

# 2014 MARKET DISCIPLINE REPORT

## TABLE OF CONTENTS

Introduction.....	6
Regulatory Calculation Methodologies .....	7
1. Statement of Responsibility of the Board of Directors .....	8
2. Scope .....	10
2.1. Identification of Banco Comercial Português, S.A .....	10
2.2. Basis and perimeters of consolidation for accounting and prudential purposes.....	10
2.3. Eligibility and composition of the financial conglomerate .....	15
3. Risk management in the Group .....	17
3.1. Risk management principles.....	17
3.2. Risk management governance.....	17
3.3. Risk assessment .....	19
3.3.1. Credit risk .....	19
3.3.2. Market risks.....	20
3.3.3. Operational risk.....	21
3.3.4. Liquidity risk .....	23
3.3.5. Defined benefit pension fund risk .....	24
4. Capital adequacy .....	25
4.1. Regulatory framework.....	25
4.2. Own funds and capital adequacy on 31 December 2014 and 2013 .....	25
4.3. Leverage ratio on 31 December 2014 .....	39
4.4. Events with a material impact on own funds and capital requirements in 2015 .....	40
4.5. Internal capital adequacy assessment process (ICAAP) .....	41
5. Credit risk.....	44
5.1. Definitions and policies for assessment of losses and provisioning.....	44
5.2. Management of concentration risk .....	46
5.3. Characterisation of the exposures .....	47
5.4. Own funds requirements for credit risk.....	52
5.4.1. Framework of the approaches used .....	52
5.4.2. IRB Approach - Parameters and general information .....	53
5.4.3. IRB Approach - Corporates risk class.....	54
5.4.4. IRB Approach - Retail portfolio risk class.....	56
6. Counterparty credit risk .....	60
7. Credit risk mitigation techniques.....	63
7.1. Eligibility and type of mitigation instruments .....	63
7.2. Protection Levels.....	63
7.3. Collateral Revaluation.....	64
8. Equity exposures in the banking book .....	67
9. Securitisation operations .....	69
9.1. Description of the activities and operations .....	69
9.2. Group accounting policies .....	72
9.3. Own funds requirements .....	73
10. Own funds requirements of the trading book .....	75
10.1. Calculation Methodologies .....	75
10.2. Stress tests on the trading book.....	76
10.3. Backtesting the Internal models Approach.....	76
11. Own funds requirements for foreign exchange and commodities risks .....	80
12. Own funds requirements for operational risk .....	81
12.1. Gross income .....	81
12.2. Own funds requirements for operational risk - Standard Approach .....	81
12.3. Operational risk management .....	83

