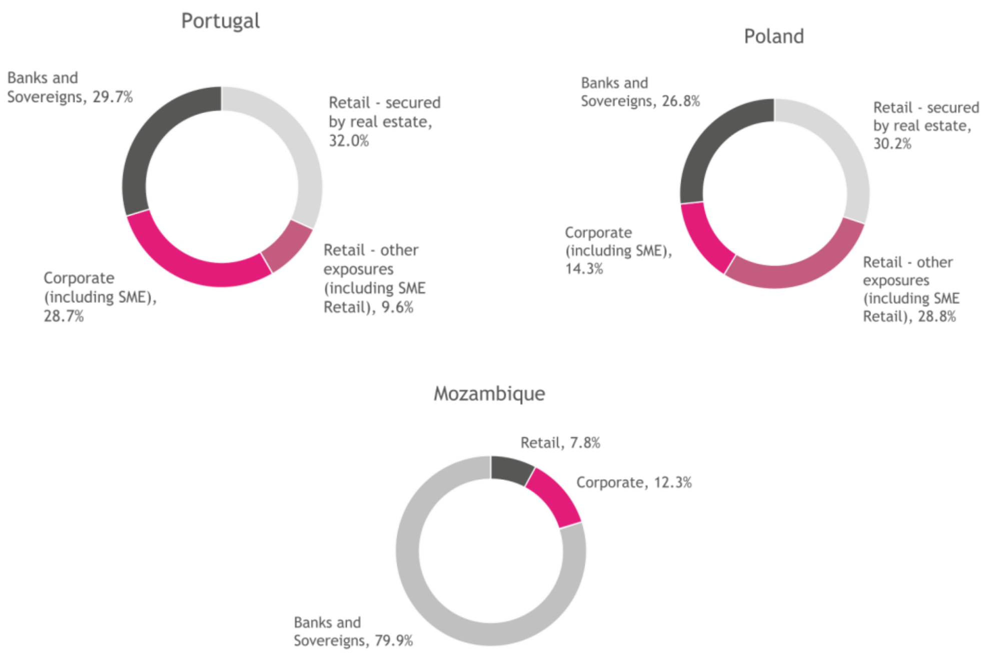
The reduction of the portfolio in Portugal is closely associated with the liquidation, at the end of 2022, of TLTRO III and the subsequent impact of that decision on the reduction of exposure to Banco de Portugal and Sovereigns. Additionally, should be noted the decrease in non-performing loans, particularly in the corporate segments, which contributed to NPE portfolio´s reduction in Portugal by 517 million euros (direct credit) during 2022.

In Poland's loan portfolio there was an increase of 3.2%, measured in euros, largely explained by the increase in exposure to the Polish Central Bank, which amounted to approximately 1.9 billion euros, countered by a decrease in credit exposure to Corporate and Retail credit, which amounted to 1.1 billion euros.

With respect to Mozambique, there is an increase in the loan portfolio of 2.9%, measured in euros, mainly related to the effect of the exchange rate appreciation of the Mozambican currency, countered by a decrease in the exposure in US dollars to Institutional Clients.

The portfolio composition by risk classes is illustrated by the following graphs, representing the portfolio structure on December 31, 2022:

GRAPH 1 – COMPOSITION OF THE CREDIT PORTFOLIO BY RISK CLASSES



In what concerns the structure of portfolios by counterparty segment, in Portugal the most significant portion continues to be assumed by the retail segment with 41.6% of the total, 32% of which relates to exposures related to mortgages. The Corporate segment has a weighting of around 28.7%, slightly lower than at the end of 2021, highlighting the decrease in the weight of the Banks and Sovereigns segment, which recorded a decrease in its representativity to a level close to 29.7%, from a weight of 32.5% on December 31, 2021.

In Poland we highlight the Retail segment, with a weight of 59%, observing a slight decrease in the weight of exposures collateralized by mortgage guarantee to 30.2%, an equally slight reduction in the representativeness of the corporate segment and an increase in the Banks and Sovereigns component, ending 2022 with weightings of 14.3% and 26.8%, respectively.

Regarding Mozambique, the structure remained stable, with emphasis on the relevance of the weight of the Banks and Sovereigns segment, which rose to 79.9% of the portfolio. The Corporate and Retail segments assumed a representativity of 12.3% and 7.8%, respectively.

Given the changes in the global environment since the beginning of 2022, the Bank has changed the sectors considered in Portugal as the most vulnerable. In fact, while it is admissible to consider that the effects of the pandemic have faded, new risks have emerged, with special emphasis on those resulting from the Russia/Ukraine geopolitical conflict, which have reinforced threats already emerging in areas such as constraints in logistics and distribution chains, limitations in access to raw materials and certain goods and increased energy costs. These risks continued during the second half of the year, and there are currently no prospects for a resolution of the biggest disruptive factor in the global environment, linked to the conflict.

7.2. Definitions and policies for losses and provisioning assessment

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 "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.

Restructured credits (Forborne) are credit operations for which deferral measures have been granted. Deferral measures are concessions made to a debtor that is going through or will soon go through difficulties in meeting its financial commitments (financial difficulties).

Since January 1st, 2018, the process for calculating impairment of financial assets classified at amortized cost or at fair value through other comprehensive income and of credit commitments, documentary credits and financial guarantees integrates the general principles defined by IFRS 9 and the guidelines issued by the Banco de Portugal through Circular Letter 2018/00000062.

Under IFRS 9, the concept of impairment is based on expected losses. The expected credit losses of each operation are determined according to the changes in credit risk that have occurred since initial recognition. For this purpose, transactions are classified into stages according to the following criteria:

- Stage 1: Contracts whose credit risk has not increased significantly since its initial recognition (except for POCI cases)[2].
- Stage 2: Contracts whose credit risk has increased significantly since initial recognition, but for which there is no objective evidence of impairment.
- Stage 3: Contracts with objective signs of impairment.

The Bank adopted the internal definition of default (i.e., classified with Risk Grade 15 on the internal rating scale) as the criterion for identifying financial instruments at stage 3. In accordance with the provisions of the definition of default, which were subject to change at the beginning of 2020, the existence of a situation of default in relation to a given debtor takes into account the verification of at least one of the following conditions:

- Days past due: The obligor is more than 90 days past due on any obligation above the following thresholds: 100 Euros, for retail obligors or above 500 Euros for non-retail obligors; and 1% of total (on-balance sheet) exposure (irrespective of whether it is a retail obligor or not).
- Non-accrual status: The obligor has had at least one obligation that has ceased to recognize interest income because of a perceived decline in its credit quality.
- Debtor with credit impairment: The obligor has been submitted to the individual impairment analysis and it has been concluded as having objective signals of impairment.
- Sale of the credit obligation: The obligor's exposure(s) have been sold – partially or in full – with a material loss (5%).
- Restructuring due to financial difficulties: The debtor was subject to a restructuring due to financial difficulties with an economic loss higher than 1%.
- Bankruptcy: The obligor that has filed for bankruptcy (insolvency) or similar arrangements: (i) PEAP; or (ii) EPR; or (iii) PER; or (iv) "Pre-insolvency".
- Credit arrears after restructuring due to financial difficulties: The debtor has a significant credit obligation overdue for more than 30 days on a restructured credit obligation.
- Restructuring recurrence: The debtor has a restructured obligation and requests additional restructuring measures, regardless of the loss/gain from the restructuring.
- Legal recovery proceedings: The obligor that is sent to legal recovery proceedings
- Guarantors of exposures in default: The obligor is a guarantor of a defaulted exposure, provided that (i) the guarantee has been officially claimed; and (ii) after the foreseen contractual period the overdue amount has not been paid.
- Credit fraud: The debtor has participated in credit fraud.

[2] POCI (*Purchased or Originated Credit Impaired*): financial assets with objective evidence of impairment at the time of initial recognition.

- Cross default at the BCP Group level: The common obligor (between BCP and any other Group entity) is in a default status in any entity of BCP Group.
- Breach of covenants in a credit agreement: The debtor that, as a result of a case-by-case analysis, is considered to have any other indication of reduced probability of payment, taking into consideration the breach of covenants in a credit agreement.
- Contagion of default in economic group: The debtor who, as a result of a case-by-case analysis, is considered to have any other indication of reduced probability of payment, taking into consideration the contagion of default at the level of a group of related debtors.
- Days past due on joint credit obligations: The obligor has, together with other obligors classified as in default, a significant credit obligation overdue for more than 90 days (or 30 days in case of a restructured credit obligation) - in this case, the materiality thresholds are analysed considering only the amounts of the obligation.

Clients representing high risk and exposure for which objective signs of impairment exist (Stage 3) are submitted to individual impairment analysis.

That individual analysis is a regular process of assigning a recovery expectation concerning all the 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 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.
- Creditworthiness track-record of the Client within the Bank and the financial system.

Collateral and guarantees data are of particular importance, especially in real estate companies and in cases for which economic viability is reduced ("gone concern" approach).

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.

The credits that are not subject to individual impairment analysis are grouped, taking into consideration their risk features and impairment assessed is based on homogeneous populations (collective analysis), defined in accordance with the risk grade and the segment of clients.

For these cases, the following main parameters are used for impairment assessment:

- PD: Probability of Default ('1-year' for credits in Stage 1, 'lifetime' for credits in Stage 2);
- LGD: Loss Given Default;
- CCF: Credit Conversion Factor applicable to the undrawn off-balance amount.

These parameters are estimated through statistical internal models, including macro-economic adjustments in a forward-looking perspective. Those models are updated annually and submitted for appreciation to the Models' Validation and Monitoring Office.

During 2022 and to meet the Supervisors' guidelines, namely regarding the identification and measurement of credit risk in the context of the uncertainty associated with the current geopolitical crisis, the disruption of distribution chains, the increase in energy costs and inflationary pressures, the Bank recognised additional impairments in relation to the models in force for the calculation of collective impairment (overlays).

In accordance with Banco de Portugal Circular Letter No. CC / 2017/00000020, the Bank has defined in its internal regulations a policy for the classification, derecognition and monitoring of credits considered uncollectible. The Bank recognizes a credit as written off to the balance sheet when there are no reasonable expectations of its recovery in whole or in part. This registration occurs after all the recovery actions carried out have proved unsuccessful. Thus, when a credit reaches 100% impairment, its classification as uncollectible should be considered. However, even if a loan does not yet have 100% impairment, it can also be classified as uncollectible if there are no expectations of recovery. In this case, impairment should be recognized for the remaining amount. In the case of credits that still have collateral, write-offs can only be made on the part not covered, if there is evidence of the uncollectability of the excess on the value of the collateral and it is 100% covered by impairment. The credit uncollectability decision is the responsibility of the Credit Decision

Bodies, under the proposal of the recovery area responsible for the Client's management. As a rule, the removal of an uncollectible credit from the balance sheet is irreversible, so, if any amount related to these credits is recovered, the recovery amount is recognized as an income in the profit and loss account. Loans written off are recorded in off-balance sheet items when they are derecognised from the balance sheet and kept until the moment of the definitive extinguishment of the liabilities.

7.3. Characterisation of the exposures

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

TABLE 26 – TEMPLATE EU CR1 – PERFORMING AND NON-PERFORMING EXPOSURES AND RELATED PROVISIONS

(Thousand euros)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures - Accumulated impairment and provisions			Non-performing exposures - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3			
005	Cash balances at central banks and other demand deposits	5,641,450	5,641,450	0	0	0	0	0	0	0	0	0	0	0	0	0
010	Loans and advances	54,952,308	47,359,290	7,564,235	2,217,516	0	2,170,979	-499,984	-215,271	-284,508	-1,010,685	0	-985,557	0	41,131,247	857,435
020	Central banks	382,038	382,038	0	0	0	0	0	0	0	0	0	0	0	0	0
030	General governments	1,150,695	828,524	322,172	30	0	30	-4,656	-1,810	-2,845	-9	0	-9	0	331,955	0
040	Credit institutions	570,850	570,850	0	0	0	0	-678	-678	0	0	0	0	0	267	0
050	Other financial corporations	990,324	937,630	45,149	72,555	0	72,555	-7,422	-6,025	-1,397	-37,725	0	-37,725	0	785,063	30,323
060	Non-financial corporations	18,192,239	14,510,683	3,680,060	1,155,026	0	1,147,236	-330,167	-140,284	-189,884	-552,774	0	-552,758	0	13,668,146	502,998
070	Of which: SMEs	14,147,435	10,814,105	3,331,845	927,818	0	920,027	-293,380	-118,939	-174,441	-429,404	0	-429,388	0	11,413,401	423,267
080	Households	33,666,161	30,129,564	3,516,854	989,904	0	951,158	-157,062	-66,475	-90,382	-420,177	0	-395,066	0	26,345,816	324,114
090	Debt Securities	21,228,219	20,424,384	55,787	4,869	0	4,869	-14,130	-13,410	-720	-1,177	0	-1,177	0	382,134	3,689
100	Central banks	964,857	964,857	0	0	0	0	0	0	0	0	0	0	0	0	0
110	General governments	16,200,730	16,200,730	0	0	0	0	-9,038	-9,038	0	0	0	0	0	130,343	0
120	Credit institutions	620,070	620,070	0	0	0	0	0	0	0	0	0	0	0	0	0
130	Other financial corporations	930,266	182,218	0	0	0	0	-757	-757	0	0	0	0	0	68,638	0
140	Non-financial corporations	2,512,296	2,456,508	55,787	4,869	0	4,869	-4,335	-3,615	-720	-1,177	0	-1,177	0	183,153	3,689
150	Off-balance sheet exposures	16,080,464	14,311,882	1,768,572	365,612	0	364,687	-26,199	-11,307	-14,893	-84,554	0	-84,435		3,070,936	120,135
160	Central banks	0	0	0	0	0	0	0	0	0	0	0	0		0	0
170	General governments	169,081	149,011	20,070	0	0	0	-259	-240	-19	0	0	0		17,605	0
180	Credit institutions	660,907	660,314	593	0	0	0	-40	-40	-1	0	0	0		28,030	0
190	Other financial corporations	513,005	477,741	35,264	1,918	0	1,918	-1,248	-941	-307	-63	0	-63		132,394	225
200	Non-financial corporations	11,873,398	10,326,161	1,547,238	350,817	0	349,896	-19,320	-8,622	-10,699	-81,574	0	-81,454		2,853,515	119,240
210	Households	2,864,073	2,698,655	165,407	12,877	0	12,873	-5,332	-1,464	-3,868	-2,918	0	-2,918		39,391	670
220	**Total**	**97,902,441**	**87,737,006**	**9,388,594**	**2,587,997**	**0**	**2,540,536**	**-540,313**	**-239,988**	**-300,120**	**-1,096,416**	**0**	**-1,071,169**	**0**	**44,584,317**	**981,259**

Note: Item 010 - an amount of EUR 4.7 billion is covered by State Guarantees/Mutual Guarantee, EIF e EIB (8,2% of the total) and an amount of EUR 4.4 billion was subject to securitisation (7,8% of the total)

The table below provides the Group's original risk positions by residual maturity term at the end of 2022.

TABLE 27 – TEMPLATE EU CR1-A – MATURITY OF EXPOSURES

(Thousand euros)

		a	b	c	d	e	f
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	3,612,097	4,859,839	11,593,688	35,593,530	0	55,659,155
2	Debt securities		3,845,715	8,064,319	9,039,039	268,709	21,217,782
3	**Total**	**3,612,097**	**8,705,554**	**19,658,008**	**44,632,570**	**268,709**	**76,876,937**

7.4. Credit quality

The following tables present the breakdown of both on-balance and off-balance sheet items' credit quality, excluding counterparty credit positions.

TABLE 28 – TEMPLATE EU CQ1 – CREDIT QUALITY OF FORBORNE EXPOSURES

(Thousand euros)

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
005	Cash balances at central banks and other demand deposits	0	0	0	0	0	0	0	0
010	Loans and advances	735,726	1,146,235	1,146,235	1,133,535	-23,570	-512,137	1,102,184	467,657
020	Central banks	0	0	0	0	0	0	0	0
030	General governments	68,842	0	0	0	-847	0	51,539	0
040	Credit institutions	0	0	0	0	0	0	0	0
050	Other financial corporations	2,518	48,634	48,634	48,634	-138	-19,545	27,117	24,737
060	Non-financial corporations	302,817	625,465	625,465	622,236	-15,097	-322,502	547,665	268,431
070	Households	361,550	472,136	472,136	462,665	-7,488	-170,091	475,863	174,489
080	Debt Securities	15,666	0	0	0	-233	0	13,650	0
090	Loan commitments given	1,397	1,297	1,297	376	-36	-271	40	40
100	**Total**	**752,789**	**1,147,532**	**1,147,532**	**1,133,911**	**-23,839**	**-512,409**	**1,115,874**	**467,697**

TABLE 29 – TEMPLATE EU CQ3 – CREDIT QUALITY OF PERFORMING AND NON-PERFORMING EXPOSURES BY PAST DUE DAYS

(Thousand euros)

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	Cash balances at central banks and other demand deposits	5,641,450	5,641,450	0	0	0	0	0	0	0	0	0	0
010	Loans and advances	54,952,308	54,775,959	176,349	2,217,516	1,459,307	153,242	158,668	163,023	181,864	67,854	33,557	2,217,383
020	Central banks	382,038	382,038	0	0	0	0	0	0	0	0	0	0
030	General governments	1,150,695	1,150,695	0	30	0	0	30	0	0	0	0	30
040	Credit institutions	570,850	570,850	0	0	0	0	0	0	0	0	0	0
050	Other financial corporations	990,324	990,324	0	72,555	71,061	15	0	162	69	1,248	0	72,555
060	Non-financial corporations	18,192,239	18,174,372	17,866	1,155,026	853,344	78,276	58,346	63,149	52,720	43,009	6,184	1,154,893
070	Of which SMEs	14,147,435	14,129,596	17,839	927,818	717,700	77,564	57,567	37,094	26,844	6,592	4,456	927,685
080	Households	33,666,161	33,507,678	158,482	989,904	534,901	74,951	100,292	99,713	129,076	23,598	27,373	989,904
090	Debt securities	21,228,219	21,228,219	0	4,869	4,830	0	0	0	0	0	40	4,869
100	Central banks	964,857	964,857	0	0	0	0	0	0	0	0	0	0
110	General governments	16,200,730	16,200,730	0	0	0	0	0	0	0	0	0	0
120	Credit institutions	620,070	620,070	0	0	0	0	0	0	0	0	0	0
130	Other financial corporations	930,266	930,266	0	0	0	0	0	0	0	0	0	0
140	Non-financial corporations	2,512,296	2,512,296	0	4,869	4,830	0	0	0	0	0	40	4,869
150	Off-balance-sheet exposures	16,080,464			365,612								365,612
160	Central banks	0			0								0
170	General governments	169,081			0								0
180	Credit institutions	660,907			0								0
190	Other financial corporations	513,005			1,918								1,918
200	Non-financial corporations	11,873,398			350,817								350,817
210	Households	2,864,073			12,877								12,877
220	Total	97,902,441	81,645,628	176,349	2,587,997	1,464,136	153,242	158,668	163,023	181,864	67,854	33,597	2,587,864

NPL ratio (Loans and Advances) **3.9%**

Note: Item 010 - an amount of EUR 4.7 billion is covered by State Guarantees/Mutual Guarantee, EIF e EIB (8,2% of the total) and an amount of EUR 4.4 billion was subject to securitisation (7,8% of the total)

TABLE 30 – TEMPLATE EU CQ4 – TEMPLATE 5 – QUALITY OF NON-PERFORMING EXPOSURES BY GEOGRAPHY

(Thousand euros)

		a	b	c	d	e	f	g
		Gross carrying/Nominal amount				Accumulated impairment	Provisions on off-balance sheet commitments and financial guarantee given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			of which: non-performing		of which: subject to impairment			
				of which: defaulted				
010	On balance sheet exposures	78,402,912	2,222,385	2,222,252	77,626,501	-1,518,541		-7,434
020	Portugal	44,329,873	1,311,741	1,311,741	43,765,588	-903,557		0
030	Poland	20,853,084	763,855	763,722	20,824,732	-517,314		-7,428
040	Mozambique and others	13,219,956	146,789	146,789	13,036,180	-97,670		-6
080	Off balance sheet exposures	16,446,076	365,612	365,612			-110,754	
090	Portugal	12,680,795	358,139	358,139			-100,072	
100	Poland	2,736,395	6,581	6,581			-8,394	
110	Mozambique and others	1,028,885	892	892			-2,288	
150	Total	94,848,988	2,587,997	2,587,864	77,626,501	-1,518,541	-110,754	-7,434

TABLE 31 – TEMPLATE EU CQ5 – CREDIT QUALITY OF LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS BY INDUSTRY

(Thousand euros)

		a	b	c	d	e	f
		Gross carrying amount					
			of which: non-performing		of which: loans and advances subject to impairment	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
				of which defaulted			
010	Agriculture, forestry and fishing	467,492	12,994	12,994	467,492	-15,648	0
020	Mining and quarrying	113,442	9,560	9,560	113,442	-5,470	0
030	Manufacturing	4,194,846	252,373	252,373	4,194,842	-227,626	-2
040	Electricity, gas, steam and air conditioning supply	466,719	534	534	466,719	-1,246	0
050	Water supply	204,477	2,583	2,583	204,477	-8,380	0
060	Construction	1,470,692	191,924	191,924	1,470,692	-143,689	0
070	Wholesale and retail trade	3,851,967	115,266	115,263	3,851,966	-98,965	0
080	Transport and storage	1,345,864	27,341	27,341	1,345,854	-36,445	0
090	Accommodation and food service activities	1,477,563	114,852	114,852	1,477,563	-73,929	0
100	Information and communication	464,579	6,964	6,964	464,579	-10,779	0
110	Real estate activities	238,011	1,138	1,138	238,011	-1,616	0
120	Financial and insurance actvities	1,893,438	32,891	32,878	1,893,438	-37,845	0
130	Professional, scientific and technical activities	1,350,813	204,588	204,588	1,350,807	-86,791	-5
140	Administrative and support service activities	495,925	63,117	63,117	495,925	-58,490	0
150	Public administration and defense, compulsory social security	1,550	0	0	1,550	-9	0
160	Education	142,449	18,575	18,575	142,449	-14,665	0
170	Human health services and social work activities	339,472	5,201	5,201	339,472	-7,375	0
180	Arts, entertainment and recreation	226,141	77,422	77,422	226,141	-36,418	0
190	Other services	601,824	17,701	17,584	601,824	-17,550	0
200	**Total**	**19,347,265**	**1,155,026**	**1,154,893**	**19,347,244**	**-882,935**	**-7**

TABLE 32 – TEMPLATE EU CQ7 – COLLATERAL OBTAINED BY TAKING POSSESSION AND EXECUTION PROCESSES

(Thousand euros)

		a	b
		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
010	Property, plant and equipment (PP&E)		
020	Other than PP&E	579,950	-126,517
030	Residential immovable property	72,942	-7,438
040	Commercial Immovable property	253,636	-83,260
050	Movable property (auto, shipping, etc.)	4,132	-972
060	Equity and debt instruments	247,992	-34,429
070	Other collateral	1,248	-419
080	**Total**	**579,950**	**-126,517**

TABLE 33 – TEMPLATE EU CQ8 – COLLATERAL OBTAINED BY TAKING POSSESSION AND EXECUTION PROCESSES – VINTAGE BREAKDOWN

(Thousand euros)

		a	b	c	d	e	f	g	h	i	j	k	l
		Debt balance reduction		Total collateral obtained by taking possession									
						Foreclosed <=2 years		Foreclosed >2 years <=5 years		Foreclosed >5 years		Of which: Non-current assets held-for-sale	
		Gross carrying amount	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
010	Collateral obtained by taking possession classified as Property Plant and Equipment (PP&E)												
020	Collateral obtained by taking possession other than classified Property Plant and Equipment	842,625	-148,513	579,950	-126,517	48,408	-2,371	86,696	-15,946	444,846	-108,199	393,196	-107,508
030	Residential immovable	75,045	-15,039	72,942	-7,438	19,266	-317	24,010	-1,496	29,666	-5,625	72,942	-7,438
040	Commercial Immovable Property	356,972	-97,394	253,636	-83,260	25,623	-1,653	43,948	-9,798	184,065	-71,809	253,636	-83,260
050	Movable property (auto,	4,132	-972	4,132	-972	3,519	-401	341	-299	272	-272	4,132	-972
060	Equity and debt instruments	405,227	-34,689	247,992	-34,429	0	0	18,396	-4,354	229,596	-30,075	61,237	-15,419
070	Other	1,248	-419	1,248	-419	0	0	0	0	1,248	-419	1,248	-419
080	**Total**	**842,625**	**-148,513**	**579,950**	**-126,517**	**48,408**	**-2,371**	**86,696**	**-15,946**	**444,846**	**-108,199**	**393,196**	**-107,508**

7.5. Exposures subject to measures applied in response to the COVID-19 pandemic

In 2020, the European Banking Association (EBA) issued a "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures", along with guidance on legislative and nonlegislative moratoria. On 2 December 2020, after closely monitoring the developments of the COVID-19 pandemic and the impact of the second COVID-19 wave and the related government restrictions taken in many EU countries, EBA reactivated its guidelines on legislative and non-legislative moratoria which applied until 31 March 2021.

The Portuguese Government, through Decree-Law no. 10-J / 2020, of 26 March, established a moratorium on credits before financial institutions with the objective of supporting families and companies in an adverse context of sharp drop in income caused by the COVID-19 pandemic. This public moratorium established exceptional measures to protect the credits of the beneficiary entities within the scope of the COVID-19 pandemic, allowing the deferral of the fulfilment of responsibilities, when they represent credits assumed by the beneficiary entities before the Bank, which were not past due on the date of receipt of the declaration of adherence. With the evolution of the economic crisis generated by the COVID-19 pandemic, in June 2020, the Portuguese Government extended the scope and deadline of the public moratoria. Thus, Decree-Law No. 26/2020 introduced changes to the public moratoria, regarding the term, the deadline for adherence and the scope of the beneficiaries and exposures covered. With these changes, bank customers began to benefit from an extension of the term of the public moratoria. The moratorium term initially set at six months, until 30 September 2020, was extended until 31 March 2021. This new term was applicable not only to new moratoria but also to those subscribed in periods prior to the extension. Within the scope of these amendments, a deadline for adhering to the public moratorium was also set, which might be requested until 30 September 2020. With the enacting of Decree-Law 78-A/2020, the public moratoria were extended for one last time, until 30 September 2021. This Decree-Law also implemented the extension, for one more year, of the term date of credits of entities operating in a list of sectors, set out in the annexes, which corresponded to the most vulnerable activities in the COVID-19 pandemic context.

On 28 December 2020, acknowledging the impacts of the second wave of the pandemic, Decree-Law 107/2020 was enacted, establishing the possibility of applying for a moratorium, for a period of up to nine months from the date of this adherence, for credit instruments that could have applied for the initial moratorium. The period for adherence to this new moratorium was between 1 January and 31 March 2021.

Following the guidance issued by the EBA on public and private moratoria applied to credit operations in the context of the COVID-19 pandemic, the Portuguese Banking Association provided access to two private moratoria aimed at natural persons, residents or non-residents in Portugal, one of which relates to mortgage credit and the other to non-mortgage credit (e.g. personal or automobile).

The Bank did not assign a direct economic loss associated with the granting of the moratoria.

As of 31 December 2022, and as shown in next table, there were no longer any credit moratoria implemented under COVID-19 pandemic schemes.

TABLE 34 – TEMPLATE 1 – EBA/GL/2020/07 – INFORMATION ON LOANS AND ADVANCES SUBJECT TO LEGISLATIVE AND NON-LEGISLATIVE MORATORIA

(Thousand euros)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Performing			Non Performing				Performing			Non Performing			
			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
1. Loans and advances subject to moratorium	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2. of which: Households	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3. of which: Collateralised by residential immovable property	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4. of which: Non-financial corporations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5. of which: Small and Medium-sized Enterprises	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6. of which: Collateralised by commercial immovable property	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 35 – TEMPLATE 2 – EBA/GL/2020/07 – BREAKDOWN OF LOANS AND ADVANCES SUBJECT TO LEGISLATIVE AND NON-LEGISLATIVE MORATORIA BY RESIDUAL MATURITY OF MORATORIA

(Thousand euros)

	a	b	c	d	e	f	g	h	i
		Gross carrying amount							
	Number of obligors		Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1. Loans and advances for which moratorium was offered	117,913	8,626,118							
2. Loans and advances subject to moratorium (granted)	117,913	8,626,118	8,158,890	8,626,118	0	0	0	0	0
3. of which: Households		4,417,087	3,949,860	4,417,087	0	0	0	0	0
4. of which: Collateralised by residential immovable property		3,875,782	3,590,732	3,875,782	0	0	0	0	0
5. of which: Non-financial corporations		4,141,382	4,141,382	4,141,382	0	0	0	0	0
6. of which: Small and Medium-sized Enterprises		3,789,599	3,789,599	3,789,599	0	0	0	0	0
7. of which: Collateralised by commercial immovable property		1,577,218	1,577,218	1,577,218	0	0	0	0	0

Regarding the legislative moratorium (Decree-Law No. 26/2020), the moratorium term was initially fixed at six months, until 30 September 2020, and was subsequently extended twice, initially until 31 March 2021 and subsequently until 30 September 2021. This new term was applicable not only to the new moratoriums but also to those subscribed in periods prior to the extension. Concerning the moratoria arising from the enactment of Decree-Law 107/2020, they were granted for a maximum duration of 9 months as of the date of adherence.