13. Interest rate risk in the banking book .....	86
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## TABLE INDEX

Table 1 - Capital requirements: calculation methods and scope of application .....	7
Table 2 - Consolidation methods and regulatory treatment .....	11
Table 3 - Reconciliation between accounting and under regulatory scope balance sheets on 31 December 2014) .....	14
Table 4 - Risk management model .....	18
Table 5 - Encumbered assets .....	24
Table 6 - A/B - Capital ratios and summary of the main aggregates .....	26
Table 6 - C - Impact of the transition to CRD IV/CRR.....	28
Table 7 - A - Equity on 31 December 2014 (transitional model of disclosure of own funds) .....	29
Table 7 - B - Own funds on 31 December 2013 (Bank of Portugal).....	34
Table 8 - Financial instruments eligible for own funds .....	35
Table 9 - A/B - Reconciliation between the accounting and regulatory capital .....	36
Table 10 - Capital requirements .....	38
Table 11 - Capital adequacy.....	39
Table 12 - Leverage ratio on 31 December 2014 .....	40
Table 13 - Impact of impairment and provision charges and recoveries on results .....	46
Table 14 - Exposures by risk class .....	48
Table 15 - Distribution of exposures by geographical areas .....	49
Table 16 - Distribution of exposures by economic sector .....	50
Table 17 - Distribution of exposures by residual maturity .....	51
Table 18 - Breakdown of past due and impaired exposures.....	51
Table 19 - Impairment, provisions and amortisations .....	52
Table 20 - Rating Master Scale .....	53
Table 21 - Corporates rating models and systems.....	55
Table 22 - Retail portfolio rating models and systems .....	56
Table 23 - Own funds requirements for credit risk and counterparty credit risk (Standardised approach) .....	57
Table 24 - Own funds requirements for credit risk and counterparty credit risk (IRB approach)	
Table 24-A - Retail.....	58
Table 24-B - Corporate.....	59
Table 24-C - Specialised lending.....	59
Table 24-D - Equity positions.....	59
Table 25 - Own funds requirements for counterparty credit risk (Standardised approach) .....	61
Table 26 - Own funds requirements for counterparty credit risk (IRB approach).....	61
Table 27 - Credit derivatives .....	62
Table 28 - Credit risk mitigation techniques (Standardised approach) .....	65
Table 29 - Credit risk mitigation techniques (IRB approach)	
Table 29 -A - Total exposure .....	65
Table 29 -B - Equity positions .....	65
Table 30 - Concentration analysis: personal and funded credit protection.....	66
Table 31 - Equity exposures in the banking book.....	67
Table 32 - Capital requirements for equity exposures.....	68
Table 33 - Description of securitisation operations .....	70
Table 34 - Main characteristics of the securitisation operations.....	72
Table 35 - Own funds requirements for securitisation operations (IRB approach)	
Table 35 - A - Traditional securitisation .....	74
Table 35 - B - Synthetic securitisation .....	74
Table 36 - Own funds requirements for the trading book.....	75

Table 37 - Historical record of generic risk in the trading book (Portugal) .....	76
Table 38 - Stress tests over the trading book .....	76
Table 39 - Backtesting of the VaR approach applied in market risk calculation .....	77
Table 40 - Hypothetical backtest of the trading book (Portugal) - 2014 .....	78
Table 41 - Own funds requirements for exchange rate and commodities risks.....	80
Table 42 - Gross Income for operational risk.....	83
Table 43 - Sensitivity analysis to the interest rate risk in the banking book .....	87

## GRAPH INDEX

Graph 1 - VaR <i>BackTesting</i> ( <i>trading book</i> ).....	77
Graph 2 - Risks self-assessment .....	83
Graph 3 - Loss amount distribution by type of event .....	84
Graph 4 - Loss amount distribution by country .....	84
Graph 5 - Loss amount distribution by amount range.....	84

## LIST OF THE ACRONYMS AND TECHNICAL TERMS MOST USED THROUGHOUT THE DOCUMENT (IN ALPHABETICAL ORDER)

**AC:** Audit Committee

**ALM:** Asset and Liabilities Management

**BoD:** Board of Directors

**CCF:** Credit Conversion Factors

**CET1:** Common equity Tier 1

**CRA:** Commission for Risk Assessment

**CRD IV:** Directive 2013/36/EU of June, 26 regarding access to credit institutions' activity and prudential supervision of credit institutions and investment companies, which alters Directive 2002/87/CE and revokes Directives 2006/48/CE and 2006/49/CE

**CRR:** Regulation 575/2013/EU of June, 26, related to prudential requirements for credit institutions and for investment companies, which changes Regulation (EU) no. 648/2012

**CRMSC:** Credit Risk Monitoring Sub-Commission

**CT1:** Core tier 1

**CVA (Credit Valuation Adjustment):** Adjustment to credit valuation induced by counterparty credit risk

**EAD:** Exposure At Default

**EBA:** European Banking Authority

**EC:** Executive Committee of the BoD

**ECAI:** External Credit Assessment Institutions

**ECB:** European Central Bank

**IAS:** International Accounting Standards

**ICAAP:** Internal Capital Adequacy Assessment Process

**IRB:** Internal Ratings Based

**KRI:** Key Risk Indicators

**LGD:** Loss Given Default

**PD:** Probability of Default

**PFRSC:** Pension Fund Risk Sub-Commission

**RC:** Risk Commission

**RSA:** Risks Self-Assessment

**SIC 12 (Standing Interpretations Committee - before March 2002):** interpretation that defines the criteria for SPE consolidation according to IAS 27

**SPE:** Special Purpose Entity

**VaR:** Value-at-Risk

## INTRODUCTION

This “2014 Market Discipline Report” is comprised within the requisites for the provision of information foreseen in Pillar III of the Capital Accord, complementing the 2014 Annual Report of Banco Comercial Português, S.A. (hereinafter referred to as “Bank” or “Millennium bcp”) concerning the information on risk management and capital adequacy on a consolidated basis, namely in what concerns the provision of detailed information on the capital, solvency, risks assumed and respective control and management processes.

This report includes information requisites foreseen in the Capital Requirements Directive / Capital Requirements Regulation (CRD IV/CRR) as well as additional information deemed relevant for an evaluation of the Bank’s risk profile and capital adequacy on a consolidated basis, and is structured as follows:

### Report chapters

- 1 Statement of responsibility of the board of directors
- 2 Scope
- 3 Risk Management in the Group
- 4 Capital Adequacy
- 5 Credit Risk
- 6 Counterparty credit risk
- 7 Credit risk mitigation techniques
- 8 Equity exposures in the banking book
- 9 Securitisation operations
- 10 Own funds requirements of the trading book
- 11 Own funds requirements for foreign exchange and commodities risks
- 12 Own funds requirements for operational risk
- 13 Interest rate risk in the banking book

## REGULATORY CALCULATION METHODOLOGIES

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

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

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

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

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

Without damaging the provision of more detailed information in the next chapters, we show in Table 1 a summary of the calculation methodologies of the capital requirements used in the regulatory reporting as well as of the respective geographic application scope.

**Table 1 - Capital requirements: calculation methods and scope of application**

	31-12-2014	31-12-2013
<b>Credit risk and counterparty credit risk</b>		
<b>PORTUGAL</b>		
Retail	IRB Advanced	IRB Advanced
Corporates	IRB Advanced <sup>(1)</sup>	IRB Advanced <sup>(1)</sup>
<b>POLAND</b>		
Retail		
- Loans secured by residential real estate	IRB Advanced	IRB Advanced
- Renewable positions	IRB Advanced	IRB Advanced
<b>OTHER EXPOSURES (all entities of the Group)</b>	Standardised	Standardised
<b>Market risks <sup>(2)</sup></b>		
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
<b>Operational risk <sup>(3)</sup></b>	Standard	Standard

<sup>(1)</sup> Excluding exposures derived from the simplified rating system, which were weighted by the Standardised approach.

<sup>(2)</sup> For exposures in the perimeter managed centrally from Portugal; for all the other exposures the only approach applied is the Standardised method.

<sup>(3)</sup> The adoption of the Standard method of operational risk was authorised in 2009 for application on a consolidated basis.

## 1. STATEMENT OF RESPONSIBILITY OF THE BOARD OF DIRECTORS

- I. This statement of responsibility issued by the Board of Directors of Banco Comercial Português, S.A., regards the “2014 Market Discipline Report”, in compliance with the provisions of CRD IV/CRR.
- II. On 26 June 2013, the European Parliament and Council approved Directive 2013/36/EU and Regulation (EU) no. 575/2013 (Capital Requirements Directive IV / Capital Requirements Regulation - CRD IV/CRR), transposed to Portuguese law through decree-law no. 157/2014 of 24 October, that established new and more demanding capital requirements for credit institutions, with effects as from 1 January 2014, with highlight to the articles 431 to 455 and 492 of the CRR in the scope of Pillar III requisites.
- III. The Capital Accord is based upon three different and complementary pillars:
  - Pillar I consists in rules for the determination of minimum own funds requirements for hedging credit, market and operational risks;
  - Pillar II comprises the main principles of the supervision and risk management process, including the capital adequacy self-assessment process;
  - Pillar III complements the previous pillars with the demand for the provision of information on the financial standing and the solvency of credit institutions, establishing public disclosure requirements for capital and risk management processes and systems, aiming at enhancing market discipline.
- IV. Hence, the “2014 Market Discipline Report” was prepared within the scope of Pillar III and is the seventh report published by the Bank made on this issue, in compliance with the regulations in force and in line with the practices followed by the major international banks.
- V. The relevant events occurred between the end of the 2014 exercise and the approval date of this report are described in chapter 4.4 - Events with a material impact on own funds and capital requirements in 2015.
- VI. Since the regulatory requirements do not foresee it, this report was not audited by the Bank's External Auditor. However, the same includes information included in the audited consolidated financial statements, in the 2014 Annual Report that was appraised and subject to the approval of the General Meeting of Shareholders that took place on 11 May 2015.
- VII. The report has the following chapters:
  1. Statement of responsibility of the Board of Directors
  2. Scope
  3. Risk Management in the Group
  4. Capital Adequacy
  5. Credit Risk
  6. Counterparty credit risk
  7. Credit risk mitigation techniques
  8. Equity exposures in the banking book
  9. Securitisation operations
  10. Own funds requirements of the trading book
  11. Own funds requirements for foreign exchange and commodities risks
  12. Own funds requirements for operational risk
  13. Interest rate risk in the banking book
- VIII. Concerning the information presented in the “2014 Market Discipline Report”, the Board of Directors:
  - Certifies that all procedures deemed necessary were carried out and that, to the best of its knowledge, all the information disclosed is trustworthy and true;
  - Assures the quality of all the information disclosed, including the one referring to or with origin in entities comprised within the economic group of which the institution is part;