Regarding the moratorium within the scope of the Portuguese Banking Association, in the case of non-mortgage credit, the moratoria contracted until 30 June 2020 were granted for a period of 12 months, counted from the date of contracting and the moratoria contracted after 30 June 2020 ended on 30 June 2021. In the case of mortgage loans, the moratoria lasted until 31 March 2021.

TABLE 36 – TEMPLATE 3 – EBA/GL/2020/07 – INFORMATION ON NEWLY ORIGINATED LOANS AND ADVANCES PROVIDED UNDER NEWLY APPLICABLE PUBLIC GUARANTEE SCHEMES INTRODUCED IN RESPONSE TO COVID-19 CRISIS

(Thousand euros)

	a	b	c	d
	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		of which: forborne	Public guarantees received	Inflows to non-performing exposures
1. Newly originated loans and advances subject to public guarantee schemes	2,364,357	2,427	1,724,159	17,679
2. of which: Households	12,240			78
3. of which: Collateralised by residential immovable property	233			0
4. of which: Non-financial corporations	2,351,605	2,427	1,712,883	17,595
5. of which: Small and Medium-sized Enterprises	2,162,873			17,595
6. of which: Collateralised by commercial immovable property	81,559			641

In the context of the Coronavirus pandemic, the Portuguese Government created lines of support for the economy that allow companies to access credit to support the treasury under more favourable conditions. This support has been made available in stages and distributed in specific lines:

- Lines with autonomous guarantee provided by Mutual Guarantee Societies up to 90% (100% coverage of the Fundo de Garantia Mútua - FGM) in the case of credit granted to micro and small companies (except for the Capitalizar 2018 Lines – Subline Covid-19 e Investe RAM Covid-19), as well as the Covid-19 Social Sector Support Line.
- Lines with autonomous guarantee provided by Mutual Guarantee Societies up to 80% (coverage of the FGM in 100%) in the case of larger companies, Linha Capitalizar 2018 - Subline Covid-19 and Linha Investe RAM Covid-19.
- Line only with interest subsidies (partial) in the case of the Support Line to the Fishing Sector Covid-19.

In sectorial terms, the lines cover a very wide universe, covering practically all sectors of economic activity, with some lines allocated to specific sectors.

The financing operations covered by the support lines are only intended to finance treasury needs. Therefore, the financial restructuring and / or consolidation of live credit or the liquidation or replacement of financing previously agreed with the Bank or the acquisition of land and other properties in use, as well as properties for general use, cannot be used for these operations. that do not already have (before the acquisition) characteristics appropriate to the technical requirements of the company's production process.

With the enactment of Decree-Law 22-C, on 19 March 2021, was allowed the extension of the grace period of capital, in loans with public sector guarantee, for a maximum period of 9 months. The document established the extension in two modalities, for entities operating in those sectors considered as vulnerable, the adherence was automatic, with the client being given the possibility to refuse that extension (opt-out). For the remaining entities, adherence would only take place after the customer's express wish (opt-in). On 31 December 2021, the grace period extensions introduced by Decree-Law 22-C were no longer active.

7.6. Concentration risk management

The Group's policy relating to the identification, measurement and evaluation of the concentration risk in credit risk is defined by the Board of Directors and applies across the BCP Group.

The monitoring of the concentration risk and the follow-up of major risks are 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 exposures to Sovereign risk, Institutions (banks/financial institutions), large exposures (Corporate single-name exposures), geographic concentration (country risk), for the portfolio of exposures to leveraged transactions and to the exposure to sectors of activity.

These limits apply to the 'Net exposures'(*) at stake, relating either to a counterparty or a group of counterparties – cases for banks, Sovereigns and large exposures single-name -, to the leveraged transactions portfolio and to set of exposures to an activity sector or to a country (the counterparty country of residence). The measurement of concentration on Sovereign risks and of geographic concentration exclude the countries in which the Group operates (Portugal, Poland and Mozambique) and their respective Sovereigns.

Except for the exposure to sectors of activity and leveraged transactions portfolio, 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 in force as of 31 December 2022, for the exposure to Sovereigns, Institutions, Single-name, leveraged transactions portfolio and geographical (for a given Customer/Group of Customers in the second and third cases) are the following, in terms of the Net Exposure weight over the Consolidated Own Funds:

TABLE 37 – LIMITS FOR SINGLE NAME CONCENTRATION

Limit = Max. % of Net Exposure over the Consolidated Own Funds

Risk quality	Risk grades	Countries
1st Tier	1 - 3	40,0%
2nd Tier	4 - 6	20,0%
3rd Tier	7 - 12	10,0%

Risk quality	Risk grades	Single name
High	1 - 5	7,0%
Average good	6 - 7	4,5%
Average low	8 - 9	3,0%
Low	10 - 11	0,6%
Restricted credit	12 - 13	0,3%

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

Risk grades	Sovereigns % own funds	Institutions % own funds
1	14.4%	8.3%
2	13.7%	7.9%
3	13.1%	7.5%
4	12.5%	7.1%
5	11.9%	6.7%
6	10.6%	5.8%
7	7.5%	5.0%
8	3.1%	2.1%
9	2.5%	1.7%
10	0.6%	0.4%
11	0.5%	0.3%
12	0.3%	0.2%

As of 31 December 2022:

- There were no exposure excesses to Sovereigns, Institutions or countries.
- There were four Economic Groups with net exposure above the established Single-name limits for their respective risk grade, less one Economic Group than as by the end of 2021, with the total excess smaller in 2022 than in 2021. For each client with an exposure excess a specific plan is prepared, aiming at reducing the exposure and bringing it within the established limits.

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

In what concerns the limit for exposure to sectors of activity, in force on 31/12/2022, this is defined as a maximum of 40% per sector of activity, in terms of the weight of the Net Exposure for each sector of activity over the Own Funds of each Group Entity. As of 31/12/2022, there was no excess over this limit.

Moreover, the limit of 25% of consolidated Own Funds for the Group's exposure to leveraged transactions portfolio also did not register any excess and is far from being hit.

The Bank's Executive Committee, the Risk Assessment Committee and the Board of Directors 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.

7.7. Own funds requirements for credit risk

7.7.1. Framework of the approaches used

On 31 December 2022, the Group calculated 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 according to regulatory risk classes in line with 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. 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. Whenever the same issuer or issue has two or more risk evaluations, the second-best rating attributed is used. The ECAI used by the Group were Standard & Poor's, Moody's, and Fitch Ratings.

Concerning the risk classes "Central Government and Central Banks", "Regional Governments and local authorities", "Public Sector Entities", "Multilateral Development Banks", "International Organisations" 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 2022, 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", "Items representing securitisation positions" and "Other non-credit obligations". Regarding the Corporates exposure class, the exposures treated under the "State Owned Enterprises" (SOE) and simplified rating systems were weighted using the standardised approach. Purchased receivables positions, for both corporate and retail classes, were also treated according to standardised approach.

Also, in Portugal, exposures to Customers that did not receive an internal risk level were computed according to the IRB approach, considering the most conservative PD related to the last performing risk grade available. 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 of 31 December 2022 were estimated following the standardised approach.

7.7.2. 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 the next table.

TABLE 38 – RATING MASTER SCALE AND RELATION BETWEEN INTERNAL AND EXTERNAL GRADES

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 access 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 maximum and minimum PD for RG 13 and 14 are indicative, being applied the observed PD.

Risk grades	Fitch	Standard & Poor's	Moody's
1	AAA, AA+	AAA, AA+	Aaa, Aa1
2	AA-, AA	AA-, AA	Aa2, Aa3
3	A, A+	A, A+	A1, A2
4	A-, BBB+	A-, BBB+	A3, Baa1
5	BBB	BBB	Baa2
6	BBB-	BBB-	Baa3
7	BB+	BB+	Ba1
8	BB	BB	Ba2
9	BB-	BB-	Ba3
10	B+	B+	B1
11	B	B	B2
12	≤ B-	≤ B-	≤ B3

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/increase in the debtor's credit quality).

The Rating Division is responsible for assigning risk ratings - a unit that is independent from the credit decision-making bodies and business areas – even though most risk scores are granted by automatic decision-making models used for the debtors of the Retail exposure class.

All customers are rated, but the corresponding PD is 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 by the validation unit of the Office for the Validation and Monitoring of Models (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 Subcommission on Monitoring and Validation of Models, whose composition varies according to the type of model analysed. The proposals to amend the models originated in the Validation Subcommittees 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 and do the Internal Audit Division in the audit exercises performed.

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 Bank has defined a model risk management framework, duly documented in the form of a specific group code, which is applied throughout the model's life cycle and based on a robust governance structure that ensures a holistic understanding of the application and use of models, the identification, measurement, monitoring, management and risk mitigation of the model. In this framework, all models are identified in the model inventory and the respective risks are identified and assessed. The continuous use and performance of the models are monitored to ensure that they are used within the scope and for the purpose for which they were approved and, furthermore, that they continue to function as expected. The models are monitored by GAVM and audited by the Internal Audit Division, with a frequency based on their objective risk rating, or as prescribed by the regulation.

The models in force at the Bank are approved by the Subcommission on Monitoring and Validation of Models or by the Risk Commission, as applicable. The Risk Office is responsible for requesting the approval of the use of risk models from the Supervisory Authorities, when applicable.

The relevant IRB portfolio parameters in 2021/2022, including cases in default (PD = 100%), were, respectively, the following:

- Average LGD: 30%/29%;
- Average CCF: 52%/53%;
- Average PD:6.2%/5.1%.

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

TABLE 39 – CREDIT FACILITIES OUTSIDE OF THE BALANCE SHEET

(Thousand euros)

	Original exposure		Exposure at risk		Risk weighted assets		% RWA	
	Non-used	Used	Non-used	Used	Non-used	Used	Non-used	Used
Corporate	11,109,480	16,511,391	4,889,028	16,247,950	3,174,104	11,294,383	65%	70%
Large Corporate	6,587,028	7,716,321	3,369,219	7,542,850	2,239,385	6,116,082	66%	81%
Small and medium Corporate	4,315,067	7,823,836	1,398,440	7,740,321	839,114	4,267,182	60%	55%
Specialised lending	207,384	971,234	121,370	964,779	95,605	911,120	79%	94%
Equity	41,285	740,994	41,285	740,994	71,537	1,178,380	173%	159%

7.7.3. 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 Rating Division system and on the PD that correspond to the risk ratings given by the Real Estate Promotion and the Corporates rating systems.

The Bank uses several rating models to grant risk scores (and the respective PD used to compute the applicable weights): Large, Mid and Small Corporate models, models for Holdings of Economic Groups and for Investment Holdings, models for Real Estate Promotion projects and companies (in both cases, with specific approaches to investment or development cases), Real Estate Investment Funds model and Small Real Estate Companies/Small Real Estate Projects models.

The risk grades attributed by those 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 questionnaires / matrix of qualitative factors, which in the Large Corporate model are different according to the Client's sector of activity and include the Sector Risk itself (The Bank’s Economic Studies Area developed and runs periodically a sectoral risk model). 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. Subsequently, the degree of risk is adjusted according to the economic group to which the company belongs (if applicable), with a parent and affiliate template to determine the level of relevance of the company in the group itself (e.g. core, strategic) and as a consequence, the level of adjustment that the company's degree of risk can / should be subject to (are called Group Adjustments).

Whenever the Bank uses the Project Finance rating model, it consists of 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.

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.

The next table summarises these rating models and systems:

TABLE 40 – 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 (development projects / investment / income): quantitative component + qualitative component + adjustments stemming from pre-defined situations or from the identification of imminent risk evidence.
Rating system for Projects	Rating model for Project Finance: scoring of specific questionnaires 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 (for sale / income): quantitative component + qualitative component + adjustments stemming from pre-defined situations (including those arising from the identification of imminent risk evidence) + Group adjustments.

7.7.4. 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 monthly), 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 41:

TABLE 41 – 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.

The table below shows the values related to PD Backtesting, by risk class, at the end of 2022.

TABLE 42 – TEMPLATE CR9 – IRB APPROACH – BACK-TESTING OF PD PER EXPOSURE CLASS (FIXED PD SCALE)

A-IRB

Exposure class	PD range	Number of obligors at the end of previous year	Of which number of obligors which defaulted in the year	Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
CORPORATE	b	c	d	e	f	g	h
	0.00 to <0.15	166	0	0.00%	0.05%	0.08%	0.26%
	0.00 to <0.10	7	0	0.00%	0.05%	0.05%	0.00%
	0.10 to <0.15	159	0	0.00%	0.10%	0.10%	0.28%
	0.15 to <0.25	832	0	0.00%	0.20%	0.20%	0.00%
	0.25 to <0.50	1,640	3	0.18%	0.40%	0.40%	0.06%
	0.50 to <0.75	1,684	3	0.18%	0.70%	0.70%	0.08%
	0.75 to <2.50	3,310	4	0.12%	1.89%	1.80%	0.20%
	0.75 to <1.75	1,722	1	0.06%	1.27%	1.30%	0.10%
	1.75 to <2.5	1,588	3	0.19%	2.26%	2.30%	0.30%
	2.50 to <10.00	3,919	20	0.51%	4.93%	5.27%	0.75%
	2.5 to <5	1,567	5	0.32%	3.65%	3.70%	0.61%
	5 to <10	2,352	15	0.64%	6.49%	6.84%	0.84%
	10.00 to <100.00	3,392	92	2.71%	11.80%	28.75%	4.52%
	10 to <20	3,264	69	2.11%	11.45%	11.50%	2.99%
	20 to <30	0	0	0.00%	0.00%	0.00%	43.45%
	30.00 to <100.00	128	23	17.97%	51.98%	46.00%	26.33%
	100.00 (Default)	441	-	-	100%	100%	-

A-IRB

Exposure class	PD range	Number of obligors in the end of previous year	Of which number of obligors which defaulted in the year	Observed average default rate (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
CORPORATE SME	b	c	d	e	f	g	h
	0.00 to <0.15	178	0	0.00%	0.10%	0.08%	0.00%
	0.00 to <0.10	48	0	0.00%	0.05%	0.05%	0.00%
	0.10 to <0.15	130	0	0.00%	0.10%	0.10%	0.00%
	0.15 to <0.25	518	1	0.19%	0.20%	0.20%	0.04%
	0.25 to <0.50	548	0	0.00%	0.40%	0.40%	0.00%
	0.50 to <0.75	338	0	0.00%	0.70%	0.70%	0.06%
	0.75 to <2.50	803	1	0.12%	1.68%	1.80%	0.15%
	0.75 to <1.75	350	0	0.00%	1.30%	1.30%	0.09%
	1.75 to <2.5	453	1	0.22%	2.28%	2.30%	0.25%
	2.50 to <10.00	952	0	0.00%	5.44%	5.23%	0.49%
	2.5 to <5	484	0	0.00%	3.57%	3.70%	0.55%
	5 to <10	468	0	0.00%	6.82%	6.75%	0.46%
	10.00 to <100.00	350	16	4.57%	12.75%	28.75%	6.03%
	10 to <20	332	14	4.22%	11.48%	11.50%	4.21%
	20 to <30	0	0	0.00%	23.60%	0.00%	8.33%
	30.00 to <100.00	18	2	11.11%	52.40%	46.00%	21.48%
	100.00 (Default)	87	-	-	100%	100%	-

A-IRB

Exposure class	PD range	Number of obligors in the end of previous year	Of which number of obligors which defaulted in the year	Observed average default rate (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
SECURED BY REAL ESTATE SME	b	c	d	e	f	g	h
	0.00 to <0.15	7,330	5	0.07%	0.10%	0.08%	0.04%
	0.00 to <0.10	97	1	1.03%	0.07%	0.05%	0.52%
	0.10 to <0.15	7,233	4	0.06%	0.10%	0.10%	0.04%
	0.15 to <0.25	5,354	7	0.13%	0.20%	0.20%	0.12%
	0.25 to <0.50	2,644	10	0.38%	0.37%	0.40%	0.19%
	0.50 to <0.75	2,196	2	0.09%	0.64%	0.70%	0.14%
	0.75 to <2.50	2,386	13	0.54%	1.41%	1.80%	0.59%
	0.75 to <1.75	1,548	5	0.32%	1.12%	1.30%	0.49%
	1.75 to <2.5	838	8	0.95%	1.96%	2.30%	0.77%
	2.50 to <10.00	1,892	32	1.69%	4.42%	5.22%	1.52%
	2.5 to <5	902	11	1.22%	2.97%	3.70%	1.19%
	5 to <10	990	21	2.12%	5.73%	6.74%	1.80%
	10.00 to <100.00	1,343	63	4.69%	12.08%	28.76%	8.03%
	10 to <20	1,288	46	3.57%	8.86%	11.53%	6.21%
	20 to <30	0	0	0.00%	25.30%	0.00%	30.07%
	30.00 to <100.00	55	17	30.91%	52.47%	46.00%	37.67%
	100.00 (Default)	439	-	-	100%	100%	-

A-IRB

Exposure class	PD range	Number of obligors in the end of previous year	Of which number of obligors which defaulted in the year	Observed average default rate (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
SECURED BY REAL ESTATE NON SME	b	c	d	e	f	g	h
	0.00 to <0.15	203,446	463	0.23%	0.09%	0.08%	0.09%
	0.00 to <0.10	94,629	373	0.39%	0.08%	0.05%	0.13%
	0.10 to <0.15	108,817	90	0.08%	0.10%	0.10%	0.06%
	0.15 to <0.25	55,786	102	0.18%	0.20%	0.20%	0.12%
	0.25 to <0.50	32,071	133	0.41%	0.39%	0.40%	0.27%
	0.50 to <0.75	20,021	133	0.66%	0.68%	0.70%	0.48%
	0.75 to <2.50	20,795	279	1.34%	1.61%	1.80%	1.05%
	0.75 to <1.75	12,411	151	1.22%	1.24%	1.30%	0.91%
	1.75 to <2.5	8,384	128	1.53%	2.16%	2.30%	1.26%
	2.50 to <10.00	18,107	389	2.15%	4.85%	5.25%	2.24%
	2.5 to <5	9,258	157	1.70%	3.44%	3.70%	1.58%
	5 to <10	8,849	232	2.62%	6.41%	6.80%	2.84%
	10.00 to <100.00	8,458	710	8.39%	20.59%	28.88%	11.06%
	10 to <20	7,540	395	5.24%	11.40%	11.77%	7.58%
	20 to <30	0	0	0.00%	25.30%	0.00%	34.84%
	30.00 to <100.00	918	315	34.31%	50.28%	46.00%	39.95%
	100.00 (Default)	5,614	-	-	100%	100%	-

A-IRB

Exposure class	PD range	Number of obligors in the end of previous year	Of which number of obligors which defaulted in the year	Observed average default rate (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
QUALIFYING REVOLVING RETAIL EXPOSURES	b	c	d	e	f	g	h
	0.00 to <0.15	606,631	780	0.13%	0.08%	0.08%	0.07%
	0.00 to <0.10	387,566	535	0.14%	0.08%	0.05%	0.07%
	0.10 to <0.15	219,065	245	0.11%	0.10%	0.10%	0.06%
	0.15 to <0.25	256,972	405	0.16%	0.20%	0.20%	0.12%
	0.25 to <0.50	203,321	1,032	0.51%	0.40%	0.40%	0.38%
	0.50 to <0.75	118,384	1,283	1.08%	0.71%	0.70%	0.82%
	0.75 to <2.50	133,773	2,665	1.99%	1.71%	1.80%	1.55%
	0.75 to <1.75	78,886	1,374	1.74%	1.29%	1.30%	1.33%
	1.75 to <2.5	54,887	1,291	2.35%	2.27%	2.30%	1.87%
	2.50 to <10.00	96,044	3,844	4.00%	5.88%	5.30%	3.42%
	2.5 to <5	43,871	1,425	3.25%	3.77%	3.70%	2.59%
	5 to <10	52,173	2,419	4.64%	7.56%	6.89%	4.06%
	10.00 to <100.00	106,413	12,518	11.76%	22.10%	28.83%	11.09%
	10 to <20	101,330	9,090	8.97%	14.05%	11.66%	8.18%
	20 to <30	0	0	0.00%	26.19%	0.00%	46.42%
	30.00 to <100.00	5,083	3,428	67.44%	52.07%	46.00%	51.44%
	100.00 (Default)	25,896	-	-	100%	100%	-

A-IRB

Exposure class	PD range	Number of obligors in the end of previous year	Of which number of obligors which defaulted in the year	Observed average default rate (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
OTHER RETAIL - SME	b	c	d	e	f	g	h
	0.00 to <0.15	22,421	4	0.02%	0.10%	0.08%	0.03%
	0.00 to <0.10	806	0	0.00%	0.05%	0.05%	0.03%
	0.10 to <0.15	21,615	4	0.02%	0.10%	0.10%	0.03%
	0.15 to <0.25	27,793	46	0.17%	0.19%	0.20%	0.13%
	0.25 to <0.50	24,883	111	0.45%	0.35%	0.40%	0.33%
	0.50 to <0.75	18,077	93	0.51%	0.58%	0.70%	0.49%
	0.75 to <2.50	18,695	213	1.14%	1.25%	1.80%	1.14%
	0.75 to <1.75	12,220	106	0.87%	1.00%	1.30%	0.85%
	1.75 to <2.5	6,475	107	1.65%	1.72%	2.30%	1.61%
	2.50 to <10.00	9,276	339	3.65%	4.17%	5.19%	2.89%
	2.5 to <5	4,731	124	2.62%	2.91%	3.70%	2.18%
	5 to <10	4,545	215	4.73%	5.42%	6.68%	3.46%
	10.00 to <100.00	18,758	1,128	6.01%	11.79%	28.77%	9.03%
	10 to <20	17,899	814	4.55%	8.04%	11.54%	7.59%
	20 to <30	0	0	0.00%	25.30%	0.00%	49.05%
	30.00 to <100.00	859	314	36.55%	52.40%	46.00%	42.80%
	100.00 (Default)	3,024	-	-	100%	100%	-

A-IRB

Exposure class	PD range	Number of obligors in the end of previous year	Of which number of obligors which defaulted in the year	Observed average default rate (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
OTHER RETAIL - NON SME	b	c	d	e	f	g	h
	0.00 to <0.15	8,902	7	0.08%	0.09%	0.08%	0.11%
	0.00 to <0.10	1,497	0	0.00%	0.05%	0.05%	0.10%
	0.10 to <0.15	7,405	7	0.09%	0.10%	0.10%	0.11%
	0.15 to <0.25	33,841	76	0.22%	0.20%	0.20%	0.20%
	0.25 to <0.50	54,706	395	0.72%	0.40%	0.40%	0.59%
	0.50 to <0.75	32,260	522	1.62%	0.69%	0.70%	1.28%
	0.75 to <2.50	32,601	1,022	3.13%	1.59%	1.80%	2.40%
	0.75 to <1.75	20,831	551	2.65%	1.27%	1.30%	2.04%
	1.75 to <2.5	11,770	471	4.00%	2.22%	2.30%	2.97%
	2.50 to <10.00	17,578	1,056	6.01%	5.15%	5.25%	5.15%
	2.5 to <5	7,885	409	5.19%	3.53%	3.70%	3.91%
	5 to <10	9,693	647	6.67%	6.45%	6.81%	6.01%
	10.00 to <100.00	7,944	1,903	23.96%	21.73%	28.97%	23.04%
	10 to <20	6,990	1,183	16.92%	10.94%	11.93%	16.16%
	20 to <30	0	0	0.00%	25.30%	0.00%	55.48%
	30.00 to <100.00	954	720	75.47%	52.40%	46.00%	70.36%
	100.00 (Default)	4,870	-	-	100%	100%	-

The figures for the risk positions of portfolios treated by the IRB approach, with reference to 31 December 2022 are presented in the following tables, reflecting the different risk classes of the portfolios.

TABLE 43 – TEMPLATE EU CR6 – IRB APPROACH – CREDIT RISK EXPOSURES BY EXPOSURE CLASS AND PD RANGE

(Thousand euros)

A-IRB	PD scale	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
CORPORATE													
	0.00 to <0.15	**7**	**114,546**	**85**	**96,836**	**0.05%**	**5**	**42.26%**	**1**	**11,882**	**12.3%**	**21**	**-5**
	0.00 to <0.10	0	109,471	86	94,333	0.05%	2	42.26%	1	10,692	11.3%	20	-5
	0.10 to <0.15	7	5,075	49	2,503	0.10%	3	42.26%	5	1,191	47.6%	1	0
	0.15 to <0.25	**904,350**	**1,467,760**	**86**	**2,166,486**	**0.20%**	**187**	**38.80%**	**2**	**715,555**	**33.0%**	**1,681**	**-314**
	0.25 to <0.50	**136,768**	**520,006**	**78**	**545,363**	**0.40%**	**231**	**42.12%**	**2**	**296,882**	**54.4%**	**917**	**-359**
	0.50 to <0.75	**782,394**	**530,021**	**71**	**1,167,208**	**0.70%**	**207**	**42.04%**	**3**	**1,007,993**	**86.4%**	**3,425**	**-1,216**
	0.75 to <2.50	**896,933**	**869,609**	**60**	**1,472,515**	**1.89%**	**544**	**36.72%**	**2**	**1,370,204**	**93.1%**	**10,281**	**-5,326**
	0.75 to <1.75	289,593	375,889	66	560,692	1.27%	284	34.69%	3	443,690	79.1%	2,454	-1,349
	1.75 to <2.5	607,340	493,720	56	911,822	2.26%	260	37.97%	2	926,514	101.6%	7,827	-3,978
	2.50 to <10.00	**715,691**	**607,118**	**43**	**993,183**	**4.93%**	**540**	**34.54%**	**2**	**1,160,405**	**116.8%**	**17,219**	**-18,699**
	2.5 to <5	406,181	328,906	39	546,267	3.65%	247	33.07%	2	551,947	101.0%	6,568	-5,972
	5 to <10	309,510	278,212	49	446,916	6.49%	293	36.34%	2	608,458	136.1%	10,651	-12,728
	10.00 to <100.00	**324,559**	**153,801**	**34**	**379,364**	**11.80%**	**348**	**29.24%**	**4**	**562,250**	**148.2%**	**13,196**	**-17,314**
	10 to <20	323,415	150,213	34	376,068	11.45%	329	29.15%	4	555,914	147.8%	12,528	-17,108
	20 to <30	0	0	0	0	0.00%	0	0.00%	0	0	0.0%	0	0
	30.00 to <100.00	1,144	3,588	60	3,296	51.98%	19	39.39%	2	6,335	192.2%	668	-206
	100.00 (Default)	**422,944**	**114,192**	**33**	**460,318**	**100.00%**	**77**	**50.49%**	**4**	**178,196**	**38.7%**	**282,662**	**-297,062**
Subtotal Corporate		4,183,646	4,377,053	69	7,281,273	8.2%	2,139	38.9%	2	5,303,368	72.8%	329,402	-340,296

A-IRB	PD scale	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
CORPORATE SME													
	0.00 to <0.15	**6,620**	**1,798**	**54**	**7,587**	**0.10%**	**88**	**35.66%**	**3**	**1,130**	**14.9%**	**3**	**-6**
	0.00 to <0.10	7	65	68	51	0.05%	1	38.66%	1	3	6.3%	0	0
	0.10 to <0.15	6,612	1,733	53	7,535	0.10%	87	35.64%	3	1,126	14.9%	3	-6
	0.15 to <0.25	**50,969**	**106,203**	**71**	**126,804**	**0.20%**	**689**	**39.00%**	**2**	**26,247**	**20.7%**	**99**	**-55**
	0.25 to <0.50	**106,232**	**239,946**	**62**	**256,039**	**0.40%**	**1,313**	**38.49%**	**2**	**81,274**	**31.7%**	**394**	**-496**
	0.50 to <0.75	**167,395**	**230,977**	**64**	**316,649**	**0.70%**	**1,264**	**37.30%**	**2**	**131,432**	**41.5%**	**826**	**-729**
	0.75 to <2.50	**638,846**	**455,611**	**54**	**888,417**	**1.68%**	**2,266**	**38.79%**	**3**	**624,748**	**70.3%**	**5,724**	**-5,660**
	0.75 to <1.75	400,892	230,441	63	545,951	1.30%	1,170	39.75%	3	410,962	75.3%	2,820	-2,226
	1.75 to <2.5	237,954	225,170	44	342,466	2.28%	1,096	37.27%	2	213,786	62.4%	2,904	-3,434
	2.50 to <10.00	**990,729**	**952,260**	**33**	**1,333,625**	**5.44%**	**2,947**	**35.76%**	**2**	**1,093,390**	**82.0%**	**26,009**	**-29,280**
	2.5 to <5	395,532	400,627	34	563,279	3.57%	1,078	35.85%	2	428,319	76.0%	7,232	-8,372
	5 to <10	595,197	551,633	32	770,345	6.82%	1,869	35.71%	2	665,071	86.3%	18,777	-20,908
	10.00 to <100.00	**958,467**	**385,676**	**37**	**1,101,519**	**12.75%**	**3,644**	**34.35%**	**3**	**1,200,754**	**109.0%**	**48,317**	**-70,524**
	10 to <20	925,782	378,943	37	1,067,021	11.48%	3,483	34.33%	3	1,158,979	108.6%	42,063	-62,113
	20 to <30	303	74	20	318	23.60%	3	40.30%	3	459	144.3%	30	-327
	30.00 to <100.00	32,382	6,659	27	34,180	52.40%	158	34.77%	4	41,317	120.9%	6,223	-8,084
	100.00 (Default)	**304,862**	**92,846**	**25**	**328,436**	**100.00%**	**530**	**44.41%**	**4**	**122,437**	**37.3%**	**149,363**	**-183,413**
Subtotal Corporate SME		**3,224,118**	**2,465,317**	**44**	**4,359,074**	**12.8%**	**12,741**	**37.0%**	**3**	**3,281,411**	**75.3%**	**230,734**	**-290,163**

A-IRB	PD scale	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
SECURED BY REAL ESTATE SME													
	0.00 to <0.15	**434,631**	**6,746**	**84**	**440,288**	**0.10%**	**5,933**	**15.25%**	**0**	**12,875**	**2.9%**	**67**	**-29**
	0.00 to <0.10	506	170	46	585	0.07%	19	29.83%	0	27	4.6%	0	0
	0.10 to <0.15	434,126	6,576	85	439,703	0.10%	5,914	15.23%	0	12,848	2.9%	67	-29
	0.15 to <0.25	**387,850**	**8,448**	**80**	**408,014**	**0.20%**	**4,093**	**16.72%**	**0**	**21,825**	**5.3%**	**134**	**-31**
	0.25 to <0.50	**111,990**	**4,776**	**88**	**132,873**	**0.37%**	**1,315**	**17.40%**	**0**	**11,767**	**8.9%**	**86**	**-28**
	0.50 to <0.75	**91,184**	**8,466**	**92**	**120,199**	**0.64%**	**1,202**	**16.79%**	**0**	**14,882**	**12.4%**	**128**	**-49**
	0.75 to <2.50	**116,668**	**9,130**	**97**	**163,412**	**1.41%**	**1,459**	**17.16%**	**0**	**34,304**	**21.0%**	**392**	**-126**
	0.75 to <1.75	77,672	5,689	97	108,345	1.12%	984	17.15%	0	19,892	18.4%	207	-68
	1.75 to <2.5	38,997	3,441	99	55,067	1.96%	475	17.19%	0	14,412	26.2%	185	-58
	2.50 to <10.00	**90,678**	**1,781**	**96**	**124,423**	**4.42%**	**1,315**	**16.61%**	**0**	**48,538**	**39.0%**	**913**	**-413**
	2.5 to <5	40,981	1,129	94	59,244	2.97%	623	16.84%	0	19,164	32.3%	294	-144
	5 to <10	49,698	651	99	65,179	5.73%	692	16.40%	0	29,374	45.1%	619	-269
	10.00 to <100.00	**55,300**	**7,984**	**92**	**91,902**	**12.08%**	**841**	**17.16%**	**0**	**53,416**	**58.1%**	**1,928**	**-693**
	10 to <20	48,513	7,969	92	85,101	8.86%	756	17.13%	0	48,745	57.3%	1,305	-570
	20 to <30	42	0	0	42	25.30%	3	19.61%	0	39	92.1%	2	0
	30.00 to <100.00	6,745	15	100	6,759	52.47%	82	17.48%	0	4,633	68.5%	621	-122
	100.00 (Default)	**27,417**	**0**	**0**	**27,417**	**100.00%**	**314**	**32.10%**	**0**	**23,245**	**84.8%**	**6,961**	**-6,549**
Subtotal Secured by Real Estate SME		**1,315,720**	**47,329**	**90**	**1,508,527**	**3.2%**	**16,472**	**16.7%**	**0**	**220,850**	**14.6%**	**10,611**	**-7,917**

A-IRB	PD scale	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
SECURED BY REAL ESTATE NON SME													
	0.00 to <0.15	**12,200,020**	**105,470**	**100**	**12,305,454**	**0.09%**	**213,676**	**24.36%**	**0**	**681,611**	**5.5%**	**2,631**	**-4,076**
	0.00 to <0.10	4,531,544	8,959	100	4,540,492	0.08%	106,950	39.55%	0	378,900	8.3%	1,429	-3,901
	0.10 to <0.15	7,668,476	96,511	100	7,764,963	0.10%	106,726	15.48%	0	302,712	3.9%	1,202	-174
	0.15 to <0.25	**4,883,843**	**77,443**	**100**	**5,071,770**	**0.20%**	**61,582**	**19.52%**	**0**	**412,581**	**8.1%**	**1,931**	**-1,365**
	0.25 to <0.50	**2,247,246**	**21,242**	**100**	**2,376,170**	**0.39%**	**31,853**	**20.37%**	**0**	**334,626**	**14.1%**	**1,886**	**-1,619**
	0.50 to <0.75	**1,295,274**	**10,496**	**100**	**1,399,741**	**0.68%**	**19,183**	**21.53%**	**0**	**308,986**	**22.1%**	**2,063**	**-1,899**
	0.75 to <2.50	**1,231,731**	**6,941**	**100**	**1,343,192**	**1.61%**	**19,953**	**23.67%**	**0**	**568,585**	**42.3%**	**5,163**	**-4,664**
	0.75 to <1.75	741,292	4,099	100	805,154	1.24%	11,904	23.80%	0	293,845	36.5%	2,397	-2,338
	1.75 to <2.5	490,439	2,843	100	538,037	2.16%	8,049	23.47%	0	274,740	51.1%	2,766	-2,325
	2.50 to <10.00	**950,824**	**2,854**	**100**	**1,066,857**	**4.85%**	**16,631**	**20.86%**	**0**	**748,763**	**70.2%**	**11,114**	**-7,204**
	2.5 to <5	497,580	1,373	100	558,946	3.44%	8,792	20.92%	0	333,698	59.7%	4,115	-2,928
	5 to <10	453,244	1,481	100	507,910	6.41%	7,839	20.78%	0	415,065	81.7%	6,999	-4,276
	10.00 to <100.00	**557,558**	**1,828**	**98**	**593,696**	**20.59%**	**9,145**	**20.65%**	**0**	**630,283**	**106.2%**	**26,770**	**-12,641**
	10 to <20	416,315	1,815	98	452,440	11.40%	7,041	19.78%	0	455,953	100.8%	10,841	-6,836
	20 to <30	1,442	0	0	1,442	25.30%	52	13.28%	0	1,179	81.8%	48	-5
	30.00 to <100.00	139,802	13	100	139,815	50.28%	2,052	23.53%	0	173,150	123.8%	15,881	-5,800
	100.00 (Default)	**395,252**	**5**	**100**	**395,257**	**100.00%**	**6,016**	**41.76%**	**0**	**463,730**	**117.3%**	**149,316**	**-113,390**
Subtotal Secured by Real Estate Non SME		**23,761,748**	**226,280**	**100**	**24,552,137**	**2.6%**	**378,039**	**22.8%**	**0**	**4,149,165**	**16.9%**	**200,876**	**-146,857**

A-IRB	PD scale	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
QUALIFYING REVOLVING RETAIL EXPOSURES													
	0.00 to <0.15	**127,442**	**1,010,857**	**39**	**521,430**	**0.08%**	**839,065**	**59.79%**	**0**	**16,415**	**3.1%**	**248**	**-430**
	0.00 to <0.10	95,215	640,995	50	413,047	0.08%	559,728	65.44%	0	13,771	3.3%	207	-347
	0.10 to <0.15	32,227	369,862	21	108,383	0.10%	279,337	38.24%	0	2,644	2.4%	41	-83
	0.15 to <0.25	**121,872**	**592,553**	**24**	**263,190**	**0.20%**	**389,814**	**60.73%**	**0**	**17,833**	**6.8%**	**315**	**-400**
	0.25 to <0.50	**124,758**	**253,281**	**28**	**196,569**	**0.40%**	**283,620**	**60.99%**	**0**	**23,536**	**12.0%**	**474**	**-670**
	0.50 to <0.75	**90,863**	**117,811**	**36**	**133,556**	**0.71%**	**168,245**	**64.26%**	**0**	**26,617**	**19.9%**	**606**	**-935**
	0.75 to <2.50	**133,743**	**100,650**	**46**	**179,934**	**1.71%**	**195,442**	**70.30%**	**0**	**76,211**	**42.4%**	**2,169**	**-2,556**
	0.75 to <1.75	74,615	63,310	45	102,884	1.29%	115,867	68.87%	0	34,778	33.8%	911	-1,275
	1.75 to <2.5	59,127	37,341	48	77,050	2.27%	79,575	72.22%	0	41,433	53.8%	1,258	-1,281
	2.50 to <10.00	**115,138**	**51,647**	**48**	**140,012**	**5.88%**	**155,032**	**75.20%**	**0**	**148,043**	**105.7%**	**6,251**	**-4,543**
	2.5 to <5	50,310	24,427	49	62,339	3.77%	65,540	73.98%	0	49,315	79.1%	1,744	-1,532
	5 to <10	64,829	27,220	47	77,672	7.56%	89,492	76.17%	0	98,728	127.1%	4,507	-3,010
	10.00 to <100.00	**76,041**	**43,863**	**22**	**85,565**	**22.10%**	**174,090**	**76.26%**	**0**	**162,486**	**189.9%**	**14,737**	**-11,362**
	10 to <20	55,756	42,059	22	64,860	14.05%	157,761	75.54%	0	116,836	180.1%	7,028	-5,828
	20 to <30	3,666	588	23	3,801	26.19%	3,091	75.85%	0	8,799	231.5%	757	-789
	30.00 to <100.00	16,619	1,216	23	16,903	52.07%	13,238	79.10%	0	36,851	218.0%	6,952	-4,746
	100.00 (Default)	**47,466**	**4,826**	**9**	**47,919**	**100.00%**	**46,707**	**71.51%**	**0**	**88,558**	**184.8%**	**30,798**	**-25,731**
Subtotal Qualifying Revolving Retail Exposures		**837,323**	**2,175,489**	**34**	**1,568,175**	**5.2%**	**2,252,015**	**64.3%**	**0**	**559,699**	**35.7%**	**55,598**	**-46,628**

A-IRB	PD scale	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
OTHER RETAIL - SME													
	0.00 to <0.15	**70,230**	**133,971**	**31**	**111,341**	**0.10%**	**30,424**	**32.01%**	**0**	**6,931**	**6.2%**	**34**	**-170**
	0.00 to <0.10	2,079	11,733	43	7,105	0.05%	216	36.20%	0	306	4.3%	1	-9
	0.10 to <0.15	68,151	122,238	30	104,236	0.10%	30,208	31.73%	0	6,625	6.4%	33	-161
	0.15 to <0.25	**209,236**	**123,201**	**35**	**283,913**	**0.19%**	**32,700**	**30.96%**	**0**	**27,496**	**9.7%**	**166**	**-574**
	0.25 to <0.50	**210,643**	**83,564**	**40**	**334,915**	**0.35%**	**22,655**	**30.70%**	**0**	**47,688**	**14.2%**	**359**	**-1,710**
	0.50 to <0.75	**142,252**	**58,530**	**43**	**260,427**	**0.58%**	**16,122**	**29.49%**	**0**	**47,633**	**18.3%**	**449**	**-1,743**
	0.75 to <2.50	**130,795**	**49,506**	**44**	**256,033**	**1.25%**	**18,977**	**29.41%**	**0**	**64,241**	**25.1%**	**970**	**-3,589**
	0.75 to <1.75	84,734	33,038	45	167,456	1.00%	11,716	29.28%	0	39,138	23.4%	502	-1,951
	1.75 to <2.5	46,061	16,468	41	88,577	1.72%	7,261	29.66%	0	25,103	28.3%	468	-1,638
	2.50 to <10.00	**68,025**	**21,450**	**52**	**117,005**	**4.17%**	**12,172**	**29.70%**	**0**	**39,217**	**33.5%**	**1,488**	**-6,002**
	2.5 to <5	34,789	9,647	38	58,348	2.91%	6,798	28.89%	0	17,983	30.8%	491	-2,322
	5 to <10	33,236	11,803	63	58,657	5.42%	5,374	30.50%	0	21,234	36.2%	997	-3,681
	10.00 to <100.00	**84,356**	**68,306**	**35**	**184,940**	**11.79%**	**27,574**	**31.72%**	**0**	**81,609**	**44.1%**	**7,382**	**-24,797**
	10 to <20	71,214	56,780	36	168,454	8.04%	26,208	31.25%	0	69,299	41.1%	4,383	-18,666
	20 to <30	1,237	665	21	1,375	25.30%	241	41.62%	0	1,124	81.8%	145	-474
	30.00 to <100.00	11,905	10,861	30	15,111	52.40%	1,125	36.05%	0	11,186	74.0%	2,854	-5,656
	100.00 (Default)	**87,985**	**78,523**	**25**	**107,267**	**100.00%**	**4,376**	**55.34%**	**0**	**145,652**	**135.8%**	**47,706**	**-51,008**
Subtotal Other Retail SME		**1,003,523**	**617,051**	**35**	**1,655,841**	**8.5%**	**165,000**	**32.1%**	**0**	**460,468**	**27.8%**	**58,555**	**-89,593**

A-IRB	PD scale	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
OTHER RETAIL - NON SME													
	0.00 to <0.15	**86,987**	**20,434**	**45**	**96,141**	**0.09%**	**5,371**	**20.77%**	**0**	**4,894**	**5.1%**	**18**	**-35**
	0.00 to <0.10	9,056	6,571	39	11,639	0.05%	744	28.72%	0	522	4.5%	2	-6
	0.10 to <0.15	77,931	13,863	47	84,501	0.10%	4,627	19.68%	0	4,372	5.2%	17	-29
	0.15 to <0.25	**413,513**	**27,217**	**46**	**430,308**	**0.20%**	**37,059**	**22.69%**	**0**	**41,739**	**9.7%**	**194**	**-197**
	0.25 to <0.50	**597,900**	**20,995**	**48**	**619,321**	**0.40%**	**64,368**	**28.84%**	**0**	**118,785**	**19.2%**	**708**	**-893**
	0.50 to <0.75	**309,076**	**11,409**	**51**	**325,433**	**0.69%**	**35,428**	**29.25%**	**0**	**86,006**	**26.4%**	**656**	**-1,092**
	0.75 to <2.50	**281,832**	**30,881**	**50**	**311,444**	**1.59%**	**34,396**	**30.81%**	**0**	**119,852**	**38.5%**	**1,514**	**-2,655**
	0.75 to <1.75	185,545	27,951	49	207,202	1.27%	22,532	31.52%	0	77,284	37.3%	832	-1,532
	1.75 to <2.5	96,287	2,930	61	104,242	2.22%	11,864	29.40%	0	42,568	40.8%	682	-1,124
	2.50 to <10.00	**127,527**	**3,023**	**61**	**138,607**	**5.15%**	**17,601**	**30.30%**	**0**	**65,642**	**47.4%**	**2,200**	**-3,425**
	2.5 to <5	56,882	928	57	61,922	3.53%	7,694	28.82%	0	26,745	43.2%	635	-1,075
	5 to <10	70,646	2,095	63	76,686	6.45%	9,907	31.50%	0	38,898	50.7%	1,565	-2,350
	10.00 to <100.00	**66,432**	**4,165**	**38**	**71,685**	**21.73%**	**8,491**	**30.64%**	**0**	**45,902**	**64.0%**	**4,650**	**-7,661**
	10 to <20	44,574	3,940	39	49,779	10.94%	6,005	31.02%	0	28,525	57.3%	1,701	-3,471
	20 to <30	4,964	3	26	4,965	25.30%	590	34.96%	0	4,476	90.2%	439	-903
	30.00 to <100.00	16,894	223	21	16,941	52.40%	1,896	28.28%	0	12,901	76.2%	2,510	-3,287
	100.00 (Default)	**94,115**	**2,033**	**25**	**94,626**	**100.00%**	**8,355**	**59.18%**	**0**	**108,559**	**114.7%**	**47,311**	**-49,500**
Subtotal Other Retail Non SME		**1,977,383**	**120,158**	**47**	**2,087,565**	**6.13%**	**211,069**	**29.1%**	**0**	**591,380**	**28.3%**	**57,251**	**-65,460**
Total (all exposures classes)		**36,303,460**	**10,028,677**	**54**	**43,012,593**	**5.08%**	**3,037,475**	**28.93%**	**0**	**14,566,343**	**33.9%**	**943,028**	**-986,912**

Note: This data does not include the exposures on Derivatives and Specialised Lending.

TABLE 44 – TEMPLATE EU CR6-A – SCOPE OF THE USE OF IRB AND SA APPROACHES

(Thousand euros)

		a	b	c	d	e
		Exposure value as defined in Article 166 CRR for exposrues subject to IRB approach	Total exposure value for exposures subject to the Standardised approach and to the IRB approach	Percentage of total exposure value subject to the permanent partial use of the SA (%)	Percentage of total exposure value subject to IRB Approach (%)	Percentage of total exposure subject to a roll-out plan (%)
1	Central governments or central banks	0	24,391,272	100%	0%	0%
1.1	Of which Regional governments or local authorities		910,817	100%	0%	0%
1.2	Of which Public sector entities		371,886	100%	0%	0%
2	Institutions	0	2,427,338	100%	0%	0%
3	Corporates	12,573,856	21,694,212	7.6%	22.0%	70.5%
3.1	Of which Corporates - Specialised lending, excluding slotting approach		21,694,212	7.6%	22.0%	70.5%
3.2	Of which Corporates - Specialised lending under slotting approach		20,638,661	8.0%	23.2%	68.8%
4	Retail	31,372,610	39,843,797	1.3%	16.0%	82.6%
4.1	of which Retail – Secured by real estate SMEs		1,567,095	0.3%	0.1%	99.7%
4.2	of which Retail – Secured by real estate non-SMEs		25,438,553	0.1%	3.4%	96.6%
4.3	of which Retail – Qualifying revolving		1,870,282	0%	0%	100%
4.4	of which Retail – Other SMEs		3,817,934	15.7%	11.2%	73.1%
4.5	of which Retail – Other non-SMEs		7,149,933	1.9%	69.1%	29.0%
5	Equity	847,784	921,720	8.0%	0%	92.0%
6	Other non-credit obligation assets	5,480,446	5,537,865	1.0%	0%	99.0%
7	**Total**	**50,274,695**	**94,816,204**	**34.9%**	**10.8%**	**54.3%**

TABLE 45 – TEMPLATE EU CR7-A – IRB APPROACH – DISCLOSURE OF THE EXTENT OF THE USE OF CRM TECHNIQUES

(Thousand euros)

	A-IRB	Total exposures	Credit risk Mitigation techniques											Credit risk Mitigation methods in the calculation of RWEAs	
			Funded credit Protection (FCP)									Unfunded credit Protection (UFCP)			
			Part of exposures covered by Financial Collaterals (%)	Part of exposures covered by Other eligible collaterals (%)	Part of exposures covered by Immovable property Collaterals (%)	Part of exposures covered by Receivables (%)	Part of exposures covered by Other physical collateral (%)	Part of exposures covered by Other funded credit protection (%)	Part of exposures covered by Cash on deposit (%)	Part of exposures covered by Life insurance policies (%)	Part of exposures covered by Instruments held by a third party (%)	Part of exposures covered by Guarantees (%)	Part of exposures covered by Credit Derivatives (%)	RWEA without substitution effects (reduction effects only)	RWEA with substitution effects (both reduction and sustitution effects)
		a	b	c	d	e	f	g	h	i	j	k	l	m	n
1	Central governments and central banks														
2	Institutions														
3	Corporates	**11,640,347**	**3.05%**	**32.09%**	**23.00%**	**0.00%**	**9.08%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**8,670,627**	**8,584,779**
3.1	Of which Corporates – SMEs	4,359,074	2.78%	50.45%	35.76%	0.00%	14.69%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	3,314,225	3,281,411
3.2	Of which Corporates – Specialised lending														
3.3	Of which Corporates – Other	7,281,273	3.22%	21.09%	15.37%	0.00%	5.73%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5,356,402	5,303,368
4	Retail	**31,372,246**	**1.15%**	**83.55%**	**82.89%**	**0.00%**	**0.66%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**6,101,195**	**5,981,564**
4.1	Of which Retail – Immovable property SMEs	1,508,527	0.21%	99.34%	98.73%	0.00%	0.61%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	225,267	220,850
4.2	Of which Retail – Immovable property non-SMEs	24,552,137	0.04%	98.89%	98.87%	0.00%	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4,232,149	4,149,165
4.3	Of which Retail – Qualifying revolving	1,568,175	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	570,893	559,699
4.4	Of which Retail – Other SMEs	1,655,841	6.22%	20.67%	11.40%	0.00%	9.26%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	469,678	460,468
4.5	Of which Retail – Other non-SMEs	2,087,565	11.76%	4.32%	2.42%	0.00%	1.90%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	603,208	591,380
5	**Total**	**43,012,593**	**1.67%**	**69.62%**	**66.68%**	**0.00%**	**2.94%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**14,771,822**	**14,566,343**

TABLE 46 – TEMPLATE EU CR10.1 – SPECIALISED LENDING

(Thousand euros)

		Specialised lending : Project finance (Slotting approach)					
Regulatory categories	**Remaining maturity**	**On-balancesheet exposure**	**Off-balancesheet exposure**	**Risk weight**	**Exposure value**	**Risk weighted exposure amount**	**Expected loss amount**
		a	b	c	d	e	f
Category 1	Less than 2.5 years	0	0	50%	0	0	0
	Equal to or more than 2.5 years	0	0	70%	0	0	0
Category 2	Less than 2.5 years	0	0	70%	0	0	0
	Equal to or more than 2.5 years	514,599	116,252	90%	589,378	463,728	4,715
Category 3	Less than 2.5 years	0	0	115%	0	0	0
	Equal to or more than 2.5 years	307,765	25,463	115%	311,043	351,845	8,709
Category 4	Less than 2.5 years	0	0	250%	0	0	0
	Equal to or more than 2.5 years	16,278	4,796	250%	18,578	46,445	1,486
Category 5	Less than 2.5 years	0	0	-	0	0	0
	Equal to or more than 2.5 years	3,845	8,185	-	5,504	8,483	956
Total	Less than 2.5 years	**0**	**0**		**0**	**0**	**0**
	Equal to or more than 2.5 years	**842,487**	**154,696**		**924,503**	**870,501**	**15,867**

TABLE 47 – TEMPLATE EU CR10.5 – EQUITY EXPOSURES UNDER THE SIMPLE RISK WEIGHTED APPROACH

(Thousand euros)

	Equity exposures under the simple risk-weighted approach					
	On-balancesheet exposure	**Off-balancesheet exposure**	**Risk weight**	**Exposure value**	**Risk weighted exposure amount**	**Expected loss amount**
	a	b	c	d	e	f
Private equity exposures	548,573	0	190%	548,573	1,042,289	4,389
Exchange-traded equity exposures	3,803	0	290%	3,803	11,030	30
Other equity exposures	37,814	0	370%	37,814	139,912	908
Total	**590,191**	**0**		**590,191**	**1,193,231**	**5,327**

The following table shows the breakdown of RWA flows in the last quarter of 2022:

TABLE 48 – TEMPLATE EU CR8 – RWEA FLOW STATEMENTS OF CREDIT RISK EXPOSURES UNDER THE IRB APPROACH

(Thousand euros)

		Risk weighted exposure amount
		a
1	**Risk weighted exposure amount as at the end of the previous reporting period**	**21,618,523**
2	Asset size (+/-)	-1,646,708
3	Asset quality (+/-)	0
4	Model updates (+/-)	0
5	Methodology and policy (+/-)	0
6	Acquisitions and disposals (+/-)	0
7	Foreign exchange movements (+/-)	35,921
8	Other (+/-)	-507,592
9	**Risk weighted exposure amount as at the end of the reporting period**	**19,500,143**

7.7.5. Standardised approach – exposures and risk weights by regulatory risk classes

The table below presents the break down as of the 31 December 2022 of the on- and off-balance sheet risk positions within the scope of the regulatory consolidation, net from specific credit risk adjustments and cancellations, post conversion factors and post CRM techniques, relative to portfolios that are treated under the standardised approach

TABLE 49 – TEMPLATE EU CR5 – STANDARDISED APPROACH

(Thousand euros)

	Exposure classes	Risk weight															Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
1	Central governments or central banks	25,824,011	0	0	0	11,342	0	28,650	0	0	1,039,050	528,396	0	0	0	0	27,431,450	2,697,540
2	Regional government or local authorities	0	0	0	0	640,461	0	0	0	0	0	0	0	0	0	0	640,461	26,027
3	Public sector entities	0	0	0	0	2	0	31,723	0	0	292,634	24,118	0	0	0	0	348,477	30,434
4	Multilateral development banks	114,633	0	0	0	0	0	0	0	0	0	0	0	0	0	0	114,633	114,515
5	International organisations																0	
6	Institutions	0	84,840	0	0	700,541	0	459,994	0	0	35,096	3,406	0	0	0	0	1,283,877	252,997
7	Corporates	0	0	0	0	0	0	0	0	0	4,474,383	204,014	0	0	0	0	4,678,397	388,236
8	Retail	0	0	0	0	0	0	0	0	5,492,010	0	0	0	0	0	0	5,492,010	314,813
9	Secured by mortgages on immovable property	0	0	0	0	0	1,026,051	232,005	0	39,026	109,836	84,719	0	0	0	0	1,491,637	21,676
10	Exposures in default	0	0	0	0	0	0	0	0	0	344,954	83,657	0	0	0	0	428,611	79,547
11	Exposures associated with particularly high risk	0	0	0	0	0	0	0	0	0	0	1,538	0	0	0	0	1,538	
12	Covered bonds																0	
13	Institutions and corporates with a short-term credit assessment																0	
14	Unit or shares in collective investment undertakings	0	0	0	0	0	0	0	0	0	0	19,355	0	0	0	40,974	60,329	
15	Equity	0	0	0	0	0	0	0	0	0	1,186	0	12,421	0	0	0	13,607	
16	Other items	0	0	0	0	0	0	0	0	0	57,419	0	0	0	0	0	57,419	
17	**TOTAL**	**25,938,644**	**84,840**	**0**	**0**	**1,352,346**	**1,026,051**	**752,372**	**0**	**5,531,036**	**6,354,559**	**949,204**	**12,421**	**0**	**0**	**40,974**	**42,042,446**	**3,925,786**

8. 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 the counterparty credit risk management, the Bank defines exposure limits to specific counterparties, establishes bilateral contracts to guarantee exposures resulting from derivatives and requests collaterals within the scope of these agreements as preferred tools to mitigate this risk.

The internal procedures of the Group define the way in which the usage 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.

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

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.

The Group applies the SA-CCR method, as established in article 274, Section 3, Chapter 6, Title II, Part III of the CRR, in which the exposure for derivatives is built through the calculation of Replacement Cost and Potential Future exposure for these transactions.

The market values of the operations are directly collected from the Bank's front-end application, in which the management and evaluation of the operations is carried out.

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. Within this framework, 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 (Central Counterpart). 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.

Derivatives traded through Central Clearing benefit from specific credit mitigation thecniques are used in such framework, namely initial and variation margins determined by the CCP. The Bank is not a direct member of any CCP dealing through contracted specialized brokers. All CCPs, with which such type of transactions has been performed, are included in the ESAM Qualified CCPs list.

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 of December 2022, the Group did not have any formal counterparty credit risk coverage operation in force.

The next tables present further details on the exposures to counterparty credit risk.