- Informs that no information related to number 2 of article 432 of the CRR, was omitted; and
- Commits to timely disclose any significant alterations that may occur in the course of the financial year subsequent to the one this reports relates to.

Lisbon, 29 June 2015

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

## 2. SCOPE

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

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

The share capital of the Bank, on 31 December 2014, was 3,706,690,253.08 Euros, fully paid up and represented by 54,194,709,415 shares without nominal value. The ordinary, book-entry and nominal shares are registered in the centralised system managed by Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.

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

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

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

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

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

Companies included in the previous paragraph are excluded from consolidation for prudential purposes, however considered by the equity method. Notwithstanding, and according to the Notice 8/94, Banco de Portugal may order the inclusion of some of these companies in the prudential consolidation perimeter, if and when it considers this the most appropriate decision in terms of supervision objectives.

In addition, shareholdings excluded from consolidation for prudential purposes that are recorded in the financial statements for the purposes of supervision on a consolidated basis under the equity method, can be deducted from consolidated own funds, totally or partially, under the terms defined by the CRR, as detailed in chapter "4. Capital adequacy". As of 31 December 2014 there are no subsidiaries not included in the consolidation perimeter for prudential purposes, whose own funds are lower than the required minimum level. Under the terms of article 4 of Decree-Law no. 104/2007, of April 3, there are also no subsidiaries included in the consolidation perimeter for prudential purposes, regarding which the obligations relative to the minimum level of own funds and limits to large exposures are not applicable.

Except for some restrictions due to the Portuguese State having subscribed hybrid securities eligible for CET1 in June 2012, there is no significant, current or foreseen, impediment to the prompt transfer of own funds or repayment of liabilities among the Bank and its subsidiaries, although, with reference to Angola and Mozambique, the rules in force may condition the fluidity of fund transfers, but without any potentially significant impacts at Group level.

The entities included in the consolidation perimeter of BCP Group as at 31 December 2014 are described in Table 2, indicating the consolidation method to which they are subject to and giving adequate notes aiming to highlight the regulatory treatment of entities excluded from the consolidation perimeter for prudential purposes.