TABLE 50 – TEMPLATE EU CCR1 – ANALYSIS OF CCR EXPOSURE BY APPROACH

(Thousand euros)

		a	b	c	d	e	f	g	h
		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU1	EU - Original Exposure Method (for derivatives)								
EU2	EU - Simplified SA-CCR (for derivatives)								
1	SA-CCR (for derivatives)	112,415	80,571		1.4	217,092	217,092	217,092	128,161
2	IMM (for derivatives and SFTs)								
2a	Of which securities financing transactions netting sets								
2b	Of which derivatives and long settlement transactions netting sets								
2c	Of which from contractual cross-product netting sets								
3	Financial collateral simple method (for SFTs)								
4	Financial collateral comprehensive method (for SFTs)					1,037	36	36	36
5	VaR for SFTs								
6	**Total**					**218,129**	**217,129**	**217,129**	**128,197**

TABLE 51 – TEMPLATE EU CCR2 – TRANSACTIONS SUBJECT TO OWN FUNDS REQUIREMENTS FOR CVA RISK

(Thousand euros)

		a	b
		Exposure value	RWEA
1	Total transactions subject to the Advanced method	0	0
2	(i) VaR component (including the 3× multiplier)		0
3	(ii) stressed VaR component (including the 3× multiplier)		0
4	Transactions subject to the Standardised method	142,495	47,016
EU4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	0	0
5	**Total transactions subject to own funds requirements for CVA risk**	**142,495**	**47,016**

TABLE 52 – TEMPLATE EU CCR3 – STANDARDISED APPROACH – CCR EXPOSURES BY REGULATORY EXPOSURE CLASS AND RISK WEIGHTS

(Thousand euros)

	Exposure classes	Risk weight											
		a	b	c	d	e	f	g	h	i	j	k	l
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
1	Central governments or central banks												0
2	Regional government or local authorities												0
3	Public sector entities												0
4	Multilateral development banks												0
5	International organisations												0
6	Institutions		1,078,666			63,943	77,197			141			1,219,947
7	Corporates									29,702			29,702
8	Retail								1,374				1,374
9	Institutions and corporates with a short-term credit assessment												0
10	Other items												0
11	**Total exposure value**	**0**	**1,078,666**	**0**	**0**	**63,943**	**77,197**	**0**	**1,374**	**29,842**	**0**	**0**	**1,251,023**

TABLE 53 – TEMPLATE EU CCR4 – IRB APPROACH – CCR EXPOSURES BY EXPOSURE CLASS AND PD SCALE

(Thousand euros)

	PD scale	Exposure value	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEA	Density of risk weighted exposure amount
		a	b	c	d	e	f	g
CORPORATE								
	0.00 to <0.15	8	0.10%	8	42%	0	4	0.48
	0.15 to <0.25	1,290	0.40%	42	83%	0	393	0.61
	0.25 to <0.50	39	0.40%	6	40%	0	16	0.41
	0.50 to <0.75	738	1.40%	19	87%	0	803	1.63
	0.75 to <2.50	1,927	4.03%	47	82%	0	2,734	2.60
	2.50 to <10.00	4,901	8.93%	47	85%	0	7,557	3.08
	10.00 to <100.00	57	11.50%	7	44%	0	90	1.58
	100.00 (Default)	46	200.00%	6	115.39%	0	10	65.8%
Subtotal Corporate		**9,006**	**6.96%**	**182**	**83.93%**	**0**	**11,606**	**234.1%**
OTHER RETAIL - SME								
	0.00 to <0.15	4	0.10%	2	43.17%	0	0	11.4%
	0.15 to <0.25	5	0.20%	1	26.39%	0	1	11.3%
	0.25 to <0.50	14	0.40%	3	26.39%	0	3	17.7%
	0.50 to <0.75	13	0.70%	2	25.51%	0	3	23.3%
	0.75 to <2.50	300	1.30%	1	42.26%	0	244	81.3%
	2.50 to <10.00	0	0.00%	0	0.00%	0	0	0.0%
	10.00 to <100.00	27	11.50%	9	44.40%	0	43	154.9%
	100.00 (Default)	0	0.00%	0	0.00%	0	0	0.0%
Subtotal Other Retail SME		**364**	**1.99%**	**18**	**41.02%**	**0**	**293**	**80.7%**
Total (all CCR relevant exposure classes)								

TABLE 54 – TEMPLATE EU CCR5 – COMPOSITION OF COLLATERAL FOR CCR EXPOSURES

(Thousand euros)

	a	b	c	d	e	f	g	h
Collateral type	Collateral used in derivative 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	Segregated	Unsegregated	Segregated	Unsegregated
1 Cash – domestic currency	91,925	0	817,956	0	0	0	0	0
2 Cash – other currencies	0	0	0	0	0	0	0	0
3 Domestic sovereign debt	0	0	0	0	0	1,000	0	0
4 Other sovereign debt	0	0	0	0	0	0	0	0
5 Government agency debt	0	0	0	0	0	0	0	0
6 Corporate bonds	0	0	0	0	0	0	0	0
7 Equity securities	0	0	0	0	0	0	0	0
8 Other collateral	0	0	0	0	0	0	0	0
9 Total	91,925	0	817,956	0	0	1,000	0	0

TABLE 55 – TEMPLATE EU CCR8 – EXPOSURES TO CCPS

(Thousand euros)

		a	b
		Exposure value	RWEA
1	**Exposures to QCCPs (total)**		**21,573**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	1,078,666	21,573
3	(i) OTC derivatives	1,078,666	21,573
4	(ii) Exchange-traded derivatives	0	0
5	(iii) SFTs	0	0
6	(iv) Netting sets where cross-product netting has been approved	0	0
7	Segregated initial margin	674,939	
8	Non-segregated initial margin	0	0
9	Prefunded default fund contributions	0	0
10	Unfunded default fund contributions	0	0
11	**Exposures to non-QCCPs (total)**		**0**
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	0	0
13	(i) OTC derivatives	0	0
14	(ii) Exchange-traded derivatives	0	0
15	(iii) SFTs	0	0
16	(iv) Netting sets where cross-product netting has been approved	0	0
17	Segregated initial margin	0	
18	Non-segregated initial margin	0	0
19	Prefunded default fund contributions	0	0
20	Unfunded default fund contributions	0	0

8.1. Wrong Way risk

The Wrong Way risk corresponds to the risk of a given exposure being negatively 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, considering the composition of financial collateral. In terms of credit granted, the borrower's own securities (shares or bonds) represent 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 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.

It should also be noted that, in the ICAAP 2022, this risk was not considered material, within the scope of the assessment carried out.

9. Credit risk mitigation techniques

9.1. Eligibility and type of mitigation instruments

On the risk evaluation 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 Division opinions with respect to the entailment of the various mitigation instruments.

The collaterals and the relevant guarantees can be aggregated in the following categories:

- Financial collaterals, real estate collaterals or other physical collaterals;
- Receivables;
- First demand guarantees, issued by banks or other entities with rating 7 or better on the Rating Master Scale;
- Personal guarantees, when the persons are classified with rating 7 or better;
- Credit derivatives.

The financial collaterals accepted are those that are traded in a recognised stock exchange, i.e., on an organized 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 instruments eligible for own funds (e.g. shares, preferred shares or subordinated bonds) are not accepted as financial collaterals of new credit operations.

Regarding guarantees and credit derivatives, it can be applied the substitution principle by replacing the rating of the client by the rating of the guarantor, (if the rating of the guarantor is better than the client's), when the protection is formalized through:

- State, Financial Institutions or Mutual Guarantee Societies guarantees exist;
- Personal guarantees (or, in the case of Leasing, there is a recovery agreement of the provider);
- Credit derivatives;
- Formalization of the clause of the contracting party in leasing contracts in which it is an entity that is in a relationship of dominion or group with the lessee;
- Entities duly notified of the assignment of credits to the bank, as debtors in factoring contracts.

9.2. Protection levels

An internal level of protection is attributed to all credit operations in 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.

9.3. Collateral valuation

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

The evaluations are performed by external expert valuers registered in the CMVM and the analyse and ratification process is centralized in the Appraisals Unit, within the Rating Division, which is independent of the business areas.

They are the subject to a written report, in a standardized 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, depending on the type of the real estate. The evaluations have a declaration/certification of an expert valuer since 2008, as requested by Regulation (EU) 575/2013 (CRR) and Law no. 153/2015 of 14 September and are ratified by the Appraisals Unit.

Regarding residential real estate, after the initial valuation and in accordance with Notice n. 5/2006 of Banco de Portugal and e CRR 575/2013, the Bank monitors the respective values through market indexes. If the index is lower than 0.9 (meaning a devaluation above 10%), the Bank revaluates the property, choosing one of the following two methods:

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

ii.) Whenever it comes to residential property, an updated value is made using the property value review algorithms, resident in the internal Valuation Database, comparing the property under review with identical properties recently evaluated, in the same location.

iii.) Review of the property value by external valuators, depending on the value of the credit operation, and in accordance with the established standards from ECB and Banco de Portugal.

For all non-residential real estate, the Bank also monitors its values through market indexes and to the regular valuation reviews with the minimum periodicities in accordance with the Regulation (EU) 575/2013, in the case of offices, commercial spaces, warehouses and industrial premises.

For all real estate (residential or non-residential) for which the monitoring result in a potential significant devaluation of the real estate value (more than 10%), a valuation review is subsequently carried out by an expert valuer, preserving the referred above.

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 for the monitoring and reviewing of this type of real estate, valuation reviews are carried out by expert valuers.

The indexes currently used are provided to the Bank by a specialized external entity that has been collecting and processing information on the Portuguese real estate market for over a decade.

When evaluating properties, the Bank already considers environmental factors, namely in terms of physical risk factors, and the evaluator is responsible for collecting and disclosing information on:

- Flood risk: property built in the vicinity of water lines.
- Fire hazards: identification of fuel elements in the building structure.
- Risk of soil contamination or the existence of potentially hazardous materials included in the construction.

The conclusions regarding the physical risk factors identified are incorporated into the Bank's management processes, namely in terms of the management of insurance coverage associated with properties.

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.

The table below shows a breakdown of unsecured and secured credit risk exposures and credit risk exposures secured by various credit risk mitigants for all loans and debt securities including the carrying amounts of the total population which are in default in December 2022.

TABLE 56 – TEMPLATE EU CR3 – CRM TECHNIQUES OVERVIEW: DISCLOSURE OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES

(Thousand euros)

		Unsecured carrying amount	Secured carrying amount	Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
		a	b	c	d	e
1	Loans and advances	20,822,592	41,988,682	34,336,541	7,652,141	0
2	Debt securities	20,847,266	385,823	139,105	246,718	
3	Total	41,669,857	42,374,505	34,475,646	7,898,860	0
4	Of which non-performing exposures	1,361,261	861,124	735,195	125,929	0
EU-5	Of which defaulted	1,361,128	861,124			

The next table below shows credit risk exposure and CRM effects in the standardized approach as well as related RWA and average risk weights broken down by regulatory exposure classes and a split in on- and off-balance sheet exposures in December 2022.

TABLE 57 – TEMPLATE EU CR4 – STANDARDISED APPROACH – CREDIT RISK EXPOSURE AND CRM EFFECTS

(Thousand euros)

	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWEA	RWEA density (%)
		a	b	c	d	e	f
1	Central governments or central banks	22,417,277	471,353	27,133,026	298,424	1,848,238	6.74%
2	Regional government or local authorities	891,874	118,766	629,000	11,461	128,092	20.00%
3	Public sector entities	341,951	69,576	341,532	6,945	344,673	98.91%
4	Multilateral development banks	114,633	0	114,633	0	0	0.00%
5	International organisations						
6	Institutions	1,220,198	839,221	1,239,461	44,416	412,007	32.09%
7	Corporates	4,954,156	3,622,912	4,245,501	432,896	4,403,953	94.13%
8	Retail	5,548,754	501,588	5,305,815	186,195	4,015,046	73.11%
9	Secured by mortgages on immovable property	1,488,004	226,984	1,426,483	65,154	711,518	47.70%
10	Exposures in default	442,612	61,510	419,263	9,348	470,440	109.76%
11	Exposures associated with particularly high risk	1,538	1	1,538	0	2,308	150.00%
12	Covered bonds						
13	Institutions and corporates with a short-term credit assessment						
14	Collective investment undertakings	60,329	0	60,329	0	61,221	101.48%
15	Equity	13,607	0	13,607	0	32,238	236.92%
16	Other items	57,419	0	57,419	0	57,419	100.00%
17	**TOTAL**	**37,552,353**	**5,911,913**	**40,987,608**	**1,054,838**	**12,487,153**	**29.70%**

10. Equity exposures in the Banking Book

The Group holds equity exposures in the Banking Book, with stable character and with the objective of creating value. The holding of these positions, which include shares and venture capital funds participation units / restructured companies, complies with at least one of the following objectives:

- The development of companies or projects of strategic interest for the Group;
- Generating a return or opportunities for growth of the banking business;
- The development of companies with appreciation potential;
- The turnaround of viable companies under recovering processes, 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 valuation measurement input from transactions deemed valid between reputable counterparties.

The Group maintains a monitoring process of these positions' fair value.

Changes in the fair value of these equities are registered against fair value changes until they are sold.

Impairment for equity instruments at fair value is not recognized through other comprehensive income, and the respective accumulated gains or losses are recorded in changes in fair value, according to the rules established in IFRS9 for this type of assets. Dividends are recognized in the income statement when the right to receive is attributed.

It sould also mentioned that the Bank financial statements with reference to 31 of December 2022 include a global amount of 122 million euros booked as other provisions to contemplate potential future losses associated with some of the equity positions detailed in table 59 below.

In compliance with the provisions of Article 447 of the CRR, we present in the table below the exposures on shares of the Banking Book on 31/12/2022 and on 31/12/2021:

TABLE 58 – EQUITY EXPOSURES IN THE BANKING BOOK

(Thousand euros)

	Listed Shares		Unlisted Shares *Private equity*		Total	
	Dec 2022	Dec 2021	Dec 2022	Dec 2021	Dec 2022	Dec 2021
Acquisition cost / Notional amount	38,726	25,508	45,940	172,894	84,666	198,402
Fair value	17,150	3,325	41,562	69,092	58,712	72,418
Market price	17,150	3,325	41,562	69,092	58,712	72,418
Balance sheet value	17,150	3,325	41,562	69,092	58,712	72,418
Gains or losses arising from sales and settlements in the period (1)					3,102	18,554
Total unrealised gains or losses (2)					58,712	-30,242
Total latent revaluation gains or losses (3)					-25,954	-125,985

Note: Equity issued by the Bank as well as derivatives indexed to those instruments are not included.

(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 portfolio in the Banking Book held by Group entities headquartered in Portugal and Poland. The own funds requirements for other operations and countries are determined using the standardised approach.

The simple risk weight method applies 290% and 370% weights to exposures in listed and unlisted shares, respectively, and may apply a lower weight (190%) to risk exposures resulting from shareholdings in unlisted companies included in portfolios that are sufficiently diversified. 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 the table below:

TABLE 59 – EQUITY EXPOSURES

(Thousand euros)

	Risk positions		Risk weighted assets	
	Dec 2022	Dec 2021	Dec 2022	Dec 2021
Venture capital funds	532,730	913,695	1,005,974	1,688,927
Financial participations (CRR 48)	264,985	354,012	662,462	885,031
Other equities	124,005	132,532	254,693	269,477
TOTAL	921,720	1,400,240	1,923,129	2,843,434

Note: Includes Venture capital funds which, under the Look-Through method, are treated by the standardised approach or by the simple risk weight.

It should also be noted that the Bank financial statements with reference to 31 of December 2022 include a global amount of 122 million euros booked as other provisions to contemplate potential future devaluations of restructuring funds.

11. Securitisation operations

11.1. Description of the activities and operations

On 31 December 2022, BCP had six ongoing securitisation transactions originated in Portugal. Three are traditional structures (Magellan No.1, No.3 and No.4) and the other three are synthetic securitisation transactions (Caravela SME No.3, No.4 and No.5).

Since 1998, the Bank has carried out securitisation transactions supported on portfolios of different types of assets and envisaging 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 transactions made were placed in the market with institutional investors, taking advantage of the conditions of a favourable market framework. These transactions - involving mortgage loans, car loans, consumer loans and companies' loans – were carried out with the purpose of obtaining additional funding for the Group's business and, under certain circumstances, to promote a more efficient management of the Bank's balance sheet, particularly its equity. The universe of investors that participated in these transactions has revealed to be diverse and complementary to the base of investors resulting from the Bank's direct funding transactions in the capital markets. In December 2022, three of these transactions were still outstanding.

After 2007 and until 2012, market conditions to place this kind of transactions deteriorated significantly or even ceased to exist during a long period. Consequently, the Bank began retaining in its books the totality of the notes issued within the scope of each securitisation transaction (from the senior tranche to the first loss tranche). To maximise liquidity, the Bank used the senior tranche of each transaction as eligible collateral for refinancing operations with the Eurosystem. Securitisations carried out in that context were fully redeemed as the Bank's liquidity position stabilized.

Taking advantage of improved market conditions, namely 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). In December 2022, the Bank used once more this type of structure to hedge the credit risk associated to a portfolio of medium- and long-term loans, leasing contracts and commercial Paper Programmes granted to Portuguese corporates, by executing a new synthetic securitization (Caravela SME No. 5). 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.

During 2022, the Group also took advantage of these techniques completing two synthetic securitizations in Poland. Bank Millennium executed Jazon I and Jazon II, both based in SME loan portfolios. It should be noted that Jazon I had the support of the European Investment Fund (EIF) who took the risk of the equity tranche trough a financial guarantee. Jazon II has a structure similar to those executed by BCP, being the mezzanine tranche placed with the market through a Credit Linked Note (CLN) issued directly by the bank. The goal of these SRT transactions was to reduce the RWA of BM allowing an important impact on bank's capital ratios.

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) of the CRR, 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 259 and 263 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 low materiality 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 is carried out on a case-by-case basis. The same would apply to eventual re-securitisation transactions.

It should also be referred that BCP as Originator also intervenes as Servicer of the securitized assets and, usually, as Transaction Manager.

The main features of the securitisation transactions of assets originated by BCP, 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 transactions as of 31 December 2022, are summarised in the next table:

TABLE 60 – 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
	Servicer 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. 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
	Servicer 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
	Servicer 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 RWA associated with the portfolio
Form of the securitisation operation	Synthetic securitisation
	Originator of the securitised assets

	Servicer 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 RWA associated with the portfolio
Form of the securitisation operation	Synthetic securitisation
	Originator of the securitised assets
	Servicer 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

	CARAVELA SME No.5
Identification of the securitisation operation	Caravela SME No. 5
Initial objective of the securitisation operation	Reduction of the RWA associated with the portfolio
Form of the securitisation operation	Synthetic securitisation
	Originator of the securitised assets
	Servicer of the assigned credits
	Counterparty of the Credit Default Swap
Start date	20 December 2022
Legal maturity	26 September 2035
Step-up clause (date)	N.A.
Revolving (years)	9 months
Securitised assets (in million euros)	1,918.0
Significant credit risk transfer (1)	Yes

	Jazon I – Bank Millennium
Identification of the securitisation operation	Jazon I
Initial objective of the securitisation operation	Reduction of the RWA associated with the portfolio
Form of the securitisation operation	Synthetic securitisation
	Originator of the securitised assets
	Servicer of the assigned credits
	Beneficiary of the guarantee issued by the EIF
Start date	3 March 2022
Legal maturity	12 January 2033
Step-up clause (date)	N.A.
Revolving (years)	N.A.
Securitised assets (in million zlotys)	1,502.0
Significant credit risk transfer (1)	Yes

	Jazon II – Bank Millennium
Identification of the securitisation operation	Jazon II
Initial objective of the securitisation operation	Reduction of the RWA associated with the portfolio
Form of the securitisation operation	Synthetic securitisation
	Originator of the securitised assets
	Servicer of the assigned credits
	Issuer of the Credit Linked Notes
Start date	23 December 2022
Legal maturity	25 January 2040
Step-up clause (date)	N.A.
Revolving (years)	12 months
Securitised assets (in million zlotys)	2,715.1
Significant credit risk transfer (1)	Yes

11.2. 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[3] 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.

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 operation Magellan no. 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 SPEs 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.

BCP has three outstanding transactions with similar characteristics which configure synthetic securitizations, based on Bank's loan portfolios, mainly to SMEs. Caravela SME No. 3, associated with a portfolio of medium and long-term and short-term loans, Caravela SME No.4, which involves a portfolio of leasing contracts and Caravela SME No.5, supported by a portfolio of medium and long-term loans, leasing contracts and commercial paper programmes.

In any of these transactions, the Bank has in place a Credit Default Swap (CDS) with an SPV, buying by this way protection for the mezzanine tranche. Since they are synthetic securitizations, within the scope of that same CDS, the risk of the respective portfolios was subdivided into three tranches: senior, mezzanine and equity. The entire mezzanine and part of

[3] SIC – Standard Interpretations Committee

the equity (20%) in the case of Caravela SME No. 3 and 4 and the entire mezzanine in the case of Caravela SME No. 5, were placed with the market through the issuance by the SPV of Credit Linked Notes (CLN)which were subscribed by investors. On the other hand, the Bank retained the risk of the senior tranche and the corresponding part of the related equity tranche (80% in the case of Caravela SME No. 3 and 4 and 100% in the case of Caravela SME No. 5). The proceeds from the issuance of the CLNs were used by the SPV in a deposit which collateralises all its liabilities towards the Bank under the CDS.

Regarding Magellan No.3, which was 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.

In traditional securitisations, 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 in case the SPE is not consolidated from the beginning, corresponding to the difference between the sale value of the assets and their accounting value. In case 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.

11.3. Own funds requirements

On 31 December 2022, 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 244 and 245, 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 fund's requirements of the securitisation operations by the end of both 2022 and 2021 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, the External Ratings Based Approach – SEC-ERBA - was used, in accordance with article 263, Sub-Section3, 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 1250% weight.

The ECAI used in 2022 to compute the own funds requirements for securitisation operations were Standard & Poor's, Moody's and Fitch Ratings.

For positions held as an originator entity in Portugal, the Internal Ratings Based Approach – SEC-IRBA - was used, in accordance with the CRR, articles 259 and 260, Subsection 3, Section 3, Chapter 5, Title II, Part III. For those positions originated in Poland, the Standardise Approach - SEC-SA – was used, as per CRR article 261, Subsection 3, Section 3, Chapter 5, Title II, Part III as well as the provisions of the article 244 (1), (b), Section 2, Chapter 5, Title II, Part III.

The risk weighted assets for securitisation operations, at the end of 2022 and 2021, are shown in next tables.

On 31 December 2022 there were no additional amounts of risk weighted exposures of securitisation of revolving exposures with early amortisation provisions.

TABLE 61 – TEMPLATE EU-SEC1 – SECURITISATION EXPOSURES IN THE NON-TRADING BOOK

(Thousand euros)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Institution acts as originator							Institution acts as sponsor				Institution acts as investor			
		Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	Traditional		Synthetic	Sub-total
		STS		Non-STS			of which SRT		STS	Non-STS			STS	Non-STS		
			of which SRT		of which SRT											
1	**Total exposures**			64,745	0	3,231,393	3,231,393	3,231,393						101		101
2	Retail (total)			64,745	0									101		101
3	residential mortgage			64,745	0									101		101
4	credit card															
5	other retail exposures															
6	re-securitisation															
7	Wholesale (total)					3,231,393	3,231,393	3,231,393								
8	loans to corporates					2,725,275	2,725,275	2,725,275								
9	commercial mortgage															
10	lease and receivables					506,117	506,117	506,117								
11	other wholesale															
12	re-securitisation															

TABLE 62 –TEMPLATE EU-SEC3 – SECURITISATION EXPOSURES IN THE NON-TRADING BOOK AND ASSOCIATED REGULATORY CAPITAL REQUIREMENTS - INSTITUTION ACTING AS ORIGINATOR OR AS SPONSOR

(Thousand euros)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
	Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
	RW ≤ 20 %	RW > 20 % e até 50 %	RW > 50 % e até 100 %	RW > 100 % e até 1250 %	RW 1250 %/deduções	SEC-IRBA	SEC-ERBA (incluindo IAA)	SEC-SA	RW 1250 %/ deduções	SEC-IRBA	SEC-ERBA (incluindo IAA)	SEC-SA	RW 1250 % deduções	SEC-IRBA	SEC-ERBA (incluindo IAA)	SEC-SA	RW 1250 % deduções
1 **Total exposures**																	
2 Traditional transactions																	
3 Securitisation																	
4 Retail underlying																	
5 Of which STS																	
6 Wholesale																	
7 Of which STS																	
8 Re-securitisation																	
9 Synthetic transactions	2,801,114	376,321			53,958	2,653,674		523,760	53,958	329,580		47,229		26,366		3,778	
10 Securitisation	2,801,114	376,321			53,958	2,653,674		523,760	53,958	329,580		47,229		26,366		3,778	
11 Retail underlying																	
12 Wholesale	2,801,114	376,321			53,958	2,653,674		523,760	53,958	329,580		47,229		26,366		3,778	
13 Re-securitisation																	

TABLE 63 – TEMPLATE EU-SEC4 – SECURITISATION EXPOSURES IN THE NON-TRADING BOOK AND ASSOCIATED REGULATORY CAPITAL REQUIREMENTS - INSTITUTION ACTING AS INVESTOR

(Thousand euros)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
	Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions
1 **Total exposures**					101		101				1,256				101		
2 Traditional securitisation					101		101				1,256				101		
3 Securitisation					101		101				1,256				101		
4 Retail underlying					101		101				1,256				101		
5 Of which STS																	
6 Wholesale																	
7 Of which STS																	
8 Re-securitisation																	
9 Synthetic securitisation																	
10 Securitisation																	
11 Retail underlying																	
12 Wholesale																	
13 Re-securitisation																	

12. Market risks (*Trading Book*)

The Trading Book is composed of positions held with the purpose of obtaining short-term gains, via sales or revaluations. These positions are actively managed and rigorously and frequently evaluated.

In a letter dated 30 April 2009, Banco de Portugal authorised the Group to use the internal models' approach to compute own funds requirements in terms of generic market risk of the Trading Book.

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

Thus, as of 31 December 2022, own funds requirements for generic market risks of the 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

The Bank uses a standardised approach for specific risk and does not have a Correlation Trading Portfolio (CTP). Hence, incremental risk capital charges, migration risk or specific risk measurement for CTP do not apply.

The RWA and own funds requirements for market risks, as of 31 December 2022 and calculated through the Standardised Approach are shown in the following tables.

TABLE 64 – TEMPLATE EU MR1 – MARKET RISK UNDER THE STANDARDISED APPROACH

(Thousand euros)

		a
		RWEAs
	Outright products	
1	Interest rate risk (general and specific)	28,079
2	Equity risk (general and specific)	1,526
3	Foreign exchange risk	1,977,779
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus approach	
7	Scenario approach	
8	Securitisation (specific risk)	
9	**Total**	**2,007,384**

Note: Item 3 - The reported amount was calculated assuming a net foreign exchange position of circa 1.974 million euros. Assuming the authorisation to exclude structural positions in PLN and MZN from the calculation of the net foreign exchange position, received from ECB in March 2023, the previously mentioned exposure would be reduced by circa 1.880 million euros to an amount slightly above 90 million euros and the total RWEA to an estimated value of 95.6 million euros.

12.1. Calculation methodologies

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

- Debt instruments portfolio: capital requirements for generic market risk were calculated according to the maturity-based method - in accordance with Article 339 of Section 2 of Chapter 2, Title IV, Part III of the CRR and the treatment of positions referred to in Section 1 of the same chapter.
- Equity instruments: 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 model's approach in assessing the generic market risk capital requirements of the trading sub-portfolios that are part of Portugal's centrally managed perimeter (by Banco Comercial Português, SA). With reference to 31 December 2022, the capital requirements calculated by internal model corresponded to 23% of the total requirements of the Group for market risk.

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 considers 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, considering 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 spread 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 31 December 2022, the Bank was applying a weighting system where a greater weight is given to most recent observations compared with older ones. 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 31 December 2022, the stress period considered was the year ending on 10 April 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.

The following tables provide quantitative data on the market risk measurement of the Trading Book using the internal model used.

TABLE 65 – TEMPLATE EU MR2-A – MARKET RISK UNDER THE INTERNAL MODEL APPROACH (IMA)

(Thousand euros)

		a	b
		RWAs	**Own funds requirements**
1	**VaR** (higher of values a and b)	219,865	17,589
(a)	Previous day's VaR (VaRt-1)		2,535
(b)	Multiplication factor (mc) x average of previous 60 working days (VaRavg)		17,589
2	**SVaR** (higher of values a and b)	384,156	30,732
(a)	Latest available SVaR (SVaRt-1))		5,796
(b)	Multiplication factor (ms) x average of previous 60 working days (sVaRavg)		30,732
3	**IRC** (higher of values a and b)	0	0
(a)	Most recent IRC measure		
(b)	12 weeks average IRC measure		
4	**Comprehensive risk measure** (higher of values a, b and c)	0	0
(a)	Most recent risk measure of comprehensive risk measure		
(b)	12 weeks average of comprehensive risk measure		
(c)	Comprehensive risk measure Floor		
5	Other	0	0
6	**Total**	**604,021**	**48,322**

TABLE 66 – TEMPLATE EU MR2-B – RWA FLOW STATEMENTS OF MARKET RISK EXPOSURES UNDER THE IMA

(Thousand euros)

	a	b	c	d	e	f	g
	VaR	**SVaR**	**IRC**	**Comprehensive risk measure**	**Other**	**Total RWAs**	**Total own funds requirements**
1 **RWAs at previous period end**	372,891	470,886				843,776	67,502
1a Regulatory adjustment	-307,323	-386,774				694,097	55,528
1b RWAs at the previous quarter-end (end of the day)	65,568	84,112				149,680	11,974
2 Movement in risk levels	-33,875	-11,664				-45,539	-3,643
3 Model updates/changes							
4 Methodology and policy							
5 Acquisitions and disposals							
6 Foreign exchange movements							
7 Other							
8a RWAs at the end of the reporting period (end of the day)	31,693	72,448				104,140	8,331
8b Regulatory adjustment	188,172	311,708				499,880	39,990
8 **RWAs at the end of the reporting period**	**219,865**	**384,156**				**604,021**	**48,322**

Own funds requirements for specific market risk are calculated in accordance with the standardised approach, including those of the trading areas 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 or equity instruments, respectively).

TABLE 67 – TEMPLATE EU MR3 – IMA VALUES FOR TRADING PORTFOLIOS

(Thousand euros)

		a
VaR (10 day 99%)		
1	Maximum value	7,171
2	Average value	3,499
3	Minimum value	1,052
4	Period end	1,403
SVaR (10 day 99%)		
5	Maximum value	10,691
6	Average value	5,888
7	Minimum value	2,774
8	Period end	4,801
IRC (99.9%)		
9	Maximum value	
10	Average value	
11	Minimum value	
12	Period end	
Comprehensive risk measure (99.9%)		
13	Maximum value	
14	Average value	
15	Minimum value	
16	Period end	

In 2022, the average value of stressed VaR, for the Trading Portfolio, was EUR 5,89 million. Regarding the value of this metric on 31 December 2022, the amount determined was EUR 4,80 million.

12.2. 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, including all portfolios, analysing the results of those stress tests.

The next table summarises the results of these tests on the Group's global Trading Book on 31 December 2022, indicating that the exposure to the various risk factors is limited and that the main risk to consider, under the standard scenarios tested, is an increase in interest rates, especially when accompanied by a decrease in the slope of the yield curve. Regarding non-standard scenarios, the main risk relates to the widening of the bid-ask spread.

TABLE 68 – STRESS TESTS OVER THE TRADING BOOK

(Thousand euros)

	Negative impact scenario	Impact
STANDARD SCENARIOS		
Parallel shift of the yield curve by +/- 100 bps	+ 100 bps	-2,210
Change in the slope of the yield curve (for maturities from 2 to 10 years) up to +/- 25 bps	- 25 bps	-88
4 combinations of the previous 2 scenarios	+ 100 bps & + 25 bps	-2,135
	+ 100 bps & - 25 bps	-2,289
Variation in the main stock market indices by +/- 30%	+30%	-1,519
Variation in foreign exchange rates (against the euro) by +/- 10% for the main currencies and by +/- 25% for other cur	+10%, +25%	-1,547
Variation in swap spreads by +/- 20 bps	-20 bps	-63
NON-STANDARD SCENARIOS		
Widening/narrowing of the bid-ask spread	Widening	-6,588
Significant vertices(1)	Undiversified VaR	-3,120
	Diversified VaR	-1,952
Historical scenarios(2)	July 15th, 2011	-1,831
	January 27th, 2012	-4,040

(1) Scenarios in which the more adverse variations of the last seven years, relative to the portfolio's five most significant risk factors for VaR, are applied to the current portfolio.

(2) Scenarios in which past extreme markets variations are applied to the current portfolio; in this case, the significant dates refer to the Eurozone Sovereign Debt crisis from 2010 onwards.

12.3. Valuation of financial instruments

The valuation of financial instruments is based on market prices, whenever these are available, or estimated through internal models based on cash-flow discounting techniques. The fair value obtained is influenced by the cash flow characteristics and parameters such as discount rates used in the valuation models that may have some degree of judgment.

The valuation of the financial assets and liabilities is subject to controls by a unit independent from its negotiation, as described in the Group's internal regulations, and the valuation models are reviewed by the Office for the Validation and Monitoring of Models (GAVM). The segregation between position-taking and position-valuation is also contemplated at the level of information technology systems that intervene in the global process involving the management, valuation, settlement and accounting of those transactions.

12.4. Backtesting of 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.

TABLE 69 – BACKTESTING OF THE VAR APPROACH APPLIED IN MARKET RISK CALCULATION

(Number of excesses)

Year	Result	
	Hypothetical	Actual
2022	7	10
2021	0	2

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

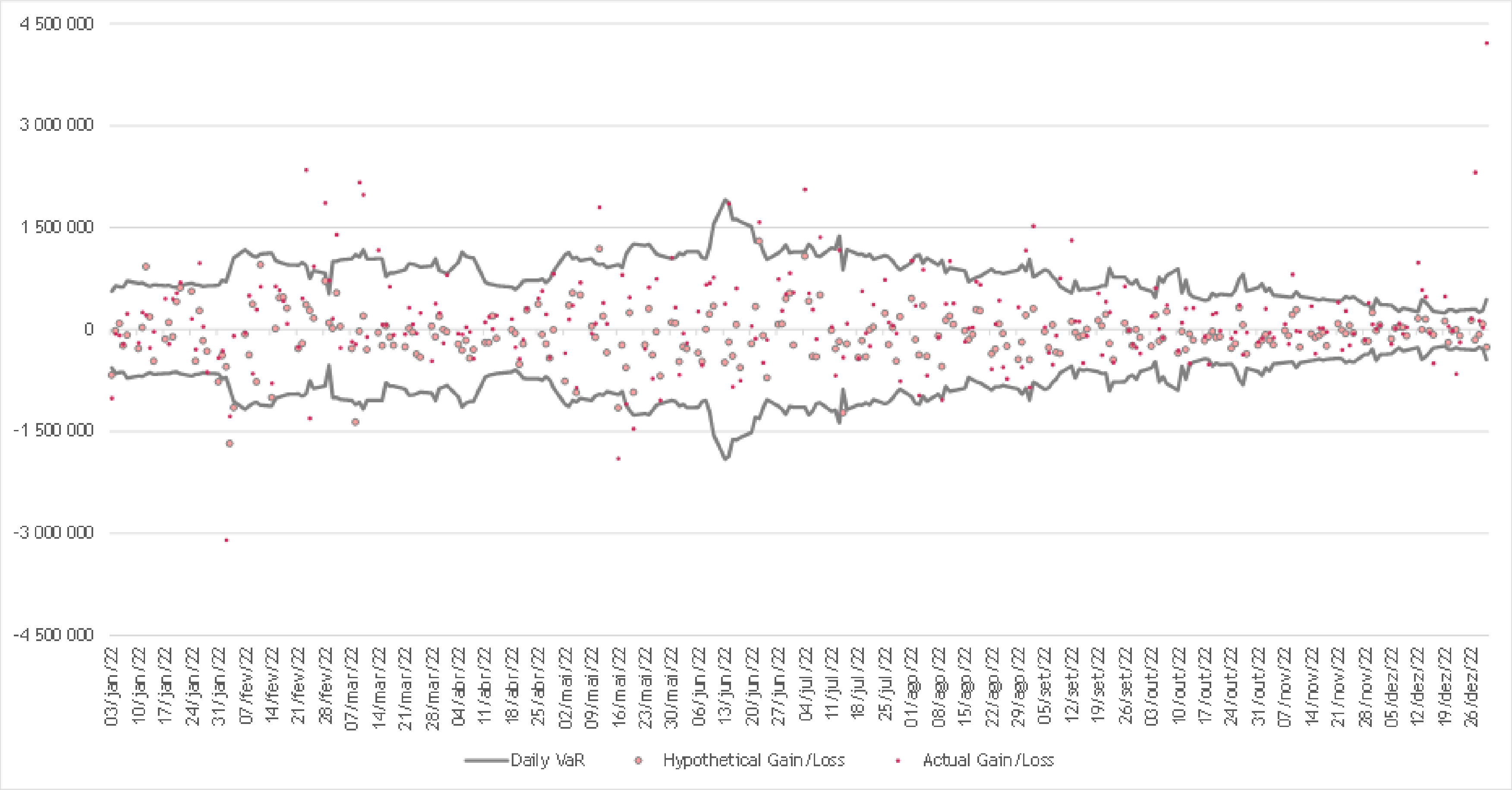
The accuracy of the model used to estimate generic risk is monitored on a daily basis by the backtesting process that compares the risk values computed on a given day (VaR) with the (theoretical) result of applying the following day's market rates to those exposures.

Graph 2 shows the results of the hypothetical and real backtesting, for the Trading Book centrally managed from Portugal, in 2022.

In 2022, seven negative excesses were observed over the hypothetical results predicted by the model, in 259 days of observations. Simultaneously, it was observed ten overshootings on the actual gains and losses in the portfolio. The excesses were due to the increased volatility in the interest rate and equity markets.

GRAPH 2 – TEMPLATE EU MR4 – COMPARISON OF VAR ESTIMATES WITH GAINS/LOSSES

(Euros)



13. Operational risk

As of 31 December 2022 and 2021, 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 components of gross income that refer to the activity segments, according to the regulatory definitions.

The framework for this calculation is provided by Title III of Regulation (EU) 575/2013 (CRR), also considering additional clarifications received from Banco de Portugal, namely, with respect to the accounting items considered in the determination of the gross income.

13.1. Gross income

The gross income results from the sum of the net interest income, dividends received (except the 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, nor the commissions related to the insurance activity, nor 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 CRR.

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

13.2. 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 article 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 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 Mozambique, only 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, Mozambique, with a standardised activity concentrated in the Retail segment, was 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 Mozambique, was based on the financial statements, as previously mentioned. Bearing in mind that this subsidiary develops 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 2022, this calculation was carried out for the operation of Mozambique, in addition to Bank 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 of 31 December 2022, the Group reported around 334 million euros of own funds requirements for operational risk, having reported 330 million euros as of 31 December 2021.

TABLE 70 – TEMPLATE EU OR1 – OPERATIONAL RISK OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS

(Thousand euros)

	Banking activities	a	b	c	d	e
			Relevant indicator		Own funds requirements	Risk weighted exposure amount
		Year-3	Year-2	Last year		
1	Banking activities subject to basic indicator approach (BIA)					
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	2,242,544	2,318,938	2,937,652	334,284	4,178,551
3	Subject to TSA:	2,242,544	2,318,938	2,937,652		
4	Subject to ASA:					
5	Banking activities subject to advanced measurement approaches AMA					

13.3. 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).

Risks self-assessment

The aim of the RSA exercises is to promote the identification and mitigation (or elimination) of risks, either actual or potential, in each process, through the assessment of each of the 20 subtypes of operational risk considered:

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

The assessments are positioned in a risk tolerance matrix, considering the 'worst-case event' that might occur in each process, for three different scenarios: Inherent Risk (without considering the existing/implemented controls), Residual Risk (considering the existing/implemented controls) and Target Risk (the desirable risk level). These exercises are typically carried out in the second half of each year.

The 2022 RSA exercise for operational risk processes incorporated:

- The results of the Information and Communication Technology (ICT) risks RSA computed in the beginning of the year, as input information to process owners, regarding 3 of the 20 risks assessed. The ICT risks RSA was made over 155 critical technological assets – hardware, software and communication lines and infrastructures – under 3 evaluation dimensions: availability/integrity/data confidentiality.
- The input stemming from the CORPE (Compliance and Operational Risk Process Evaluation) factors, which introduce and highlight operational risk components that result from the compliance and internal control status of the processes.

In addition, the process owners were also asked to indicate, for their processes and according to a prior mapping for certain risks, the relevance of the most serious scenarios evaluated in the context of a self-assessment exercise carried out by the Information Security Division (DSI), on risk scenarios (vulnerabilities/threats) identified for information assets. This new element introduced in the RSA exercise allows for greater awareness of process owners in relation to information security risks (as potential input of risk assessment in processes) as well as feedback from process owners regarding identified and global and previously assessed risk scenarios.

In 2022, the results of the RSA exercise executed over the operational processes of Portugal, Poland and Mozambique, for the 20 risk sub-types, point to moderate levels of operational risk.

Operational losses capture

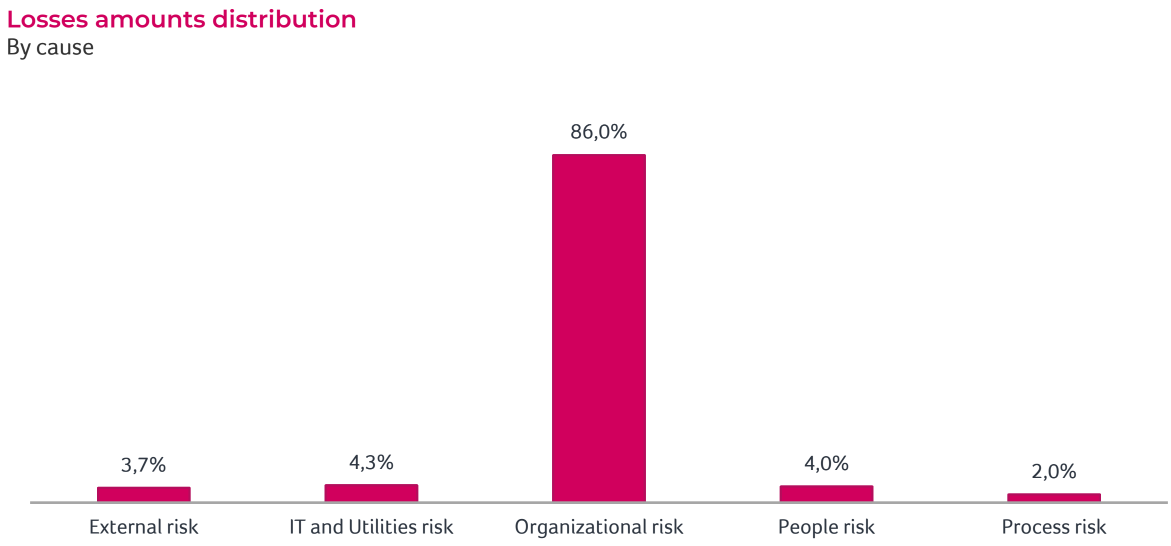
The operational losses data capture (i.e. the identification, registration and typification) of operational losses and of the originating events aims at the strengthening of the awareness to this risk and to provide relevant information for process owners to incorporate within their process management. As such, it is an important instrument to assess risk exposures as well as for a generic validation of the RSA results. Whenever applicable, a risk mitigation action is associated with each loss event.

The detection and reporting of operational losses is a responsibility of all Employees of the Group, the process owners playing a crucial role in the promotion of these procedures within the context of the processes for which they are responsible.

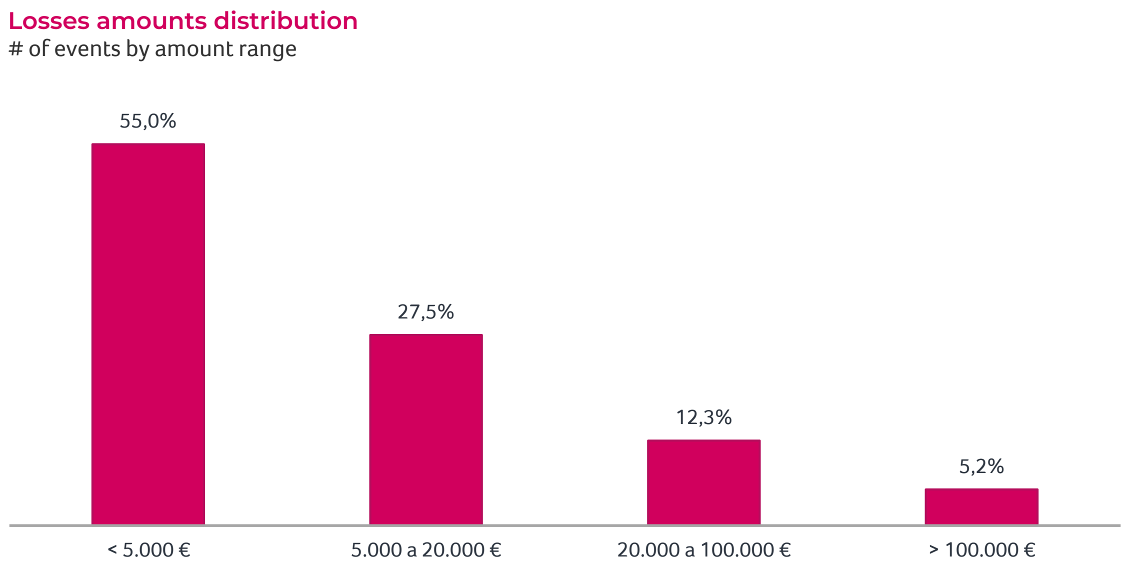
The identified events in which the losses, effective or potential, exceed the defined materiality limits (for each geographical area) are characterised by the process owners and process managers of the processes to which the losses are related, including the description of the respective cause-effect and, when applicable, the valuation of the loss and the description of the improvement action identified to mitigate the risk (based on the analysis of the loss cause). For losses of amounts exceeding certain thresholds, "Lessons Learned" reports are presented to and discussed at the specialised Compliance and Operational Risks Commission). The "Lessons Learned" reports include an action plan to mitigate the risks that led to the losses, where appropriate.

The following graphs present the profile of the losses captured in 2022:

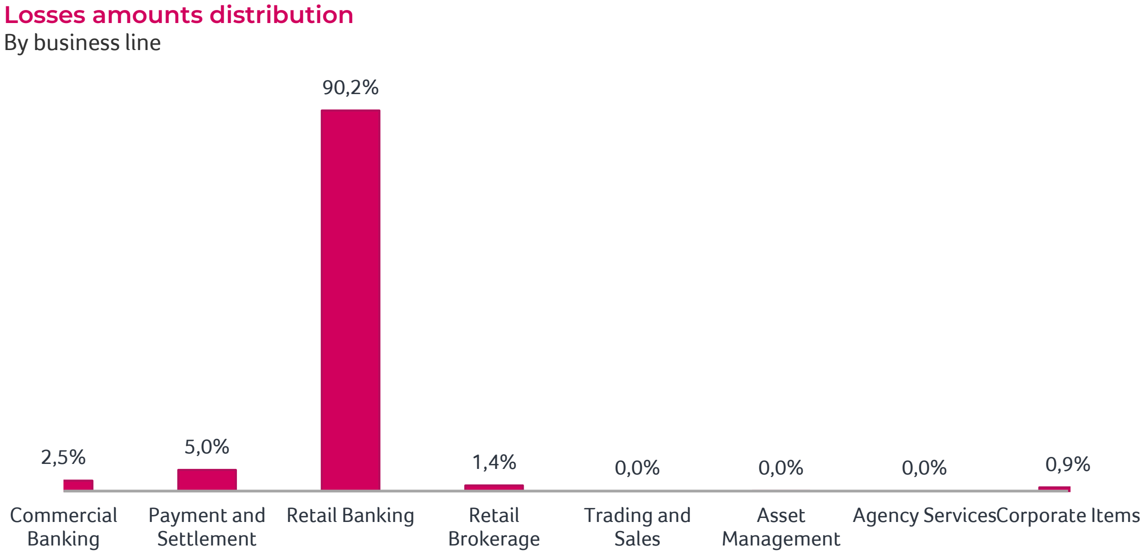
GRAPH 3 – LOSS AMOUNT DISTRIBUTION, BY CAUSE



GRAPH 4 – LOSS AMOUNT DISTRIBUTION, BY AMOUNT RANGE



GRAPH 5 – LOSS AMOUNT DISTRIBUTION, BY BUSINESS LINE



Regarding the profile of losses recorded in 2022, illustrated by the graphs above, it was decisively influenced by the recording of operating losses related to foreign currency mortgage cases (typically in Swiss francs) of Bank Millennium (Poland).

Losses associated with lawsuits decided unfavorably for Bank Millennium were recorded as losses associated with operational events, influencing the relative weight of losses associated with organizational risks of Retail Banking.

In what concerns the distribution of losses by class of amount (in number of losses), there was no change in the typical profile of the distribution of operating losses.

Key risk indicators (KRI)

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 process's management, a set of performance and control indicators is also used (Key Performance Indicators and Key Control Indicators) contributing to the detection of risks, even though it is more oriented towards the assessment of operating efficiency.

Scenario Analysis

The Scenario Analysis is an exercise realized every three years in which all the macro process owners participate, as well as the heads 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 losses estimation 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.

Business continuity management

In 2022, the usual activities of operational risk management continued to be carried out by the various intervenient, aiming at an efficient and systematic identification, evaluation, mitigation and control of exposures, as well as the reporting duties' tasks, both to the Group management bodies and within the regulatory scope. This area aims at ensuring the continuity of the business activities (or business support activities) in case of catastrophe or major contingency and is addressed by the Group through two distinct but complementary aspects:

- 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.

Hence, the Group continued to strengthen and improve its business continuity management throughout 2022, with a focus on the follow-up and control of Outsourcing risk and on the update of existing strategies, procedures and documentation (as well as conducting regular business recovery simulations) on business recovery, technological recovery and crisis management, in order to maintain its emergency response capacity.

Remote working was established as an innovative and formal element in business continuity management. as a business recovery strategy (for central services), after the transversal implementation of the hybrid work model (remote + workplace, with intra-team rotation). Thus, the distribution of employees between two different locations – remote and the Bank's premises - on a daily basis, reinforced the capacity for operational continuity of the teams and critical processes, thus reducing maintenance costs related to alternative workplaces in case of contingency over the facilities.

Due to the war in Ukraine, a Crisis Committee (CC) was established in February 2022 to monitor the situation and potential risks of the Crisis Committee on Bank Millennium. Since then, CC meetings have been held regularly. The main risk identified is the electricity supply blackout or brownout. This risk had been identified in December 2021 and its mitigation work became a priority after the start of the war. A detailed gap analysis was carried out, resulting in the planning of specific procedures for each group of employees (IT and security, administration, support for corporate customers, retail branches, first-line directors and executive directors) and mitigation actions related to the backup of mobile communications for critical employees and the strengthening of the capacity of the internal energy system (including the fuel supply contract in case of energy crisis).

Insurance contracting

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 Compliance and Operational Risks Commission and subject to a decision by the EC.

14. Interest rate risk in the banking book

Interest rate risk in the banking book (IRRBB) is the risk to earnings and capital in the banking book due to movements in interest rates. It involves the measurement and monitoring of the following interest rate risk subtypes:

Gap risk

The current or prospective risk to earnings, capital and liquidity arising from direct or indirect financial losses in the banking book due to movements in interest rates and mismatch between assets and liabilities, making the bank vulnerable to changes in the yield curve, under the current behavioural and prepayment customer and product profiles.

Behavioural and optional risk

The current or prospective risk to earnings, capital and liquidity arising from early unscheduled return of principal on interest rate sensitive asset and liabilities (e.g. changes in the behavioural profile of classes of customers and products, including embedded options.

Basis risk

The impact of relative changes in interest rates for assets and liabilities that are priced using different interest rate curves.

14.1. IRRBB Measurement and Monitoring

The Group measures interest rate sensitive balance sheet items to potential changes in interest rates both in terms of an Economic Value of Equity (EVE) and an Earnings at Risk (EaR) perspective.

Economic value of equity (EVE) perspective

The EVE perspective quantifies the potential for change in the price/value of interest sensitive assets, liabilities and off-balance sheet items, plus all the known and highly expected transactions in the pipeline. The EVE measure reflects changes in value over the remaining life of the assets, liabilities and off-balance sheet items, i.e. until positions have run off.

Earnings at Risk (EaR) perspective

The net interest income perspective (EaR or NII perspective) quantifies the short-term impact on income/cost of interest sensitive assets, liabilities and off-balance sheet items affecting the Net Interest Income of the Group, in a context of a static balance sheet approach. The NII perspective covers the short to medium term simulated impacts due to interest rate movements, in terms of profit and loss account. The EaR perspective incorporates the impact of fair valued (FV) items on earnings due to changes in interest rate movements.

The EVE is the result of the discounting process of the expected future cashflows of interest rate sensitive assets, liabilities, and off-balance sheet items according to the EBA guidelines on the management of interest rate risk arising from non-trading book activities (EBA/GL/2018/02). 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.

In regards, to the EaR (NII & FV) measurement the Group employs a cash flow approach on a transactional basis, considering a principal and interest amounts, under a constant balance sheet assumption, according to which the total balance sheet size and shape is maintained by assuming that maturing assets/liabilities are replaced by identical through the measurements time horizon.

Both measurements, of EVE and EaR (NII) are based on the computation of the difference between a base scenario and a stressed scenario which results from a sudden or gradual interest rate movement, resulting to the IRRBB metrics and risk indicators of EVE variation and NII variation.

In respect to basis risk the Group monitors the interest rate sensitive balance sheet items to the repricing bucket of its underlying interest rate index, floating and administered, and capturing the risk of having unequal variations in different indices with the same repricing period.

14.2. Management model and mitigation strategies

The BCP Board of Directors has the overall responsibility for the risk management and control framework in BCP Group, including setting, approving and overseeing the effective implementation of a risk culture.

The Risk Assessment Committee (CAVR), by delegation from the Board of Directors, has the role to advise and support the Board of Directors regarding the Group's risk appetite and strategy, including the policies for identifying, managing and controlling the Bank's risk. The CAVR has the ultimate responsibility for approving the broad IRR management strategies as well as the overall policies with respect to IRR.

The Capital, Assets and Liabilities Management Committee (CALCO) is responsible for the management of the IRR exposure, thus is responsible for the strategies and approach to the Interest Rate Risk/Assets-Liabilities Management.

Risk Commission by delegation of the Group's Executive Committee, is responsible for the IRR/ALM control.

Group policies set out the concepts, principles, rules and the organizational model, governance, applicable to the interest rate risk management and control of the Banking Book (non-trading activities) of Banco Comercial Português (BCP) and at BCP Group level.

The Group has established a robust Interest Rate Risk Framework adopting best practices, aligned with regulatory requirements and guidelines in compliance with the limits set forth through the Risk Appetite Framework of the Group and respective RAS.

The Risk Office functions related with Interest Rate Risk in the banking book include measuring, monitoring and reporting of risk positions, sensitivity and stress tests; ensuring the adequacy of the risk transfer process; proposing the IRRBB limits for the Banking Book for the Group and each Entity to the Risk Commission; evaluating the implications on the IRRBB of the launching of new products; reporting the occurrence of any excesses over the approved limits.

The Studies, Planning and ALM Division (BCP's DEPALM) is responsible for the daily management of the ALM portfolio and for the implementation of the CALCO decisions regarding the management of the IRRBB.

Mitigation techniques are employed to hedge the interest rate risk arising from banking book positions. Interest rate swaps are used to offset impact of changes in fair valued items such as fixed rate instruments. Interest rate swaps are also used to hedge against cash flow variability of the variable rate instruments as a result of changes in interest rates.

The Group assesses the effectiveness of hedging relationships, in terms of changes in fair value or cashflows of the hedging instrument relative to the changes in fair value or cash flows of hedged item regularly. Monitoring on the impact of hedging strategies on EVE and EaR is in place and performed monthly.

The Model's Validation Unit (GAVM) is responsible for the initial and subsequent validations of the internal volume models used for the IRRBB measurement and quantification and by providing an independent opinion on the evaluation methodologies applied for EVE and NII risk assessment.

Internal Audit (DAU) within the scope of supervising the existence of an adequate risk control organization, an effective risk management and internal control systems at the levels of BCP Group and of each Entity is responsible for reviewing the IRRBB identification, measurement, monitoring and control processes.

14.3. Interest rate shock and stress scenarios

The Group measures the main IRRBB measures, EVE and EaR (NII) with a series of internal and regulatory sensitivity scenarios/shocks using both parallel and non-parallel shifts of the interest rate curves, for all currencies, and analysing the results derived (EVE variation and NII variation).

The scenarios are designed based on the EBA guidelines EBA/GL/2018/02 but the scenarios are not limited to the regulatory requirements and further scenarios are performed according to the Group's expectations on the movements of interest rates that are deemed appropriate and necessary.

Below a description of the six regulatory stress scenarios (Supervisory Outlier Test) performed within the standard EVE outlier test performed on a regular basis:

i. parallel shock up. Constant positive shock applied to the current yield curve throughout all tenors;

ii. parallel shock down. Constant negative shock applied to the current yield curve throughout all tenors;

iii. steepener shock (short rates down and long rates up). Captures rotations to the term structure of the interest rates curves, whereby both the long and short rates are shocked, and the shift in interest rates at each tenor is obtained through a predefined formula;

iv. flattener shock (short rates up and long rates down). Captures rotations to the term structure of the interest rates curves, whereby both the long and short rates are shocked, and the shift in interest rates at each tenor is obtained through a predefined formula;

v. short rates shock up and

vi. short rates shock down. Shocks that are greatest at the shortest tenor midpoint and diminish, gradually, towards zero at the tenor of the longest point in the term structure based on a prescribed scaling factor.

Additionally, the Group performs scenarios of a parallel shift to the yield curve of +/- 100bps and +/- 200bps.

In terms of EaR (NII), a set of scenarios of a parallel shift to the yield curve of +/- 100bps and +/- 200bps is performed on a regular basis, incorporating if applicable the impact of interest rate movements on fair value items.

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.

The macroeconomic scenarios are designed based on the prevailing 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.

In accordance with article 448 of the Capital Requirements Regulation 2013/575/EU (CRR) and article 84 of the Capital Requirements Directive 2013/36/EU (CRD), the following table illustrates the evolution of the EVE and NII metrics between December 31, 2022, and June 30, 2022.

TABLE 71 – TEMPLATE EU IRRBB1 – INTEREST RATE RISKS OF NON-TRADING BOOK ACTIVITIES

(Thousand euros)

		a	b	c	d
	Supervisory shock scenarios	Changes of the economic value of equity		Changes of the net interest income	
		Dec-22	Jun-22	Dec-22	Jun-22
1	Parallel up	212,128	254,673	323,223	303,442
2	Parallel down	-216,729	-279,619	-323,233	-312,686
3	Steepener	6,846	9,042		
4	Flattener	37,691	35,899		
5	Short rates up	100,442	108,326		
6	Short rates down	-105,731	-137,461		

The Bank's exposure to interest rate movements is in December 2022 in general lower than what was observed in June 22. Both Group's metrics of Economic Value of Equity and Net Interest Income show a negative impact from interest rates downward movements from EUR and PLN denominated exposures. Parallel down shock scenario figures of December 2022 have been impacted by the increase of interest rate levels that significantly reduced the effect of the application of the regulatory floor (EBA/GL/2018/02 par. 115 (k)).

For the purposes of prudency and completeness, the Group considers all currency exposures in the measurement of IRRBB. Reported values consider the aggregation of exposures for all currencies by summation of individual impacts.

14.4. Modelling assumptions

With respect to the key modelling assumptions used for the analysis of behavioural optionality the Group takes into consideration both the contractual and behavioural characteristics of the balance sheet's interest rate sensitive items according to regulatory requirements and best practices. Subject to behavioural optionality modelling are the following:

Non-Maturity Deposits

The Group has developed a model to estimate the term structure of the Non-Maturity Deposits (NMD) for the Retail and Corporate portfolio (BCP and ActivoBanco). Initially deposits are separated between the stable and non-stable part of each NMD category using observed volume changes over a time horizon of 10 years. Lastly, an econometric model estimates the NMD core portion, considering the relevant macroeconomic and financial variables considering a confidence level of 99%. The average maturity of core deposits is computed at 4.29 years and a maximum amturity of 5 years.

Loans subject to prepayment risk

The model perimeter of Portugal includes BCP and ActivoBanco of consumer loans in EUR currency, while models are developed for the remaining entities of the Group. The conditional prepayment rate is estimated based on the elapsed maturity, the central tendency of the prepayment rate and the prepayment incentive related to the evolution of interest rates.

Non-Maturity Assets

In 2022 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, Overdrafts, Credit cards and Factoring: assumption of repricing until 1Y and up to 5Y for fixed rate transactions. Floating rate transactions consider contractual repricing;
- Undrawn amount from fixed-rate credit lines: assumption of repricing within 1Y (1M 60%, 3M 30%, 6M 10%).