Table 2 - Consolidation methods and regulatory treatment

	31 December 2014			
	Accounting Consolidation method	Head office	Economic activity	% control
Millennium bcp Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	Full	Portugal	Investment Fund Management	100.0%
Interfundos - Gestão de Fundos de Investimento Imobiliários, S.A.	Full	Portugal	Real Estate Investment Funds Management	100.0%
BII Investimentos International, S.A.	Full	Luxembourg	Investment Funds Management	100.0%
BCP Capital - Sociedade de Capital de Risco, S.A.	Full	Portugal	Venture Capital	100.0%
Banco de Investimento Imobiliário, S.A.	Full	Portugal	Banking	100.0%
BCP International B.V.	Full	The Netherlands	Holding Company	100.0%
Banco ActivoBank, S.A.	Full	Portugal	Banking	100.0%
BIM - Banco Internacional de Moçambique, S.A.	Full	Mozambique	Banking	66.7%
Banco Millennium Angola, S.A.	Full	Angola	Banking	50.1%
Bank Millennium, S.A.	Full	Poland	Banking	65.5%
Millennium TFI - Towarzystwo Funduszy Inwestycyjnych, S.A.	Full	Poland	Investment Funds Management	100.0%
Millennium Dom Maklerski S.A.	Full	Poland	Brokerage	100.0%
Millennium Leasing Sp. z o.o.	Full	Poland	Leasing	100.0%
TBM Sp.z o.o.	Full	Poland	Advisory and Services	100.0%
MB Finance AB	Full	Sweden	Investment	100.0%
Millennium Service Sp. z o.o.	Full	Poland	Services	100.0%
Millennium Telecommunication Sp. z o.o.	Full	Poland	Brokerage	100.0%
BG Leasing S.A	Full	Poland	Leasing	74.0%
Banque Privée BCP (Suisse) S.A.	Full	Switzerland	Banking	100.0%
BCP África, S.G.P.S., Lda.	Full	Portugal	Holding Company	100.0%
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Full	Portugal	Holding Company	100.0%
Bitapart, B.V.	Full	The Netherlands	Holding Company	100.0%
BCP Investment, BV	Full	The Netherlands	Holding Company	100.0%
BCP Holdings (USA), Inc.	Full	USA	Holding Company	100.0%
MBCP Reo I, LLC	Full	USA	Real Estate Management	100.0%
MBCP Reo II, LLC	Full	USA	Real Estate Management	100.0%
Millennium bcp Bank & Trust	Full	Cayman Islands	Banking	100.0%

	31 December 2014			
	Accounting Consolidation method	Head office	Economic activity	% control
BCP Finance Bank, Ltd.	Full	Cayman Islands	Banking	100.0%
BCP Finance Company	Full	Cayman Islands	Financial	100.0%
Millennium BCP - Escritório de Representações e Serviços, Ltda.	Full	Brazil	Financial Services	100.0%
Millennium bcp Teleserviços - Serviços de Comércio Electrónico, S.A.	Full	Portugal	Videotex Services	100.0%
Caracas Financial Services, Limited	Full	Cayman Islands	Financial Services	100.0%
Millennium bcp Imobiliária, S.A	Full	Portugal	Real Estate Management	99.9%
Millennium bcp - Prestação de Serviços, A.C.E.	Full	Portugal	Services	91.5%
Servitrust - Trust Management Services S.A.	Full	Portugal	Trust Services	100.0%
Fundo de Investimento Imobiliário Imosotto Acumulação	Full (1)	Portugal	Real Estate Investment Funds	100.0%
Fundo de Investimento Imobiliário Gestão Imobiliária	Full (1)	Portugal	Real Estate Investment Funds	100.0%
Fundo de Investimento Imobiliário Imorenda	Full (1)	Portugal	Real Estate Investment Funds	100.0%
Fundo Especial de Investimento Imobiliário Oceânico II	Full (1)	Portugal	Real Estate Investment Funds	100.0%
Fundo Especial de Investimento Imobiliário Fechado Stone Capital	Full (1)	Portugal	Real Estate Investment Funds	100.0%
Fundo Especial de Investimento Imobiliário Fechado Sand Capital	Full (1)	Portugal	Real Estate Investment Funds	100.0%
Fundo de Investimento Imobiliário Fechado Gestimo	Full (1)	Portugal	Real Estate Investment Funds	100.0%
M Inovação - Fundo de Capital de Risco BCP Capital	Full (1)	Portugal	Investment Funds	60.6%
Fundo Especial de Investimento Imobiliário Fechado Intercapital	Full (1)	Portugal	Real Estate Investment Funds	100.0%
Fundo DP Invest - Fundo Especial de Investimento Imobiliário Fechado	Full (1)	Portugal	Real Estate Investment Funds	54.0%
Fundial- Fundo Especial de Investimento Imobiliário Fechado	Full (1)	Portugal	Real Estate Investment Funds	100.0%
Millennium Fundo de Capitalização - Fundo de Capital de Risco	Full (1)	Portugal	Private Equity Fund	100.0%
Funsita - Fundo Especial de Investimento Imobiliário Fechado	Full (1)	Portugal	Real Estate Investment Funds	100.0%
Imoport - Fundo de Investimento Imobiliário Fechado	Full (1)	Portugal	Real Estate Investment Funds	100.0%
Multiusos Oriente - Fundo Especial de Investimento Imobiliário Fechado	Full (1)	Portugal	Real Estate Investment Funds	100.0%
Grand Urban Investment Fund - Fundo Especial de Investimento Imobiliário	Full (1)	Portugal	Real Estate Investment Funds	100.0%
Academia Millennium Atlântico	Equity method (2)	Angola	Education	33.0%
ACT-C-Indústria de Cortiças, S.A.	Equity method (2)	Portugal	Extractive Industry	20.0%
Baía de Luanda - Promoção, Montagem e Gestão de Negócios, S.A.	Equity method (2)	Angola	Services	10.0%
Banque BCP, S.A.S.	Equity method (3)	France	Banking	19.9%
Banque BCP (Luxembourg), S.A.	Equity method (3)	Luxembourg	Banking	8.8%
Constellation, S.A.	Equity method (2)	Mozambique	Real Estate	20.0%

	31 December 2014			
	Accounting Consolidation method	Head office	Economic activity	% control
Beira Nave	Equity method (2)	Mozambique	Shipyards	22.8%
Luanda Waterfront Corporation	Equity method (2)	Cayman Islands	Services	10.0%
Flitptrell III SA	Equity method (2)	Portugal	Tourism	50.0%
Lubuskie Fabryki Mebli S.A	Equity method (2)	Poland	Furniture Manufacturer	50.0%
Nanium, S.A	Equity method (2)	Portugal	Electronic Equipments	41.1%
Quinta do Furão - Sociedade de Animação Turística e Agrícola de Santana, Lda	Equity method (2)	Portugal	Tourism	31.3%
SIBS, S.G.P.S., S.A.	Equity method (3)	Portugal	Banking Services	21.9%
Sicit - Sociedade de Investimentos e Consultoria em Infra-Estruturas de Transportes, S.A.	Equity method (2)	Portugal	Consulting	25.0%
UNICRE - Instituição Financeira de Crédito, S.A.	Equity method (3)	Portugal	Credit Cards	32.0%
VSC - Aluguer de Veículos Sem Condutor, Lda.	Equity method (2)	Portugal	Long Term Rental	50.0%
S&P Reinsurance Limited	Full (3)	Ireland	Life Reinsurance	100.0%
SIM - Seguradora Internacional de Moçambique, S.A.R.L.	Full (3)	Mozambique	Insurance	89.9%
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Equity method (3)	Portugal	Holding Company	49.0%
Enerparcela - Empreendimentos Imobiliários, S.A.	Full (4)	Portugal	Real Estate Management	100.0%
Adelphi Gere, Investimentos Imobiliários, S.A.	Full (4)	Portugal	Real Estate Management	100.0%
Sadamora - Investimentos Imobiliários, S.A.	Full (4)	Portugal	Real Estate Management	100.0%
Imábida - Imobiliária da Arrábida, S A.	Full (5)	Portugal	Real Estate Management	100.0%
QPR Investimentos, S.A.	Full (5)	Portugal	Advisory and services	100.0%
Propaço-Sociedade Imobiliária de Paço D'Arcos, Lda.	Full (5)	Portugal	Real Estate Development	52.7%
Irgossai - Urbanização e construção, S.A.	Full (5)	Portugal	Construction and promotion of real estate	100.0%
Magellan Mortgages No.2 Limited	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Magellan Mortgages No.3 Limited	Full	Ireland	Special Purpose Entity (SPE)	82.4%

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

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

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

(4) Entity excluded from regulatory consolidation, since they belong to investment funds identified in (1).

(5) Entity excluded from regulatory consolidation, since they do not belong to the banking sector.