15. Liquidity risk

15.1. Liquidity risk management and assessment

Liquidity management

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

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

In recent years, the Group's three main operations have been registering a favorable evolution of the commercial gap from a liquidity perspective, based on the sustained growth of customer deposits, mainly retail and therefore of great stability. This trend, which was accentuated after the outbreak of the COVID19 pandemic and remained unchanged after the invasion of Ukraine, involved a reduction in the use of market financing in liquid terms, which at the end of 2022 is limited mainly to market issues carried out in the scope of the regulatory MREL (Minimum Requirements for Own Funds and Eligible Liabilities) requirements.

Liquidity risk assessment

The Group's liquidity risk assessment is based on the calculation and analysis of the regulatory indicators defined by the Supervisory authorities, as well as other internal, short-term, and structural metrics, for which exposure limits are monitored and reviewed regularly and approved by the Risk Commission or by the BoD, in case of RAS metrics.

The Group's Risk Appetite Statement (RAS) defines, in a consolidated perspective, a set of short term and structural liquidity indicators and respective limits, which are then reflected in the Corporate RAS of each of the Group's main operations, in order to reinforce consistency in risk assessment and greater efficiency in centralized monitoring. Internal limits are typically more stringent than regulatory ones, ensuring prudent liquidity risk management.

The LCR (Liquidity Coverage Ratio), the indicators of loan to deposits and assets eligible for discount available on the ECB and other central banks vs clients' deposits and the evolution of wholesale funding are monitored at least weekly.

The main entities monitor short-term liquidity indicators on a daily basis according to a centrally defined methodology, an information which is gathered on a daily dashboard reported to the senior management of the Group.

Concomitantly, the Group's liquidity position is regularly analysed, identifying the factors that justify deviations from the consolidated Liquidity Plan and by entity. This analysis is submitted to CALCO, which, when applicable, decides the appropriate measures to maintain adequate financing conditions. The Risk Commission is responsible for the continuous assessment of the liquidity risk methodological framework and for approving and controlling limits for exposure to that same risk.

To avoid the appearance of a liquidity crisis or to act immediately if it materializes, the result of the Early Warning Signals system of the Liquidity Contingency Plan is reported weekly to the management bodies through a score that summarizes several indicators that monitor the evolution of liquidity risk factors.

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

15.2. Management model

The Group's liquidity management is coordinated at the level of the BCP Group under the responsibility of CALCO aiming to promote an efficient financing policy both from a short-term and structural perspective.

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

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

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

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

Liquidity and funding risk management:

- Definition of a framework of procedures, responsibilities, methodologies, and rules used by the Group to approach liquidity and funding risk management.

Funding strategy:

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

Liquidity buffer and collateral management:

- Documentation of the Bank's practices concerning the management of assets that are either eligible as collateral in refinancing operations with central banks or eligible for the LCR buffer.

Cost benefit allocation mechanism:

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

Intraday liquidity risk management:

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

Regulatory indicators monitoring:

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

Liquidity stress testing:

- Execution of liquidity stress tests on a regular basis, with a periodical review of the methodologies.

Liquidity Contingency Plan:

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

15.3. Regulatory requirements and ILAAP

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

Within liquidity risk management one should point out:

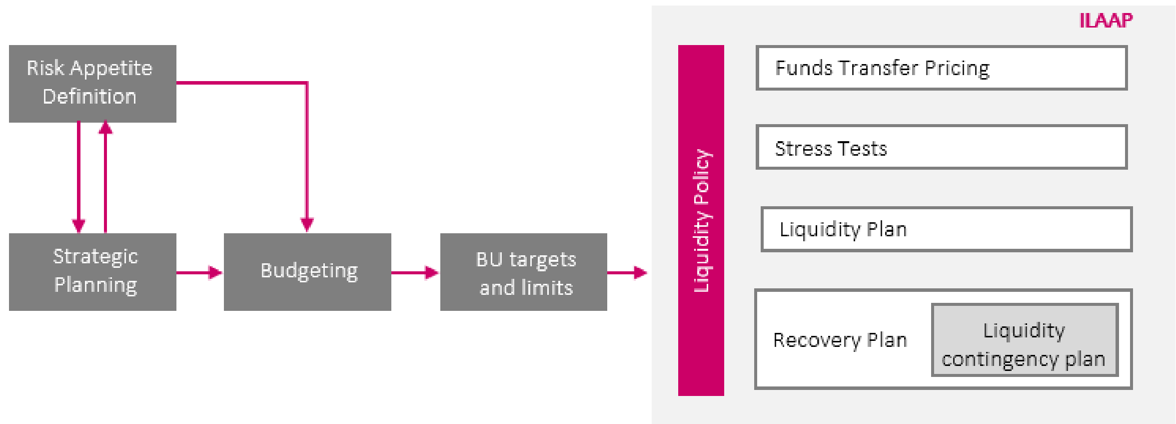
- The Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 from 2016 onwards, concerning the computation of the liquidity coverage requirement (LCR).
- The Commission Delegated Regulation (EU) 2019/876 of 20 May 2019, concerning the computation of the net stable funding ratio (NSFR), implemented from June 2021 onwards.

Both indicators have a binding requirement of 100%.

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

Within the scope of the ILAAP, the Bank analyses a vast set of qualitative and quantitative information, aiming at implementing the liquidity risk management framework for the Group suited to the respective profile and aligned with the European Banking Authority guidelines and with the Single Supervisory Mechanism expectations. The ILAAP methodology comprises the liquidity risk management that the Group has been developing over the last years. In this context, the ILAAP considers specific the features of the Group, such as business model, governance, implemented controls and its monitoring, dimension, complexity, market constraints, and local regulatory duties of each geography.

TABLE 72 – ILAAP INTERCONNECTION WITHIN THE PLANNING EXERCISES OF THE GROUP



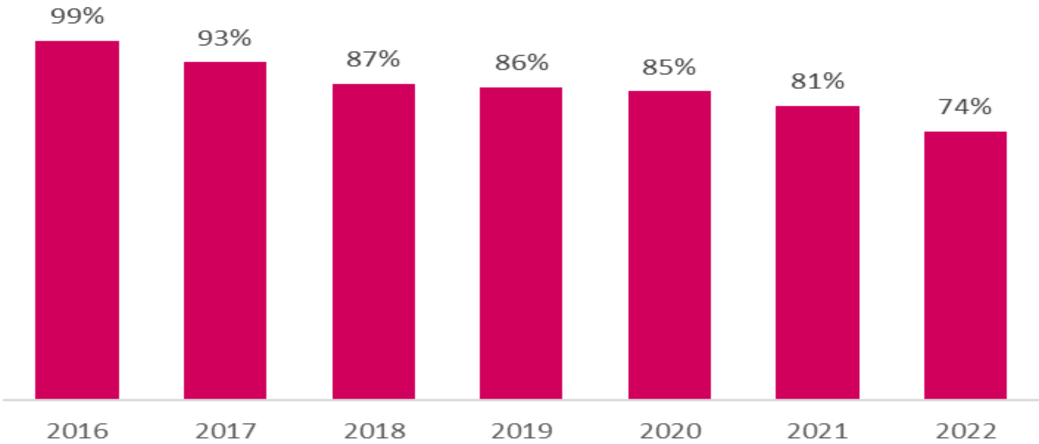
During the first half of 2019, the ECB's Banking Supervision conducted the Sensitivity Analysis of Liquidity Risk - Stress Test 2019 (LiST 2019) to assess banks' ability to withstand idiosyncratic hypothetical liquidity shocks. In the case of the BCP Group, liquidity reserves were considered adequate to offset the simulated liquidity loss scenarios. In addition, the quality and timeliness of the response to questions raised by the ECB during the quality assurance phase of the exercise were positively assessed. Between December 2018, the reference date for the LiST, and December 2022, BCP's liquidity position strengthened significantly, with the liquidity buffer available for discount at the ECB growing 12.260 million euros, from 14.261 million euros to 26.521 million euros.

15.4. Balance sheet indicators

In 2022, the liquidity positions of BCP, Bank Millennium and BIM reinforced their robustness, based mainly on the growth of the respective customer deposit bases. This growth was particularly significant in the operation in Portugal, in which it reached approximately 11%, mainly by the contribution of the retail depositors' segment.

At the end of December 2022, consolidated customer deposits stood at 75.907 million euros, registering an increase of 9% compared to 31 December 2021, with the balance sheet resources of Customers reaching 77.250 million euros, gross loans amounted to 57.713 million euros, which represents a decrease nearly 1% compared to the end of 2021. Consequently, the transformation ratio thus evolved from 81% at the end of 2021 to 74% at the end of 2022.

GRAPH 6 – LTD RATIO EVOLUTION



According to Instruction 16/2004 of Banco de Portugal

Regarding the presence of the Bank in the debt segment of the capital market, it is worth highlighting the following events, in chronological order: (i) in May, BCP repaid a covered bond issue in the amount of 1,000 million euros. Given the Bank's surplus position in terms of liquidity, there was no need to refinance the amount repaid in the market; (ii) in October, the Bank placed its third issue of senior preferential debt on the market in a 3NC2 format (3 years maturity callable after 2 years) the amount of 350 million euros. The operation was aimed at ensuring compliance with the requirements of MREL, namely the indicative target that will be in force during 2023, from 1 January. This issue, with a coupon of 8.50% per annum (corresponding to a spread of 554.7bps on mid-swaps), was carried out in very difficult market conditions, demonstrating the Bank's ability to access the market even in adverse and very complex environment; and (iii) in November, and considering that in view of the prevailing market conditions the Bank had decided not to exercise, in December, the early repayment option on a T2 issue of 300 million euros, BCP launched an offer to exchange these securities not reimbursed, in the ratio of 1:1, by others of the same nature to be issued. Thus, given the non-exercise of the call-option, investors were offered the option to exchange the bonds they held for newly issued securities with a higher coupon and longer term. The amount of the new issue 10.25NC5.25 of T2 was set at 133.7 million euros and the coupon at 8.75%, per annum, corresponding to a spread of 605.1bps on mid-swaps.

Still regarding the funding structure, BCP repaid in advance in December 2022 the first tranche of the longer-term refinancing operation targeted III ("T LTRO III"), contracted in June 2020 in the amount of 7.55 billion euros (with the second tranche, worth 600 million euros, to be repaid early already in January 2023). Considering the balance in deposit at the Banco de Portugal and other available liquidity, BCP ended 2022 with a long position on the Eurosystem of 2.6 billion euros.

Throughout 2022, the behavior of the liquidity buffer at the ECB was mainly determined by the impacts, in opposite directions, of the aforementioned favorable evolution of the commercial gap, on the one hand and, on the other hand, of the growth of the margin calls related to derivatives and the decrease of the market price of the assets eligible for discount with the Eurosystem, effects that showed a growing trend after the outbreak of war in Ukraine. The combined effect of these and other factors of lesser materiality allowed, nevertheless, the buffer to grow 2.7 billion euros on an annual basis, to 26.5 billion euros.

The evolution of the pool of monetary policy assets discountable, after haircuts, is detailed as follows:

TABLE 73 – LIQUID ASSETS INTEGRATED IN COLLATERAL POOL

(Thousand euros)

	Dec 22	Dec 21
European Central Bank	13 677 518	13 394 653
Other Central Banks	5 213 823	4 840 405
TOTAL	**18 891 341**	**18 235 058**

As of 31 December 2022:

- The gross amount discounted with the ECB amounts to 600 million euros (31 December 2021: 8.150 million euros.
- The amount discounted with the Banco de Mozambique amounts to 2.2 million euros (31 December 2021: 2.5 million euros).
- There are no discounted amounts with other central banks.

The evolution of the portfolio of eligible assets available for discount with the ECB (after haircuts) and the net borrowings at the ECB and the liquidity buffer between 31/12/2022 and 31/12/2021 are analysed as follows:

TABLE 74 – LIQUIDITY BUFFER IN THE ECB

(Thousand euros)

	Dec 22	Dec 21
Collateral eligible for ECB, after haircuts:		
The pool of ECB monetary policy (i)	13 677 518	13 394 653
Outside the pool of ECB monetary policy	10 269 082	12 107 127
TOTAL	**23 946 599**	**25 501 780**
Net borrowing at the ECB (ii)	(2 574 146)	1 730 318
LIQUIDITY BUFFER (iii)	**26 520 745**	**23 771 462**

i) Corresponds to the amount reported in COLMS (Banco de Portugal application).
ii) Includes, as of 31 December 2022, the value of funding with ECB (deducted from the accrual of the T LTRO III), deducted from deposits with the Banco de Portugal and other liquidity with the Eurosystem (Euros 3,696,285,000), plus the minimum cash reserves (Euros 529,400,000).
iii) Collateral eligible for ECB, after haircuts, less net financing at the ECB.

In consolidated terms, the refinancing risk of medium to long-term instruments will remain at very low levels in the coming three years.

15.5. Regulatory indicators

15.5.1. Liquidity coverage ratio

The Group Liquidity Coverage Ratio (LCR), an indicator of short-term liquidity risk, stood at 212% on a consolidated basis at the end of December 2022 (31 December 2021: 269%), well above the minimum regulatory requirement of 100%. The strength of the indicator lies on the one hand, in the BCP Group's solid funding base, based on retail deposits considered stable by nature, generating a low level of outflows, on the other hand, in a liquidity buffer composed essentially of Level 1 assets, based on the Sovereign debt portfolio and on deposits with central banks. It should be noted that the LCR reduction occurred in the last quarter of 2022 was due to the fact that the early repayment of the first tranche of T LTRO III (7,550 million euros) released collateral that, although eligible for a discount at the ECB, is not eligible for the High-Quality Liquid Assets (HQLA) buffer of the regulatory indicator, which thus decreased by a similar amount. It is therefore important to underline that the size of the liquidity buffer discountable at the ECB remained unchanged, and at historically high levels, confirming the soundness of BCP's liquidity position.

TABLE 75 – TEMPLATE EU LIQ1 – LCR DISCLOSURE

(Thousand euros)

	Scope of consolidation: consolidated	a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on (DD Month YYY)	T Dec 22	T-1 Sep 22	T-2 Jun 22	T-3 Mar 22	T Dec 22	T-1 Sep 22	T-2 Jun 22	T-3 Mar 22
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					23,539,207	23,415,772	23,060,322	22,719,059
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	58,399,537	57,447,970	56,568,274	55,688,047	3,043,734	3,023,326	2,992,771	2,946,012
3	Stable deposits	31,172,479	30,965,964	30,759,625	30,349,425	1,558,624	1,548,298	1,537,981	1,517,471
4	Less stable deposits	11,271,373	11,203,404	11,059,097	10,854,166	1,485,110	1,475,027	1,454,790	1,428,540
5	Unsecured wholesale funding	15,969,019	15,423,811	15,030,199	14,670,717	5,424,287	5,310,954	5,220,337	5,107,191
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	7,818,356	7,320,155	6,994,639	6,802,653	1,910,660	1,789,680	1,711,877	1,666,922
7	Non-operational deposits (all counterparties)	8,150,560	8,103,656	8,027,833	7,860,196	3,513,526	3,521,274	3,500,732	3,432,402
8	Unsecured debt	102	0	7,728	7,868	102	0	7,728	7,868
9	Secured wholesale funding					278	694	694	694
10	Additional requirements	11,733,972	11,652,395	11,953,330	12,469,085	1,660,773	1,620,034	1,926,852	2,419,538
11	Outflows related to derivative exposures and other collateral requirements	516,803	469,872	753,398	1,176,732	516,803	469,872	753,398	1,176,732
12	Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
13	Credit and liquidity facilities	11,217,169	11,182,523	11,199,932	11,292,353	1,143,971	1,150,162	1,173,454	1,242,806
14	Other contractual funding obligations	991,983	988,157	918,469	831,961	991,983	988,157	918,469	831,961
15	Other contingent funding obligations	5,151,839	4,954,067	4,763,586	4,665,963	713,620	658,690	588,312	537,025
16	**TOTAL CASH OUTFLOWS**					11,834,677	11,601,856	11,647,435	11,842,421
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	18,826	23,862	9,037	10,890				
18	Inflows from fully performing exposures	2,540,731	2,500,695	2,389,509	2,329,481	1,615,306	1,595,600	1,522,163	1,524,593
19	Other cash inflows	5,850,926	5,688,103	5,943,791	6,320,355	1,471,354	1,424,165	1,689,575	2,106,466
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)								
EU-19b	(Excess inflows from a related specialised credit institution)								
20	TOTAL CASH INFLOWS	8,410,483	8,212,660	8,342,336	8,660,727	3,086,660	3,019,765	3,211,738	3,631,059
EU-20a	Fully exempt inflows								
EU-20b	Inflows subject to 90% cap								
EU-20c	Inflows subject to 75% cap	8,410,483	8,212,660	8,342,336	8,660,727	3,086,660	3,019,765	3,211,738	3,631,059
TOTAL ADJUSTED VALUE									
EU-21	LIQUIDITY BUFFER					23,539,207	23,415,772	23,060,322	22,719,059
22	TOTAL NET CASH OUTFLOWS					8,748,016	8,582,091	8,435,697	8,211,362
23	**LIQUIDITY COVERAGE RATIO**					**269%**	**273%**	**274%**	**277%**

Liquidity concentration and funding resources:

The funding of the business model of the BCP Group's operations is essentially based on deposits from retail customers, endowed with a high level of stability, complemented by deposits from corporates and financial entities, mainly supporting operational relations. The concentration of the largest depositors has been decreasing materially in recent years in the Group's largest operations, currently presenting very comfortable values. Long-term secured resources, such as TLTRO with the ECB, covered bonds (with a null balance at the end of 2022) and loans with the EIB, have contributed to the Group's stable financing base. Senior and subordinated issues that concur, in part, for regulatory capital, complete and increase the level of diversification of wholesale funding sources which, as a whole, does not show any material refinancing concentrations in the coming years.

Composition of the liquidity buffer:

The Group liquidity buffer portfolio consists of central bank deposits, government bonds issued by European countries and corporate bonds. The main part of the assets within the liquidity buffer qualifies as Level 1 under the LCR rules and are defined as HQLA. BCP Group has an additional liquidity buffer composed by non-HQLA central bank eligible assets (own covered bonds and credit claims) that are available for immediate use as collateral to obtain additional funding with the ECB and in the repo market. The monitors internal threshold levels above the minimum regulatory requirement in order to minimize operational risk and ensure that the liquidity buffer is adequate for to a prudent management of the Group's short-term liquidity.

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 consider liquidity risk impacts, considering 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 (between receivables and payables) in these collaterals, in the sense of an increase in use of liquidity by these collateral in intervals of 30 calendar days, in the last 24 months.

Currency mismatch in the LCR:

The BCP Group monitors relevant currencies (where liabilities > 5% of total liabilities), related liquid buffer and net liquid cash outflows. Only EUR and PLN currencies has a significant amount of funding obtained, mostly due to the activity in Portugal and that registered by the subsidiary in Poland, resulted to be relevant at Group level. The liquidity coverage ratio in EUR and PLN is significantly above the required 100%.

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

The Group's liquidity management is decentralized by geography, as each subsidiary must be self-sufficient in the management and funding of its liquidity needs, mainly ensured by the respective deposit bases and complementarily through the market mechanisms available locally.

The BCP Group consolidates the individual liquidity plans for the main entities of the Group, in order to ensure the alignment between the evolution of inflows and outflows of assets and liabilities resulting from commercial and corporate objectives with prudent treasury management and comfortable liquidity indicators, including the maintenance of liquidity buffers of appropriate size with central banks. The evolution of the liquidity and funding position of each of the Group's entities is monitored centrally through operational and structural indicators, either regulatory or internal. The various entities operate with autonomy to manage their liquidity needs, while the Group ensures internal mechanisms for maximizing management efficiency on a consolidated basis, namely in potential situations of stress.

15.5.2. Net stable funding ratio

In consistent with the BCBS' stable funding standard, in June 2021, came into effect the minimum regulatory requirement of 100% for the NSFR (Article 428 of Regulation (EU) 2019/876). The Group reinforced the disposition of the stable funding base, characterized by the large share of customer deposits in the funding structure, collateralized funding and medium and long-term instruments, which enabled the stable funding ratio (Net Stable Funding Ratio or NSFR) as of 31 December 2022 to stand at 154% (150% as of 31 December 2021).

TABLE 76 – TEMPLATE EU LIQ2 – NET STABLE FUNDING RATIO

(Thousand euros)

		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	**5,131,412**			**1,374,686**	**6,506,099**
2	Own funds	5,131,412			1,374,686	6,506,099
3	Other capital instruments					
4	Retail deposits		**54,751,998**	**4,009,933**	**1,753,714**	**56,768,232**
5	Stable deposits		40,450,590	2,125,009	1,088,720	41,535,539
6	Less stable deposits		14,301,408	1,884,925	664,993	15,232,693
7	Wholesale funding:		**25,576,148**	**181,319**	**2,437,743**	**15,078,152**
8	Operational deposits		8,996,411	62,100	1,037	4,530,292
9	Other wholesale funding		16,579,737	119,220	2,436,707	10,547,860
10	Interdependent liabilities					
11	Other liabilities:		**1,164,142**		**1,960,611**	**1,960,611**
12	NSFR derivative liabilities					
13	All other liabilities and capital instruments not included in the above categories		1,164,142		1,960,611	1,960,611
14	**Total available stable funding (ASF)**					**75,782,802**

		a	b	c	d	e
			Unweighted value by residual maturity			Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					1,033,851
EU-15a	Assets encumbered for more than 12m in cover pool					
16	Deposits held at other financial institutions for operational purposes		232,179			116,089
17	Performing loans and securities:		9,651,197	3,138,952	45,211,164	39,554,716
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut					
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		611,332	197,760	819,697	979,710
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		8,062,486	2,343,936	17,091,150	19,081,968
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		1,349,456	699,188	3,827,379	3,628,865
22	Performing residential mortgages, of which:		598,729	563,779	24,925,932	17,214,684
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		584,202	552,781	24,006,039	16,419,887
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		378,651	33,477	2,374,385	2,278,354
25	Interdependent assets					
26	Other assets:		1,446,141	187,917	7,495,112	7,804,859
27	Physical traded commodities				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				951,866	809,086
29	NSFR derivative assets		71,351			71,351
30	NSFR derivative liabilities before deduction of variation margin posted		403,653			20,183
31	All other assets not included in the above categories		971,136	187,917	6,543,246	6,904,239
32	Off-balance sheet items		3,827,909	1,404,398	6,945,843	667,481
33	**Total RSF**					49,176,996
34	**Net Stable Funding Ratio (%)**					154%

15.5.3. Encumbered and unencumbered assets

At the end of 2022, and according to the EBA methodology, the total encumbered assets represent 14% of the Group's total balance sheet assets. The encumbered Loans to customers represent 81% of the total encumbered assets, while Debt securities represents 8%.

The encumbered assets are mostly related with the Portugal's activity funding operations, namely with the ECB, securitisation programs and derivatives operations. The type of assets used as collateral for these financing transactions are different Loans to Customers' portfolios, supporting securitisation programs and mortgage bonds, intended to reinforce the collateral pool with the ECB. Regarding the collateralization of derivative operations, as well as financing operations with the European Investment Bank, is mainly supported by Sovereign debt eligible for central banks, together with bonds issued by public sector companies.

On 31 December 2022, the Other Assets includes unencumbered assets in the amount of Euros 8,477,357,000 related to Loans on demand, the amount of Euros 56,201,560,000 related to Loans and advances other than loans on demand (of which encumbered assets in the amount of Euros 11,188,611,000) and the amount of Euros 8,601,987,000, mostly unencumbered and related to the Group's activity, namely, to: investments in associated companies and subsidiaries, tangible assets and investment properties, intangible assets, assets associated with derivatives and current and deferred taxes.

On 31 December 2022, BCP Group has Euros 12.5 billion BCP Covered Bond Programme ("BCP Programme") with Euros 9.2 billion of covered bonds outstanding. The BCP Programme is backed by a Euros 10.6 billion portfolio of residential mortgages, providing an overcollateralization ("OC") of 15.4%, which is above the minimum of 14% currently required by rating agencies.

The Portuguese covered bond legislation affords covered bond holders a dual recourse, firstly over the issuer, secondly over the cover pool that may also include other eligible assets, over which they benefit from a special preferential claim. The Portuguese covered bond legislation ensures total segregation of the covered pool from any future issuer's insolvent estate, for the benefit of covered bond holders, who have precedence over claims of any other of the issuer's creditors in case of issuer insolvency, thus and to this extent superseding the general insolvency and recovery legislation. Residential mortgages in a cover pool are subject to certain eligibility criteria inscribed in the Portuguese covered bond legislation, among them a maximum LTV of 80%, delinquency of no more than 90 days, and them being first lien mortgages (or, if otherwise, all preceding liens being in the cover pool) over properties located in the EU. The BCP's Programme documentation limits property location to Portugal only.

TABLE 77 – TEMPLATE EU AE1 – ENCUMBERED AND UNENCUMBERED ASSETS

(Thousand euros)

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	13,756,969	1,091,650			82,775,892	25,254,479		
030	Equity instruments	0	0	0	0	127,810	0	127,810	0
040	Debt securities	1,091,650	1,091,650	968,647	968,647	20,604,616	15,841,854	20,024,958	15,227,018
050	of which: covered bonds	0	0	0	0	0	0	0	0
060	of which: securitisations	0	0	0	0	29,291	0	24,793	0
070	of which: issued by general governments	1,052,101	1,052,101	930,126	930,126	15,452,215	14,962,526	14,877,737	14,391,677
080	of which: issued by financial corporations	0	0	0	0	1,804,297	119,941	1,804,289	119,941
090	of which: issued by non-financial corporations	39,560	39,560	38,521	38,521	2,754,650	541,928	2,754,901	541,928
120	Other assets	12,793,413	0			61,561,554	8,879,947		

TABLE 78 – TEMPLATE EU AE2 – COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED

(Thousand euros)

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
130	Collateral received by the reporting institution	0	0	88,857	1,502
140	Loans on demand	0	0	0	0
150	Equity instruments	0	0	0	0
160	Debt securities	0	0	1,502	1,502
170	of which: covered bonds	0	0	0	0
180	of which: securitisations	0	0	0	0
190	of which: issued by general governments	0	0	1,502	1,502
200	of which: issued by financial corporations	0	0	0	0
210	of which: issued by non-financial corporations	0	0	0	0
220	Loans and advances other than loans on demand	0	0	87,393	0
230	Other collateral received	0	0	0	0
240	Own debt securities issued other than own covered bonds or securitisations	0	0	0	0
241	Own covered bonds and asset-backed securities issued and not yet pledged			6,113,493	0
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	13,756,969	1,091,650		

TABLE 79 – TEMPLATE EU AE3 – SOURCES OF ENCUMBRANCE

(Thousand euros)

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		010	030
010	Carrying amount of selected financial liabilities	10,520,000	13,256,892

16. REMUNERATION POLICY

16.1. General principles

The rules guiding remuneration policies at BCP Group, establishing a common framework defining the concepts, principles, rules and governance model for the preparation, approval, execution and monitoring of remuneration policies implemented in all entities of the Group, are clearly defined, approved by the Board of Directors and published in a group code applicable to the entire Group.

In this context, the principle of alignment of the Remuneration Policy with the business strategy, objectives, values and long-term interests of the Group and each Group Entity is established and incorporates measures that avoid conflicts of interest as well as the promotion of sound and effective risk management that does not encourage the assumption of risks that exceed the risk level of the Bank defined in the RAS. It is up to the Group Entities to implement, for the different segments of the identified employees, specific remuneration policies and appropriate risk alignment mechanisms to ensure that the impact of the employee category identified in the risk profile of the institution is adequately aligned with its remuneration.

The Group Remuneration Policy considers a fixed component and a variable component. In the cases where variable remuneration is allocated, this assignment is based on the performance of the business units, the team, and the individual performance of each employee, and considers the risks assumed. In principle, the variable component of remuneration may not exceed the fixed component, but exceptions are allowed provided that they are justified and approved by the competent bodies.

The fixed remuneration of employees identified as Key Functions Holders incorporate their professional experience and organizational responsibility taking into account their academic level, their seniority, the level of knowledge and skills, their limitations and work experience, the business activity concerned and the level of remuneration in the geographical location.

The variable remuneration is aligned with the strategic plan and incorporated into the budget projections. The preliminary amount allocated for this purpose is explicitly approved in the annual budget by the Board of Directors, considering its impact on the capital and liquidity requirements of the Bank and of the Entity.

The amount of the variable remuneration allocated conforms adequately to changes in the performance of the employee, with situations where the performance and/or behavior of the employee lead to a sharp reduction of the variable remuneration, which may even be reduced to zero, being defined.

The Remuneration Policy considers, as a rule, 100% of the maximum ratio between the variable and fixed components of the remuneration. However, a maximum proportion above 100% may be approved by the General Shareholders' Meeting, when necessary, or by the Board of Directors, but may not exceed 200%.

In determining the remuneration policy, different categories of employees are considered, and specific schemes are defined for each category, namely distinguishing between executive and non-executive directors, the Chief Risk Officer, other members of the corporate bodies directly elected by the General Meeting of Shareholders, employees with key functions performing control functions of the Bank or not and, lastly, all the other employees. The policies defined for the above-mentioned categories are described in detail in Part D of the Corporate Governance Report, available on the Bank's website.

Employees involved in control functions are independent of the business units they supervise and are remunerated according to the execution of the goals that do not depend on the performance of the business areas they control.

The Remuneration Policy is designed in such a way that the adequate compensation of employees is not dependent on the allocation of variable remuneration, to avoid incentives to take excessive risks in the short term. For that purpose, there is no guaranteed variable remuneration, and the calculation of the indemnities for key- function holders ceasing their functions, is dependent on the rules approved by the Executive Committee for the process of staff adjustment implemented during 2021.

All employees have access to the Remuneration Policy through the Bank's intranet.

16.2. Abstract of the remuneration policies

The Remuneration Policy for members of the management and Supervisory bodies has provided for an annual variable remuneration system, whereby an annual evaluation of the performance of each member of the Executive Committee is carried out based on quantitative and qualitative criteria. Depending on this evaluation and on the annual fixed remuneration, and provided that a minimum level of performance of the Bank in a set of quantitative indicators is met, the value of the variable remuneration to be attributed to each member of the Executive Committee shall be determined. The payment of the amount of the variable remuneration is subject to a 5-year deferral period for 50% of its amount, and 50% of which is paid in the year following the financial year to which it relates. The amounts for the undeferred and deferred part are paid 50% in cash and 50% in BCP shares. The number of BCP shares assigned results from their valuation at a share-price value defined in accordance with the approved Remuneration policy.

In the Remuneration Policy for Employees, an annual variable compensation system is provided for employees not covered by the Commercial Incentive Systems, based on the evaluation of the performance of each employee supported on quantitative and qualitative criteria that is carried out annually. Depending on this evaluation and on the fixed reference remuneration for the function performed, and provided that a minimum level of performance of the Bank in a set of quantitative indicators is met, the value of the variable remuneration to be attributed to each Employee is determined. For Employees considered Key Functions Holders, the payment of the amount of the variable remuneration assigned is subject to a 5-year deferral period for 40% of its amount, and 60% of which is paid in the year following the financial year to which it relates. The amounts for the undeferred and deferred part are paid 50% in cash and 50% in BCP shares. The number of BCP shares assigned and to be assigned results from its valuation at a share-price value defined in accordance with the approved Remuneration policy.

The Employees considered Key Function Holders are not covered by Commercial Incentive Systems.

As provided for in the approved Remuneration Policy and applicable legislation, the variable remuneration amounts attributed to the members of the Executive Committee and employees considered Key Functions Holders are subject to reduction and reversal mechanisms, to be applied in case of verification of extremely significant events, duly identified, in which the persons concerned have had a direct participation.

For the members of the Executive Committee, a long-term variable remuneration system is also provided for, whereby they may receive a fully paid variable remuneration in BCP shares after the end of the evaluation period from 1 January 2022 to 31 December 2025, provided that a certain level of performance is achieved in a set of long-term objectives. The amount of the variable long-term remuneration allocated is subject to a 5-year deferral period for 50% of its amount, and 50% of which is paid in the year following the evaluation period to which it relates. The number of BCP shares assigned results from their valuation at a share-price value defined in accordance with the approved Remuneration policy.

All shares attributed to members of the Executive Committee and to Key Function Holders, related to the payment of the variable remuneration, including the long-term, are subject to a retention period of 1 year after their payment.

16.3. Identification of key function holders

The Group annually identifies employees with key functions (Key Function Holders / KFH) through a self-assessment process carried out by BCP's Human Resources Division, in coordination with similar bodies in each Group Entity, in accordance with the Commission Delegated Regulation (EU) 604/2014. This exercise ensures the complete identification of all employees whose professional activities have a material impact on the Group's risk profile, at the individual and group level, and is supported on the qualitative and quantitative criteria mentioned below:

- First-line Managers and Executive Directors or equivalent of other Entities of the Group.
- Second-line Managers of the Risk Office, Compliance Office, and Internal Audit Division.
- Second-line Managers of the Treasury Division.
- Employees with delegated powers to approve credit transactions at a decision level immediately below those in which the intervention of the members of the Executing Commission is required.
- Members of the management committees, with the right to vote, not included in the above-mentioned groups.

- Employees with total remuneration of more than 500,000 euros or equivalent in the last financial year.
- Employees included in the set of 0.3% of employees with a higher total remuneration, in the previous financial year.
- Employees with a total remuneration, in the previous financial year, above the lowest total remuneration of a First-Line Manager.

The annual self-assessment process at the level of the Group Entity is conducted during the third quarter of the year and the results submitted for approval by each Board of Directors of the Group Entities, and subsequently presented to BCP's Board of Directors, jointly with the opinion issued by the Committee for Nominations and Remunerations.

16.4. Remuneration policy governance

The Remuneration and Welfare Board (RWB), a body emanating from the General Meeting of Shareholders, is responsible for setting the remuneration of the members of the Bank's corporate bodies (Board of Directors, Board of the General Assembly and the Board for Strategy), to determine the pension supplements of the directors and, jointly with the Committee for Nominations and Remunerations, to make a proposal for the Remuneration Policyof the members of the BCP corporate bodies to be presented to the General Assembly.

The Board of Directors of BCP (Board of Directors) is responsible for the approval of the Remuneration Policy and the continuous monitoring and oversight of its implementation by delegation of the Remunerations and Welfare Board.

The Committee for Nominations and Remunerations (CNR) provides support and advice to the Board of Directors in the preparation of the remuneration policy, being responsible for the preparation, in matters within its competence, of the resolutions on remuneration to be taken by the General Meeting of Shareholders and the Board of Directors. The composition of the CNR and the number of annual meetings of this Committee are contained in mentioned Part D of the Corporate Governance Report.

In the case of BCP and the entities in Portugal, the Remuneration and Welfare Board oversees the preparation of remuneration policies and sets, under delegation of the General Meeting of Shareholders, the remuneration of the members of the Board of Directors, establishes the terms of the pension supplements for the management board and submits the Remuneration Policyfor the Bank's management bodies to the annual General Meeting of Shareholders, jointly with the CNR.

The composition of the CNR and the number of annual meetings of this specialized committee of the Board of Directors are contained in Part D of the Corporate Governance report.

For the performance of its functions, namely in the supervision of the Remuneration Policies of the Subsidiaries, the CNR resorted to the advisory services of the external company KPMG, whose hiring process was prepared by the Compliance Officer.

In 2022, the Bank's remuneration policies were revised, so that they framed legislative and regulatory changes with significant impact on the governance of publicly held companies and credit institutions, namely regarding remuneration policies and practices.

Decisions on the remuneration of the KFHs fall within the competence of the CNR by delegation of the Board of Directors, on a proposal by the Executive Committee (EC). The decisions relating to the remuneration of the other employees are a responsibility of the EC, in compliance of the Remuneration Policy approved by the Board of Directors.

Regarding the variable remuneration of the KFHs it is the ExCo's responsibility to make a proposal for the overall amount of the variable remuneration to be attributed to these employees, for approval of the CNR and referral to the Board of Directors.

To perform its task, the CNR communicates with the Risk Assessment Committee and, if necessary, with the CEO, the CRO and the Company Secretary, and takes into account the contributions made by the relevant corporate functions, in particular the following:

- The Human Resources Division participates in the planning of the remuneration structure, remuneration levels and incentive schemes, considering strategic and budgetary goals, the profile of employees, retention strategies and market conditions.
- The Risk Office informs on the definition of appropriate and risk-adjusted performance metrics and possible impacts of variable compensation on the institution's culture and risk profile.
- The Compliance Office analyzes how the Remuneration Policyaffects compliance with legislation, regulation, internal policies, and risk culture.

The relevant performance metrics for the following year associated with the variable remuneration should preferably be adopted with the budgetary procedure and at the latest in the first quarter of each year.

The assessment of the performance of employees who are not members of the Boards of Directors, carried out by the Human Resources Division, should be approved by the Executive Committee by the end of the first quarter of the following year.

Decisions regarding the approval of remuneration policies of other Group Entities and regarding the remuneration of employees of other Group Entities that are Group KFHs require a prior opinion of BCP's CNR, and BCP's CEO and Executive Directors monitoring the Entity should, in principle, be members of the Entity's remuneration committee.

Each year, the CNR, after the opinion of the Risk Assessment Committee, based on the information and opinions of the Risk Office and of the Compliance Office, regarding the ex-post risk assessment, resolves on the possible application of measures to the deferred amounts of variable remuneration payable in that year.

16.5. Quantitative information

Quantitative information on the overall amount of remuneration awarded in 2022 and their breakdown by business areas and categories of employees is available in note 7 of the Annual Report and Financial Statements for 2022 and Part D of the Corporate Governance Report.

TABLE 80 – TEMPLATE EU REM1 – REMUNERATION AWARDED FOR THE FINANCIAL YEAR

(Thousand euros)

			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	11	6	53	40
2		Total fixed remuneration	1,663	3,565	8,607	4,045
3		Of which: cash-based	1,663	3,565	8,607	4,045
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x		Of which: other instruments	-	-	-	-
6		(Not applicable in the EU)				
7		Of which: other forms	-	-	-	-
8		(Not applicable in the EU)				
9	Variable remuneration	Number of identified staff	11	6	53	40
10		Total variable remuneration	-	2,567	1,177	600
11		Of which: cash-based	-	616	602	429
12		Of which: deferred	-	246	235	66
EU-13a		Of which: shares or equivalent ownership interests	-	1,951	575	171
EU-14a		Of which: deferred	-	780	229	66
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14b		Of which: deferred	-	-	-	-
EU-14x		Of which: other instruments	-	-	-	-
EU-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	Total remuneration (2 + 10)		1,663	6,132	9,784	4,645

TABLE 81 – TEMPLATE EU REM2 – SPECIAL PAYMENTS TO STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON INSTITUTIONS' RISK PROFILE (IDENTIFIED STAFF)

(Thousand euros)

		a	b	c	d
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff	0	0	0	0
2	Guaranteed variable remuneration awards -Total amount	0	0	0	0
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	0	0	0	0
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	0	0	0	0
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	0	0	0	0
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	0	0	0	3
7	Severance payments awarded during the financial year - Total amount	0	0	0	255
8	Of which paid during the financial year	0	0	0	255
9	Of which deferred	0	0	0	0
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	0	0	0	0
11	Of which highest payment that has been awarded to a single person	0	0	0	200

TABLE 82 – TEMPLATE EU REM3 – DEFERRED REMUNERATION

(Thousand euros)

		a	b	c	d	e	f	EU - g	EU - h
	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function	0	0	0	0	0	0	0	0
2	Cash-based								
3	Shares or equivalent ownership interests								
4	Share-linked instruments or equivalent non-cash instruments								
5	Other instruments								
6	Other forms								
7	MB Management function	901	343	558	0	0	0	343	172
8	Cash-based	451	172	279	0	0	0	172	0
9	Shares or equivalent ownership interests	451	172	279	0	0	0	172	172
10	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0	0
11	Other instruments	0	0	0	0	0	0	0	0
12	Other forms	0	0	0	0	0	0	0	0
13	Other senior management	1,100	277	823	0	0	0	277	223
14	Cash-based	465	54	412	0	0	0	54	0
15	Shares or equivalent ownership interests	635	223	412	0	0	0	223	223
16	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0	0
17	Other instruments	0	0	0	0	0	0	0	0
18	Other forms	0	0	0	0	0	0	0	0
19	Other identified staff	187	25	162	0	0	0	20	20
20	Cash-based	86	5	81	0	0	0	0	0
21	Shares or equivalent ownership interests	101	20	81	0	0	0	20	20
22	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0	0
23	Other instruments	0	0	0	0	0	0	0	0
24	Other forms	0	0	0	0	0	0	0	0
25	Total amount	2,188	645	1,543	0	0	0	640	415

TABLE 83 – TEMPLATE EU REM4 – REMUNERATION OF 1 MILLION EUR OR MORE PER YEAR

	EUR	a Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	3
2	1 500 000 to below 2 000 000	
3	2 000 000 to below 2 500 000	
4	2 500 000 to below 3 000 000	
5	3 000 000 to below 3 500 000	
6	3 500 000 to below 4 000 000	
7	4 000 000 to below 4 500 000	
8	4 500 000 to below 5 000 000	
9	5 000 000 to below 6 000 000	
10	6 000 000 to below 7 000 000	
11	7 000 000 to below 8 000 000	
x	To be extended as appropriate, if further payment bands are needed.	

TABLE 84 – TEMPLATE EU REM5 – INFORMATION ON REMUNERATION OF STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON INSTITUTIONS' RISK PROFILE (IDENTIFIED STAFF)

(Thousand euros)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff										
2	Of which: members of the MB	11	6	17							
3	Of which: other senior management				4	13	6	8	5	17	
4	Of which: other identified staff				0	4	4	1	23	8	
5	Total remuneration of identified staff	1,663	6,132	7,794	845	2,701	2,246	1,379	3,200	4,057	
6	Of which: variable remuneration	0	2,567	2,567	103	348	137	181	323	687	
7	Of which: fixed remuneration	1,663	3,565	5,227	742	2,354	2,110	1,198	2,878	3,370	

17. ESG Risk

The following sections have been prepared pursuant to Article 449. a of the CRR by complying with the disclosure requirements set out in Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022.

17.1. Environmental Risk

1.Business strategy and processes

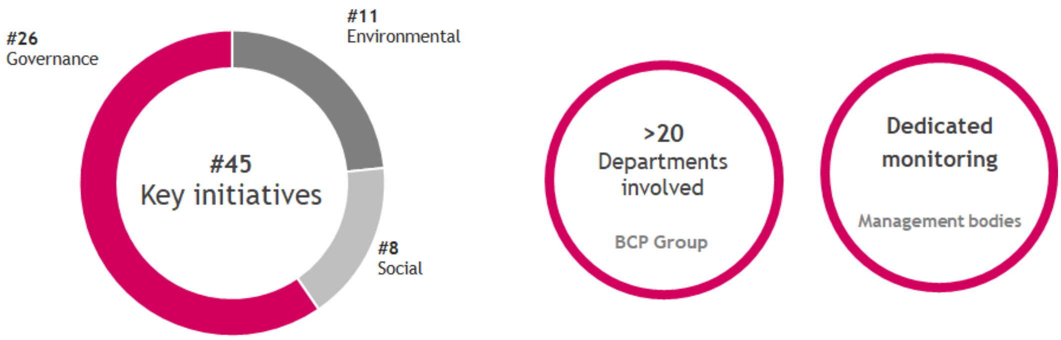
For several years, the BCP Group has been aware of the role of the financial sector, and in particular the responsibilities of banking institutions, in responding to the challenges posed by the environmental and energy transition. On the one hand, those responsibilities advise the Group to make a direct contribution to those objectives through the efficiency of its activity and, on the other hand, by the requirement placed on the financing and investment processes, which should promote climate change mitigation and adaptation, as well as the preservation of biodiversity, in the geographies where the Group operates.

To this end, since 2010 BCP's management bodies have defined and monitored a Sustainability Master Plan, in which the Group's priorities for action are defined and the respective operational initiatives implemented, in a specific calendar and with the attribution of responsibilities for their implementation to the different departments and entities of the Group.

Regulatory developments in recent years and the publication of the European Central Bank's expectations regarding the management of climate and environmental risks[4] have promoted the strengthening of the Group's sustainability strategy, embodied in the coverage of the new dimensions in terms of management, control and monitoring of climate risks (or, generally, ESG risk factors).

The edition of the Sustainability Master Plan for 2023 presents the following structure:

TABLE 85 – STRUCTURE OF THE SUSTAINABILITY MASTER PLAN



In addition to the internal strategy, and within the framework of its commitment to responsible investment and its awareness of the impacts of its activity on society and the planet, BCP has adhered to the following international commitments (which give access to reference methodologies and practices for business management and climate risks):

- United Nations Environment Programme – Finance Initiative (UNEP-FI);
- UN Global Compact;
- United Nations Environment Programme - Principles of Responsible Banking (PRB), which implies the commitment of this with a transformative dynamic in the financial sector that places Sustainability at the core of its strategy;
- Task Force on Climate-related Financial Disclosures (TCFD).

In addition, and based on the principles, good practices and objectives of sustainable development, BCP has adopted and

[4]ECB - Guide on climate-related and environmental risks, Supervisory Expectations (November 2020).

publicly supports the following initiatives and pacts:

- Principles of the United Nations Global Compact;
- Charter of Principles of the Business Council for Sustainable Development (BCSD Portugal);
- The World Business Council For Sustainable Development's (WBCSD) CEO's Guide to Human Rights;
- Letter of Commitment for Sustainable Finance promoted by the Portuguese government;
- Declaration of Business Leaders for Renewed Global Cooperation of the United Nations Global Compact;
- Business Mobility Pact for the City of Lisbon;
- Lisbon Green Capital Europe 2020 Commitment;
- Women's Empowerment Principles (WEP) of the United Nations Global Compact.

The following main measures derive from this strategy:

Direct impact of the Bank's activities

- Install LED lighting in all buildings, and reinforce the availability of photovoltaic solar electricity production equipment in buildings with adequate sun exposure and with coverage area available;
- Implement solutions that allow water reuse from the Group's premises;
- Eliminate the use of single-use plastics.

Indirect impact of the Bank's activities:

- Assume commitments in terms of the composition of the Bank’s portfolios, promoting the presence of clients and operations with good environmental performance;
- Adopt an internal green taxonomy, which guides business activities for the financing of the environmental and energy transition;
- Implement a responsible investment policy, guiding investment activities – logic of positive impact/responsible investment and minimization of the impacts of ESG factors on risk.

The achievement of these objectives is guided by a formal policy framework, which includes:

Sustainability Policy

Updated in 2021, it aims to present the implementation of measures that foster a just and inclusive transition to a decarbonized economic development model, including the incorporation of the environmental dimension into the Bank's risk models and the integration of ESG criteria into the Bank's operations, products and services, as well as in the Bank's supply chain.

Principles of Responsible Financing, Excluded and Conditioned Projects

Updated in 2022, it aims to define the excluded projects and the sectoral and project limitations to be considered in the credit granting decision, concerning the environmental and social risks associated with certain sectors of activity, in order to safeguard the environmental and social impact on communities.

Sustainability Guiding Principles for Suppliers

Updated in 2022, it constitutes a set of commitments applicable to the procurement of third-party services, in accordance with the Guidelines of the Organization for Economic Cooperation and Development (OECD) for Multinational Enterprises, the Fundamental Principles and Rights at Work of the International Labor Organization (ILO), the United Nations Global Compact and the Charter of Principles of BCSD Portugal, which BCP subscribes.

ESG management and control principles

Approved in 2023, it is an internal policy (Group Code) which establishes the organization, responsibilities, methodologies and procedures necessary for the management of ESG risk factors in the BCP Group.

Environmental Policy

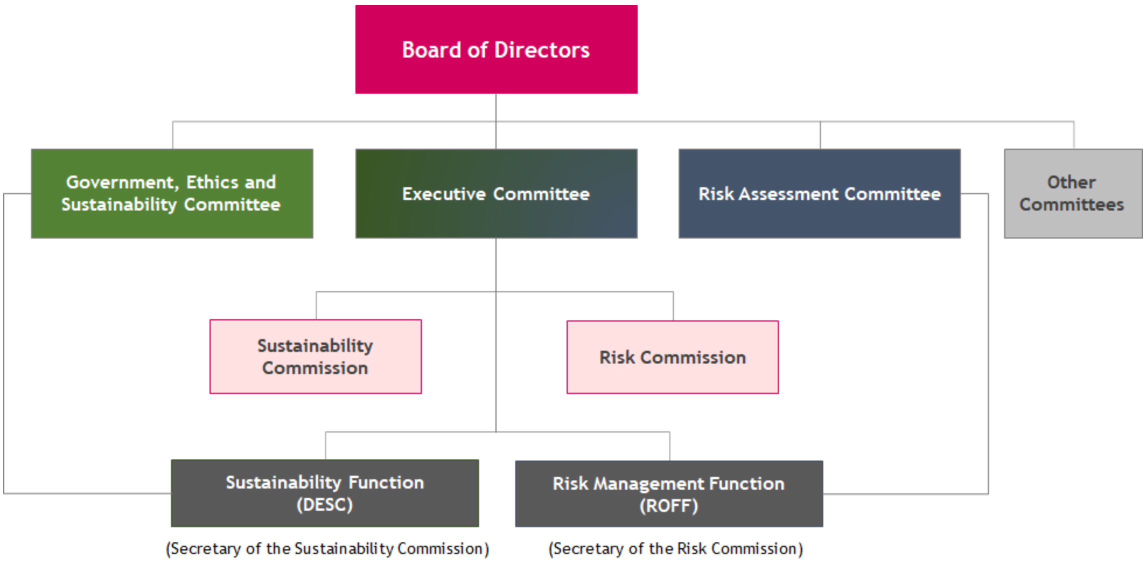
Implemented in 2022 and adopted by all geographies and operations of the BCP Group, aiming to promote a culture of responsible consumption and investment, based on a logic of dematerialization of processes and preservation of natural resources.

2.Governance

The governance model of sustainability and the management of environmental, social and governance (ESG) risks reflect a structure designed to identify, review and prioritize the risks and opportunities of the subject, with clearly defined responsibilities, ensuring an effective response to the different challenges and responsibilities posed to the Group.

This model follows an organization based on three lines of defence which, under the leadership of the Board of Directors (and its delegations in the Executive Committee), ensures its proper assessment and management.

TABLE 86 – ORGANIZATIONAL MODEL



Main responsibilities of the governance bodies

Board of Directors

It is primarily responsible, at the level of the BCP Group, for defining and guiding the sustainability strategy and management of ESG risk factors, establishing the respective policies and objectives of business, control and risk management, which are adopted by each entity of the Group and its departments.

In particular, the approval of the following elements constitutes the sole responsibility of the Management Board:

a. The appetite for climate risk;

b. The sustainability strategy and plan;

c. Principal-level policies and regulations relating to ESG and climate and environmental risk management;

d. Information disclosure, including the sustainability report.

Aware of the strategic importance of ESG issues for the BCP Group's business, the Board of Directors has constituted a body dedicated to the monitoring and periodic discussion of ESG issues, through which the main strategies and proposals for action are prepared for subsequent consideration and decision by the Board.

Corporate Governance, Ethics and Sustainability Committee

This body is responsible for preparing recommendations, addressed to the Board of Directors, regarding the adoption of strategies and policies aligned with the objectives of the BCP Group and best market practices in terms of internal governance, ethics and corporate social responsibility and sustainability.

In addition, this body ensures the monitoring of key sustainability indicators, including the progress of the Sustainability Master Plan. It monitors the main regulatory developments, controlling their effective adoption by the Group.

The annual corporate governance and sustainability reports are subject to the consideration of this Committee, prior to their approval by the Board of Directors.

Risk Assessment Committee

This committee is responsible for advising the Board of Directors on the identification, management and control of ESG risk factors, in accordance with the routines established for the types of risks to which the Group is exposed, including the monitoring of the metrics defined in the scope of risk appetite.

Executive Committee

The executive management body is responsible for the implementation of ESG-related strategy and initiatives, ensuring its organizational and operational coordination, the mobilization of resources and the dynamization of the development of the methodologies and practices necessary for the business with ESG characteristics and the control of climate and environmental risk factors. Among others, its tasks include:

- Establish the ESG business strategy, from the aspects related to the involvement and contact with the Group's clients and counterparties, to the guidelines for the development of new products and services;
- Define business and operational objectives in order to ensure compliance with the Group's sustainability strategy;
- Promote the fulfilment of ESG responsibilities across the organization by leading the discussion on ESG issues and climate and environmental risk factors along the three lines of defence;
- Establish the concepts, definitions and methodologies that best identify, evaluate and manage the main climate risk factors;
- Coordinate the Group's communication plans and reporting exercises, including the underwriting of initiatives and commitments;
- Mobilize the Group's entities around the ESG strategy, sharing the guidelines that make the entities' contribution to the BCP Group's objectives more effective.

Sustainability Commission

This commission is responsible for providing support to the Executive Committee in the integration of ESG aspects in the Group's business and risk management system and is responsible for monitoring the implementation of the Sustainability Master Plan, including the level of implementation of the plan, compliance with the respective deadlines and the validation of the results obtained in each initiative.

In accordance with the governance model in force, formalized in internal and corporate policies, each entity of the Group shall establish a local Sustainability Commission, under the direct leadership of the CEO and support of the CRO, with the operational coordination of ESG strategies and initiatives.

Risk Commission

This commission ensures the dedicated monitoring of the risks to which BCP is exposed, including those arising from ESG factors, and is responsible for monitoring and assessing the methodologies used in their evaluation and quantification.

First-line functions comprise all divisions and business functions responsible for taking and managing ESG risk factors. To this end, they interact with the Bank's customers, counterparties and suppliers, collect the information and data that support the assessment of their risk profiles (and their operations) and structure business solutions with characteristics associated with ESG or the promotion of climate risk control.

The role of the Sustainability Function, ensured in Portugal by the Economic Studies, Sustainability and Cryptoassets Division (DESC), is established within the scope of the first line of defence, with responsibilities that include:

a) The overall management of the BCP Group's sustainability strategy and plans;

b) Direct guidance and operational support to the first and second lines of defence in the performance of their main responsibilities;

c) The development of policies, methodologies and reports that address ESG issues; and

d) The management of the Bank's and the Group's external commitments and communications in this regard.

In the second line of defence, risk control responsibilities are assured, assumed by the Risk Management Function (ROFF) and Compliance Management Function (COFF). These functions ensure the procedures for designing, implementing policies and risk management methodologies/models necessary to maintain the Group's risk profile at appropriate levels.

BCP is responsible for boosting the management matrix of ESG risk factors throughout the Group: under the coordination of DESC and ROFF, corporate policies (e.g., Group Codes), monitoring forums and information exchange routines are established that guarantee the consistency of risk management and controls throughout the BCP Group.

In the third line of defence, performed by the Audit Management Function (DAU), the effectiveness of risk management processes and governance and internal control systems is ensured.

Remuneration and incentives

In order to ensure internal ESG efforts and the alignment of incentives between management mandates and the objectives of the BCP Group's ESG strategy, the Remuneration Policyof the BCP Executive Board has been adjusted to include sustainability-related performance metrics.

These metrics add to the others, related to business, organization and risk management, allowing BCP's sustainability performance to contribute directly to the Bank's management objectives.

3.Risk management

BCP recognises that the ESG risk factors arising from the climate and environmental dimensions (including biodiversity) and those relating to social and governance aspects, induce impacts on several of the risk categories defined in its risk taxonomy.

These risks are not considered in isolation: they are considered as risk factors or drivers that may affect, positively or negatively, the financial performance and solvency of the Bank's clients and counterparties. Thus, the materialization of its impacts (and their management) occurs through credit risk, market risk, operational & reputational risk, liquidity risk, among other risk types.

As a result, the Bank has implemented the necessary processes and methodologies to identify, assess, manage and monitor this category of risk factors, following the framework and policies already established for the risk categories of the Group risk taxonomy.

BCP conducts, on an annual basis, an exercise to identify and assess the materiality of ESG risk factors, covering the following categories:

- Physical risk factors: stem from the physical effects of climate change and environmental degradation. They should be categorized as a) acute hazards if they arise from climate and weather-related events and acute destruction of the environment; (b) chronic risk if they arise from progressive changes in weather and climate patterns or from a gradual loss of natural ecosystems.
- Transition risk factors: are the risks of any negative financial impact arising from the effort, ongoing or to be incurred in the future, to transition to a low-carbon and environmentally sustainable economy. This may result from technological changes, the impact of public policies or behavioural changes in the demand for goods or services (including banking), for example.

Through specific methodologies, these categories are assessed for their potential impact on other financial and non-financial risks.

Following the structure of communication and monitoring of risks already established, the regular provision of information to the management bodies takes place, allowing, in a timely manner, for any actions necessary for the reduction or mitigation of the identified situations.

The Group recognises that, in the long term, it will be primarily through credit risk management that the issues relating to climate change and other environmental factors may materialise.

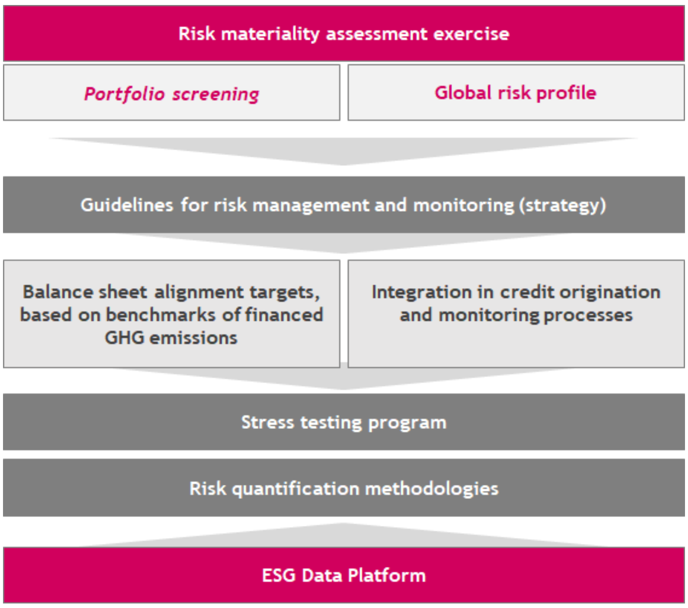
In this sense, iniciatives formally supported in the Sustainability Master Plan have been carried out to a) better recognize the potential impacts of ESG risk factors on the financial performance of clients and their operations; and b) determine actions both in terms of business structuring and the introduction of additional conditions/risk protection that best protect the sustainability of the Group.

Of these initiatives, the following stand out:

- The establishment of an internal taxonomy to classify customers and operations more in line with the transition objectives for the European economy;
- The development of ESG risk assessment methodologies integrated into the credit risk assessment models of large companies, allowing their integration of analysis into business decision processes;
- The application of risk classification matrices at the portfolio level, allowing the identification of sectors, companies and exposures most vulnerable to transition and/or physical risks;
- The development of methodologies for quantifying financed Green House Gas (GHG) emissions, promoting the strategic discussion on the management of these emissions and their alignment (in the long term) with the objectives of the Paris Agreement;
- The rationalization of sensitivity analyses and stress tests focusing on climatic risk factors.

Bearing in mind the expectations of the European Central Bank regarding the management of climate and environmental risks and the regulatory proposals under discussion, the Group will continue to deepen its approach to ESG risk factors as a way of anticipating future risks and always ensuring the sustainability of the BCP Group.

TABLE 87 – ESG RISK FACTORS MANAGEMENT MODEL



The risk management model is based on the materiality assessment exercise, which periodically allows the identification of the main risk factors and concludes on their relevance to the Group's activity. Using techniques with an imminently quantitative design (e.g. screening of credit portfolios for transition or physical risk factors) or through analyses on a qualitative basis, the Group's overall ESG risk profile is assessed.

For risk factors that prove to have have a (potentially) relevant or material impact, a) risk monitoring metrics will be established – where applicable, with inclusion in RAS; and b) quantification techniques and additional impact analysis on those metrics will be conducted.

As part of the transition risk management and control strategy, the BCP Group assumes the objective of using GHG financed emission reduction targets by its financing and investment activities.

The targets for reducing the GHG financed emissions will, in the first place, be worked out from the financing of the transition of the Bank's clients and, in the absence of this approach, strategies of client-engagement and, ultimately, of phasing-out of exposures will be considered.

For a better assessment and quantification of ESG risk factors and whenever the perception of materiality of risks so justifies, risk quantification methodologies will be used and stress tests carried out with an impact on climate risk factors, allowing, on a scenario and sensitivity analysis approach, to simulate the impact of each risk factor and, whenever relavant, the evaluation of the interdependence between these factors.

The use of risk assessment methodologies and stress test results allow the strengthening of the monitoring of ESG risk factors. Also crucial to this objective is the ESG Data Platform, under development at BCP, which focuses on information related to the European Taxonomy, thus enabling the Bank to obtain a better understanding of the impacts of climate risk factors on its financing and investments.

Integration in credit origination and monitoring processes

BCP has implemented methodologies for the analysis of ESG risk factors of its large clients and operations which, prior to the approval decision of the operation, allow to determine the susceptibility of the financial or credit profile of a given company to ESG issues – ESG component, integrated in the financial rating of large companies.

Through this analysis, BCP collects information that it considers more material for the analysis and prepares, when necessary, an assessment or opinion that allows an informed business decision: the results of the assessment/rating processes referred to should be considered in the analysis and in the decision on whether and how a credit relationship with a business client is initiated, or maintained, in particular with regard to the assessment of the ESG impact on the company's risk of default (and on the appraisal of collaterals).

Strategically and whenever applicable, BCP incorporates in the credit analysis and decision process its perspective on possible changes in the transition and physical risk profile of the sectors to which the Bank is exposed. In practice, where necessary, an additional level of conservatism can be introduced into credit policies (especially for long-term operations) and sectoral strategies. This may result, for example, in additional requirements on the pricing or profitability of transactions, application of covenants or even stricter acceptance criteria.

The ESG classification of clients, within the scope of the financial rating, also allows the monitoring of the exposure of clients and operations to the risks assessed in that classification to be operationalized.

Cross-sectional integration in other risk categories

The assessment of the materiality of ESG risk factors will drive the integration of the impacts of ESG factors in the different risk categories according to the classification structure present in the internal taxonomy of risks. It is recognized that credit risk is inherently the most exposed category to the impacts of ESG factors.

The categories of market, operational and liquidity risk may also reflect the impacts of ESG factors, including:

- At the level of market risk, issuers' transition challenges or the exposure of their activities to physical risk factors may be reflected in the pricing of the capital and debt instruments they issue. In addition, the existence of situations arising from the sensitivity of the issuer's public profile to ESG issues (e.g. sectors and companies causing significant damage to environmental objectives) may expose the valuation of the instruments to increased volatility.
- In terms of operational risk, the BCP Group considers that the management of business continuity ensures the control of the main risk factors, in particular physical, to which the Bank's activities are exposed. Nevertheless, reputational issues, by possible association with counterparties and suppliers with limited ESG profile, are specifically assessed.
- At the level of liquidity risk or, generally, financial risks (e.g., interest rate), the main effects of ESG risk factors may be materialized by additional pressures on the Group's funding sources, on the use of liquidity lines or on the lower valuation of liquidity buffers due to, for example, the materialization of physical risks. Thus, these risk factors are also assessed and, where relevant, specifically monitored within the framework of the management of ESG risk factors.

Data availability

The existence of complete and detailed data is critical for the development of risk assessment exercises, methodologies for quantification and operationalization of risk monitoring routines.

BCP is developing an integrated platform for all ESG data, both internal and from external sources / data providers, comprehensive and with ambition to respond to the varied requirements of risk management and monitoring, reporting and business support. Among others, it will integrate data at customers, operations and collaterals' levels, whether real data or estimates and proxies in case of absence or unavailability of information.

17.2. Social Risk

BCP recognizes the relevance of social risk factors to the Group's activity. Nevertheless, and given the regulatory developments still ongoing and the level of maturity of the risk assessment methodologies already available, the management of this risk has had more moderate developments (compared to environmental risk). These developments have been focused, fundamentally, on initiatives that have a direct impact on the Bank's activity.

1. Business strategy and processes

BCP's strategy on social risk aims at promoting a culture of social responsibility, developing actions for and with various stakeholder groups, with the aim of directly or indirectly contributing to the social development of the geographies in which it operates.

In its sustainability strategy, the following Sustainable Development Goals (SDGs) were prioritized, with the greatest impact on the management of social issues and risks:

TABLE 88 – SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY	Promote employment and social innovation by supporting social enterprises through funding, support and products targeted at such enterprises. Highlights include current account initiatives with special conditions "Non-Profit Associations Account" and the Covid-19 economy support credit line "FIS Line". Contribute to improving the quality of life and reducing poverty through the distribution of donations to the community and collaboration in community support initiatives. Highlights include participation in the Oeiras Solidária program, the Food Collection Campaign promoted by the Food Bank and the "Culture Atlas" Award.
4 QUALITY EDUCATION	Promote the financial literacy of the population, contributing to a more informed management of personal finances and promoting entrepreneurship. The promotion of financial literacy actions stands out, namely the digital literacy program in partnership with APB and the "Financial ABC" program of Bank Millennium in Poland.
10 REDUCED INEQUALITIES	Contribute to the development of entities in the social economy sector through the provision of management training. It is noteworthy the training of managers of social entities under the GOS program (Management of Social Organizations) by AESE. Ensure equal opportunities at work level and reduce inequalities (at internal level). Initiatives to promote equal opportunities stand out, namely the participation in the Inclusion Labs within the scope of the Inclusive Community Forum and the realization of two training classes "Winning in the World of Work".
17 PARTNERSHIPS FOR THE GOALS	Ensure partnerships aimed at sustainable development and the sharing of knowledge, expertise, technology and financial resources. Partnerships in working groups and social organizations, and collaboration and support to entities through social responsibility activities, in particular the BCP Foundation, stand out.

The Bank has made the following social commitments under the 2023 Sustainability Master Plan:

- To encourage the sustainable mobility of the Bank's employees;
- Develop regular social and/or environmental awareness actions among the Bank's employees;
- Maintain career development programs, aimed at employees with more potential and talent;
- Implement corporate volunteering initiatives within the scope of the social responsibility plan defined and approved for 2022/2023;
- Implement the Group's human rights management process and data disclosure, including identification of vulnerabilities and improvement actions;

- Maintain the commercialization of microcredit solutions, preferably with practices of disclosure on projects and actions of low amount business credit with the entities of the social sector and local communities;
- Evaluate the development of a financial literacy program, which should focus on the senior segment, with greater difficulties in the use of digital media;
- Establish partnerships with entities in the social and environmental field to develop joint activities, which may include, among others, the development of commercial campaigns.

Among the most relevant policies related to social aspects, the following stand out:

- Sustainability Policy;
- Human Rights Policy;
- Social Impact Policy;
- Diversity and Equal Opportunities Policy;
- Corporate Volunteering Policy

All corporate policies and principles of the BCP Group are available for consultation on the website:

Institutional / Sustainability / Main Corporate Policies and Principles

2.Governance

The governance model for aspects related to the management of social issues and risk factors follows the same structure described in the previous section on environmental risk management.

The Executive Committee is responsible for approving general policies on social conduct and risks and supervising their implementation.

It is incumbent upon DESC, through its line of reporting to the CEO, to propose and execute global and coherent sustainability and corporate social responsibility policies, promoting:

- Business development with the incorporation of environmental, social and governance principles;
- The sustainability of risk management;
- Valuing the reputation of the institution and its ability to add socio-environmental value; and
- Meeting the needs and expectations of stakeholders.

A key element in the agenda of social factors and risks is the Sustainability Master Plan, whose objectives for 2023 at the level of social risk management were mentioned in the previous section, thus being aligned with activities: a) for the benefit of the community and society; b) on labor standards and relationship with employees; c) customer protection and liability for marketed products and human rights.

3.Risk management

Social factors can be defined as elements with a positive or negative impact on the financial performance or solvency of an entity, Sovereign or individual. They are related to the rights, well-being and interests of people and communities and include factors such as (in)equality, health, diversity, inclusion, labor relations, health and safety at work, human capital and communities.

Whenever it is concluded that they are relevant, these risk factors are analyzed and monitored by the risk management system of the BCP Group.

17.3. Governance Risk

The governance risk factors at the level of BCP Group's clients and counterparties have long been subject to scrutiny and control.

Through compliance control processes, which include topics related to a) the prevention of money laundering and terrorism financing; b) prevention of conflict of interest; or c) anti-bribery and anti-corruption, prior to the onboarding of any business relationship or provision of services by the BCP Group, clients and counterparties are subject to screening and, where necessary, to an individualized analysis to inform the decision of whether to initiate or even maintain the relationship with the BCP Group.

Similar procedures are established at the level of suppliers and other third parties.

In addition, and with regard to the assessment of the credit risk of large corporate customers, the financial ratings include a component specifically dedicated to assessing the quality of the governance, management and organization of the company. This component, considered individually for each of the targeted companies and placed in the context of the company's industry and segment, requires risk analysts to consider:

- The sound organisation of the undertaking and its management and governance bodies;
- The quality of its strategy and positioning in the sector and among peers;
- Transparency and quality of external disclosure of information;
- Management and control of conflicts of interest.

Finally, the ESG component that is part of the financial rating model of large corporates has introduced elements of additional analysis, to be verified by risk analysts based on collection and verification of information at company level, namely:

- System of internal control policies and practices at company level;
- Transparency of governance;
- Independence of the governance bodies;
- Rights of shareholders;
- Anti-corruption policies and initiatives;
- Quality of the remuneration policies of the governance bodies.

Compliance with these compliance control processes is guided by a formal policy framework, which includes:

Policy for the Prevention and Management of Conflicts of Interest

Updated in 2022, it aims to define the principles, governance model and fundamental processes adopted for the identification and management of situations of conflict of interest that occur within the scope of Banco Comercial Português, S.A. or in any entity directly or indirectly controlled by it, integrating the Banco Comercial Português Group.

Anti-Corruption and Anti-Bribery Policy

Published in 2021, it aims to reinforce BCP's commitment to proactively combat and prevent all forms of corruption and bribery by setting out the principles and guidelines to prevent and manage these practices.

New Product Approval Policy

It aims to establish the approval circuit for the launch of new products and services (applicable in Portugal) and for the alteration of the characteristics of the products on sale (creation, alteration, reintroduction or elimination of the offer), ensuring: a) the protection of customers b) the preservation of the Bank's solidity; and c) the mitigation of situations of potential conflict of interest.

Remuneration and Promotions Policy

It aims to inform employees and members of the management and Supervisory bodies of the rules and principles underlying the management of the Bank's remuneration, promoting the transparency of remuneration policies with regard to the integration of sustainability risks.

Principles of Responsible Financing, Excluded and Conditioned Projects

Updated in 2022, it aims to define the exclusion of projects and the sectoral and project limitations to be considered in the credit granting decision, considering the environmental and social risks associated with these sectors of activity, in order to safeguard the environmental and social impact on communities.

Sustainability Guiding Principles for Suppliers

Updated in 2022, it constitutes a set of commitments applicable to the procurement of third-party services, in accordance with the Guidelines of the Organization for Economic Cooperation and Development (OECD) for Multinational Enterprises, the Fundamental Principles and Rights at Work of the International Labor Organization (ILO), the United Nations Global Compact and the Charter of Principles of BCSD Portugal, which BCP subscribes to.

All corporate policies and principles of the BCP Group are available for consultation on the website:

Institutional / Sustainability / Main Corporate Policies and Principles

17.4. Quantitative information

The following tables show the available information on climate change transition risk, namely the Credit quality of exposures by sector, emissions and residual maturity, loans collateralised by immovable property - energy efficiency of the collateral and exposures to top 20 carbon-intensive firms.

TABLE 89 – TEMPLATE 1 – BANKING BOOK– CLIMATE CHANGE TRANSITION RISK: CREDIT QUALITY OF EXPOSURES BY SECTOR, EMISSIONS AND RESIDUAL MATURITY

(Thousand euros)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)		GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/subsector		Of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation	Of which environmentally sustainable (CCM)	Of which stage 2 exposures	Of which non-performing exposures		Of which Stage 2 exposures	Of which non-performing exposures		Of which Scope 3 financed emissions						
1	**Exposures towards sectors that highly contribute to climate change***																
2	A - Agriculture, forestry and fishing	467 492			150 870	12 994	-15 648	-6 150	-6 206	103 491	70 770	0	287 529	123 473	53 162	3 329	1 958
3	B - Mining and quarrying	113 442			14 368	9 560	-5 470	-1 187	-3 812	416 635	376 626	0	54 262	11 856	47 220	105	0
4	B.05 - Mining of coal and lignite	35			0	0	0	0	0	0	0	0	35	0	0	0	554
5	B.06 - Extraction of crude petroleum and natural gas	2 459			226	0	-34	-12	0	19 155	17 017	0	1 606	853	0	0	1 519
6	B.07 - Mining of metal ores	600			0	2	-2	0	-1	1 948	1 815	0	600	0	0	0	179
7	B.08 - Other mining and quarrying	63 483			14 079	9 546	-5 264	-1 164	-3 803	240 330	218 467	0	51 588	10 995	796	105	1 245
8	B.09 - Mining support service activities	46 864			62	12	-170	-11	-7	155 202	139 327	0	432	8	46 424	0	3 769
9	C - Manufacturing	4 194 846			745 263	252 373	-227 626	-55 305	-119 933	1 333 165	861 699	0	3 513 200	585 221	81 860	14 564	0
10	C.10 - Manufacture of food products	733 807			122 571	70 656	-67 767	-8 199	-43 183	245 373	183 473	0	647 827	74 497	10 153	1 329	874
11	C.11 - Manufacture of beverages	152 234			33 765	43	-3 801	-2 979	-13	34 985	25 484	0	123 460	24 637	4 137	0	1 033
12	C.12 - Manufacture of tobacco products	5 200			1 564	0	-14	-11	0	2 068	1 536	0	5 200	0	0	0	116
13	C.13 - Manufacture of textiles	228 036			42 132	8 523	-6 423	-3 575	-1 726	32 095	24 639	0	175 348	42 124	10 554	11	1 254
14	C.14 - Manufacture of wearing apparel	174 358			53 949	9 467	-8 954	-4 666	-3 374	39 854	29 060	0	159 117	11 452	3 104	684	1 078
15	C.15 - Manufacture of leather and related products	97 664			19 160	4 850	-7 199	-1 506	-4 059	21 820	16 036	0	87 095	7 539	2 902	128	1 075
16	C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	204 131			33 577	4 242	-5 365	-2 785	-1 634	42 747	33 612	0	169 937	26 598	6 788	807	1 236
17	C.17 - Manufacture of pulp, paper and paperboard	133 285			22 534	1 352	-2 229	-1 297	-180	29 319	24 730	0	110 989	19 586	2 672	39	1 169
18	C.18 - Printing and service activities related to printing	78 758			16 807	3 664	-3 927	-1 742	-1 647	17 644	14 004	0	58 076	17 776	2 859	47	1 498
19	C.19 - Manufacture of coke oven products	15 868			2 753	0	-308	-279	0	2 489	2 112	0	15 249	0	618	0	266
20	C.20 - Production of chemicals	118 241			23 509	2 413	-4 266	-1 548	-1 753	43 531	28 219	0	107 496	10 306	435	4	763
21	C.21 - Manufacture of pharmaceutical preparations	63 864			6 345	47	-873	-565	-16	12 623	3 164	0	43 613	20 250	0	0	1 294
22	C.22 - Manufacture of rubber products	297 446			51 404	23 525	-20 894	-2 520	-12 670	37 438	27 211	0	248 501	45 329	3 289	327	1 044
23	C.23 - Manufacture of other non-metallic mineral products	268 411			50 974	12 227	-10 921	-4 420	-4 485	435 428	187 115	0	210 211	54 095	4 039	66	1 158
24	C.24 - Manufacture of basic metals	155 428			5 987	24 700	-13 640	-414	-9 381	55 433	43 800	0	129 271	19 957	50	6 151	1 738
25	C.25 - Manufacture of fabricated metal products, except machin	682 904			93 636	33 253	-28 486	-7 953	-13 561	201 380	157 045	0	553 577	108 692	18 105	2 531	1 208

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)		GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Sector/subsector		Of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation	Of which environmentally sustainable (CCM)	Of which stage 2 exposures	Of which non-performing exposures		Of which Stage 2 exposures	Of which non-performing exposures		Of which Scope 3 financed emissions						
1	**Exposures towards sectors that highly contribute to climate change***																
26	C.26 - Manufacture of computer, electronic and optical products	42 206			2 667	1 190	-2 083	-287	-1 141	3 470	2 676	0	40 591	1 616	0	0	619
27	C.27 - Manufacture of electrical equipment	89 346			5 365	28 218	-18 938	-474	-13 564	8 736	7 058	0	78 982	9 631	718	15	941
28	C.28 - Manufacture of machinery and equipment n.e.c.	178 155			28 118	2 234	-3 967	-1 858	-1 013	14 801	11 566	0	151 325	24 892	1 874	64	1 126
29	C.29 - Manufacture of motor vehicles, trailers and semi-trailers	152 423			67 481	11 653	-6 815	-2 806	-3 126	21 133	17 499	0	141 216	10 420	1	786	792
30	C.30 - Manufacture of other transport equipment	53 252			11 455	302	-1 123	-758	-121	4 374	3 354	0	46 747	5 974	532	0	951
31	C.31 - Manufacture of furniture	140 901			23 842	7 694	-5 673	-2 116	-2 365	13 959	9 955	0	101 929	33 533	4 321	1 118	1 581
32	C.32 - Other manufacturing	49 729			9 677	850	-1 527	-854	-410	4 219	2 694	0	42 667	4 240	2 700	122	1 230
33	C.33 - Repair and installation of machinery and equipment	79 199			15 991	1 270	-2 430	-1 693	-511	8 245	5 657	0	64 776	12 078	2 010	335	1 191
34	D - Electricity, gas, steam and air conditioning supply	466 719			18 318	534	-1 246	-220	-289	257 862	129 207	0	358 229	6 097	102 379	14	0
35	D35.1 - Electric power generation, transmission and distribution	114 746			5 363	17	-220	-89	-5	241 666	119 720	0	114 732	0	0	14	215
36	D35.11 - Production of electricity	339 704			7 048	446	-891	-52	-266	109 612	47 649	0	231 905	5 421	102 379	0	1 636
37	D35.2 - Manufacture of gas; distribution of gaseous fuels through mains	340			54	0	-4	-3	0	336	195	0	340	0	0	0	598
38	D35.3 - Steam and air conditioning supply	11 929			5 853	71	-131	-76	-18	15 860	9 292	0	11 253	676	0	0	527
39	E - Water supply; sewerage, waste management, remediation acti	204 477			57 358	2 583	-8 380	-6 150	-1 170	153 911	108 922	0	113 249	53 783	37 444	1	2 506
40	F - Construction	1 470 692			362 368	191 924	-143 689	-14 863	-118 519	134 852	94 065	0	1 126 398	112 866	225 805	5 623	0
41	F.41 - Construction of buildings	753 967			140 234	141 774	-109 625	-7 552	-96 432	68 742	47 121	0	556 635	61 579	131 200	4 554	1 802
42	F.42 - Civil engineering	412 063			177 380	41 216	-25 934	-4 780	-18 686	31 456	22 786	0	302 693	22 528	86 657	185	1 508
43	F.43 - Specialised construction activities	304 661			44 754	8 934	-8 130	-2 531	-3 402	34 654	24 157	0	267 071	28 759	7 948	884	1 175
44	G - Wholesale and retail trade; repair of motor vehicles & motorcyc	3 851 967			581 772	115 266	-98 965	-27 237	-51 688	1 323 680	1 140 756	0	3 228 919	446 143	165 943	10 961	1 067
45	H - Transportation and storage	1 345 864			187 218	27 341	-36 445	-13 887	-7 840	4 571 978	3 285 097	0	1 162 266	136 769	45 994	835	0
46	H.49 - Land transport and transport via pipelines	837 709			114 175	25 410	-28 457	-10 208	-7 123	4 475 591	3 216 308	0	746 820	80 555	9 510	824	1 175
47	H.50 - Water transport	40 764			6 069	32	-1 880	-751	-6	29 655	20 776	0	8 374	2 077	30 313	0	3 185
48	H.51 - Air transport	5 676			4 197	17	-458	-489	-12	12 416	8 697	0	3 366	1 959	351	0	2 068
49	H.52 - Warehousing and support activities for transportation	445 431			54 589	1 473	-5 224	-2 311	-567	51 631	37 475	0	387 803	51 989	5 631	8	1 442
50	H.53 - Postal and courier activities	16 286			8 188	408	-427	-128	-133	2 686	1 841	0	15 903	189	190	3	473
51	I - Accommodation and food service activities	1 477 563			558 610	114 852	-73 929	-23 747	-43 226	125 634	37 507	0	583 612	319 067	531 758	43 126	3 212
52	L - Real estate activities	1 893 438			409 686	32 891	-37 845	-15 547	-11 269	279 807	109 036	0	1 102 131	408 266	379 817	3 224	2 130
53	**Exposures towards sectors other than those that highly contribute to climate change***				0	0	0	0	0				0	0	0	0	
54	K - Financial and insurance activities	238 011			14 858	1 138	-1 616	-534	-433				232 015	5 740	256	0	472
55	Exposures to other sectors (NACE codes J, M - U)	3 622 753			579 646	393 570	-232 076	-25 057	-188 382				2 552 093	491 352	576 509	2 799	1 862
56	TOTAL	19 347 265			3 680 333	1 155 026	-882 935	-189 884	-552 767	9 553 712	6 737 008	0	14 313 904	2 700 635	2 248 146	84 580	

* In accordance with the Commission delegated regulation EU) 2020/1818 supplementing regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks -Climate Benchmark Standards Regulation - Recital 6: Sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006.

TABLE 90 – TEMPLATE 2 – BANKING BOOK – CLIMATE CHANGE TRANSITION RISK: LOANS COLLATERALISED BY IMMOVABLE PROPERTY - ENERGY EFFICIENCY OF THE COLLATERAL

(Thousand euros)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
	Counterparty sector	Total gross carrying amount amount															
			Level of energy efficiency (EP score in kWh/m² of collateral)						Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
			0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	A	B	C	D	E	F	G		Of which level of energy efficiency (EP score in kWh/m² of
1	**Total EU area**	54,185,572	15,398,496	815,332	236,052	288,153	71,709	8,722	854,004	1,360,480	2,350,390	2,075,455	1,119,724	448,311	6,588	45,970,620	8,600,587
2	Of which Loans collateralised by commercial immovable property	4,148,354	187,018	160,570	236,052	288,153	71,709	8,722	13,039	116,317	107,102	22,126	8,491	2,053	3,302	3,875,923	679,793
3	Of which Loans collateralised by residential immovable property	25,356,205	15,211,479	654,762	0	0	0	0	840,965	1,244,163	2,243,288	2,053,329	1,111,233	446,258	3,286	17,410,758	7,920,794
4	Of which Collateral obtained by taking possession: residential and commercial immovable properties	261,761	0	0	0	0	0	0	0	0	0	0	0	0	0	261,761	0
5	Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	8,600,587	7,863,892	319,388	141,414	235,765	32,408	7,719								8,600,587	8,600,587
6	**Total non-EU area**	2,984,252	789,752	35,508	0	0	0	0	83,119	121,418	149,492	118,503	66,825	26,728	26,728	2,391,440	259,027
7	Of which Loans collateralised by commercial immovable property	105,527	0	0	0	0	0	0	0	0	0	0	0	0	0	105,527	0
8	Of which Loans collateralised by residential immovable property	902,132	789,752	35,508	0	0	0	0	83,119	121,418	149,492	118,503	66,825	26,728	26,728	335,898	259,027
9	Of which Collateral obtained by taking possession: residential and commercial immovable properties	64,817	0	0	0	0	0	0	0	0	0	0	0	0	0	64,817	0
10	Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	259,027	250,325	8,703	0	0	0	0								259,027	259,027

TABLE 91 – TEMPLATE 4 – BANKING BOOK – CLIMATE CHANGE TRANSITION RISK: EXPOSURES TO TOP 20 CARBON-INTENSIVE FIRMS

(Thousand euros)

	a	b	c	d	e
	Gross carrying amount (aggregate)	Gross carrying amount towards the counterparties compared to total gross carrying amount (aggregate)*	Of which environmentally sustainable (CCM)	Weighted average maturity	Number of top 20 polluting firms included
1	19,347,265	0	0	0	0

*For counterparties among the top 20 carbon emitting companies in the world

TABLE 92 – TEMPLATE 5 – CLIMATE CHANGE PHYSICAL RISK– EXPOSURES SUBJECT TO PHYSICAL RISK

(Thousand euros)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount (Mln EUR)													
			of which exposures sensitive to impact from climate change physical events												
	Variable: Geographical area subject to climate change physical risk - acute and chronic events		Breakdown by maturity bucket					of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change	Of which Stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity							of which Stage 2 exposures	Of which non-performing exposures
1	A - Agriculture, forestry and fishing	467,492													
2	B - Mining and quarrying	113,442													
3	C - Manufacturing	4,194,846													
4	D - Electricity, gas, steam and air conditioning supply	466,719													
5	E - Water supply; sewerage, waste management and remediation activities	204,477													
6	F - Construction	1,470,692													
7	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	3,851,967													
8	H - Transportation and storage	1,345,864													
9	L - Real estate activities	1,893,438													
10	Loans collateralised by residential immovable property	26,258,337													
11	Loans collateralised by commercial immovable property	4,253,882													
12	Repossessed colalterals	326,578													
13	Other relevant sectors (breakdown below where relevant)	0													

Note: the methodology for assessing the impacts of physical risks on the loan portfolio is under development. Consequently, the values of the columns ‘c’ to ‘o’ are not available.

APPENDIX I – MAPPING OF QUANTITATIVE INFORMATION

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EU LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	Table 3
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446. Operational risk	Chapter 13
447. Exposures in equities not included in the trading book	Chapter 10
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453. Use of credit risk mitigation techniques	Chapter 9
454. Use of the Advanced Measurement Approaches to operational risk	n.a.
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APPENDIX III – LIST OF THE ACRONYMS AND TECHNICAL TERMS FREQUENTLY USED THROUGHOUT THE DOCUMENT

AC: Audit Committee

AML/CTF: Anti-Money Laundering and Counter-Terrorism Financing

BoD: Board of Directors

bps: Basis points (1 basis point = 0,01%)

CALCO: Capital Assets and Liabilities Committee

CCF: Credit Conversion Factors

CCP: Central Counterparty

CET1: Common Equity Tier 1

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

CRM: Credit Risk Mitigation techniques

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

ICS: Internal Control System

IFRS 9: International Financial Reporting Standard 9 - Financial Instruments

ILAAP: Internal Liquidity Adequacy Assessment Process

IRB: Internal Ratings Based

KNF (*Komisdja Nadzoru Finansowego*): Polish financial Supervisory authority

KRI: Key Risk Indicators

LCR: Liquidity Coverage Ratio

LGD: Loss Given Default

O-SII: Other Systemically Important Institution

OTC: Over-the-Counter derivatives

NSFR: Net Stable Funding Ratio

NPA: Non-performing Assets

NPE: Non-performing Exposures

PD: Probability of Default

RAC: Risk Assessment Committee

RAF: Risk Appettite Framework, defined as the set of principles, policies, rules, limits and reports that support the Bank's risk management function

RAS: Risk Appettite Statement, declaration including a set of indicators of risk acceptance limits by the Bank

RC: Risk Commission

REPOS (*Repurchase agreements*): Financial instruments subject to repurchase agreements

RMS: Risk Management System

RSA: Risks Self-Assessment

RWEA: Risk Weighted: Risk Weighted Exposure Amounts

SIC 12: Standing Interpretations Committee (before March 2002); Interpretation that defines the criteria for SPE consolidation according to IAS 27

SFT: Securities Financing Transaction

SREP: Supervisory Review and Evaluation Process

SSM: Single Supervisory Mechanism

SPE: Special Purpose Entity

SVaR: Stressed Value at risk

VaR: Value at Risk

GHG: Green House Gas

Market Discipline Report 2022

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