On 31 December 2014, the full and the financial balance sheet, that translates the consolidation perimeter of the Group's accounts and for prudential purposes on that date, as well as the respective differences, are described in Table 3:

Table 3 - Reconciliation between accounting and under regulatory scope balance sheets as at 31 December 2014 Euro thousand

	Accounting balance sheet as in published financial statements	Deconsolidation of insurance/other entities	Accounting balance sheet under regulatory scope of consolidation
<b>Assets</b>			
Cash and deposits at central banks	1,707,447	-1	1,707,446
Repayable on demand	795,774	-2,896	792,878
Other loans and advances to credit institutions	1,456,026	-44	1,455,982
Loans and advances to customers	53,685,648	33,793	53,719,441
Financial assets held for trading	1,674,240	-14,021	1,660,219
Financial assets available for sale	8,263,225	730,567	8,993,792
Assets with repurchase agreement	36,423		36,423
Hedging derivatives	75,325		75,325
Financial assets held to maturity	2,311,181		2,311,181
Investments in associated companies	323,466	33,490	356,956
Non current assets held for sale	1,622,016	-331,828	1,290,188
Investment property	176,519	-174,861	1,658
Property and equipment	755,451	-209,519	545,932
Intangible assets	252,789	-767	252,022
Current tax assets	41,895	-2,359	39,536
Deferred tax assets	2,398,562	-4,928	2,393,634
Other assets	784,929	10,011	794,940
<b>Total Assets</b>	<b>76,360,916</b>	<b>66,637</b>	<b>76,427,553</b>
<b>Liabilities</b>			
Amounts owed to central banks	6,817,673		6,817,673
Amounts owed to credit institutions	4,148,482		4,148,482
Amounts owed to customers	49,816,736	167,126	49,983,862
Debt securities	5,709,569		5,709,569
Financial liabilities held for trading	952,969		952,969
Hedging derivatives	352,543		352,543
Provisions for liabilities and charges	460,293	-83,490	376,803
Subordinated debt	2,025,672	4,339	2,030,011
Current income tax liabilities	31,794	-2,038	29,756
Deferred income tax liabilities	6,686	-416	6,270
Other liabilities	1,051,592	-21,770	1,029,822
	<b>71,374,009</b>	<b>63,751</b>	<b>71,437,760</b>
<b>Equity</b>			
Share capital	3,706,690		3,706,690
Treasury stock	-13,547		-13,547
Preference shares	171,175		171,175
Other capital instruments	9,853		9,853
Reserves and retained earnings	564,985		564,985
Net income for the period attributable to Shareholders	-226,620		-226,620
	<b>4,212,536</b>		<b>4,212,536</b>
Non-controlling interests	774,371	2,886	777,257
<b>Total of liabilities, equity and non-controlling interests</b>	<b>76,360,916</b>	<b>66,637</b>	<b>76,427,553</b>

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

### Full consolidation

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

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

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

### Proportional consolidation

Jointly controlled entities, consolidated under the proportional method, are entities where the Group has joint control, established by contractual agreement. The consolidated financial statements include, in the corresponding captions, the Group’s proportional share of the entities’ assets, liabilities, revenue and expenses, with items of a similar nature on a line by line basis, from the date that joint control started until the date that joint control ceases. On 31 December 2014, the Group didn’t consolidate any entity by the proportional method.

### Equity consolidation

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

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

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between the Group and the investee;
- Interchange of the management team;
- Provision of essential technical information.

The holdings held by the Group in insurance companies consolidated under the full consolidation method are accounted under the equity method, for the purposes of supervision on a consolidated basis.

## 2.3. ELIGIBILITY AND COMPOSITION OF THE FINANCIAL CONGLOMERATE

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

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

An activity is considered significant if, for each subsector, the average between the weight of its balance sheet in the total Group’s financial balance sheet and the weight of its solvency requirements in the total

requirements of the Group's financial sector exceeds 10%, or if the balance sheet of the Group's smallest subsector exceeds 6 billion Euros.

The Group was qualified as a financial conglomerate by the National Council of Financial Supervisors (Conselho Nacional de Supervisores Financeiros), by letter of 22 February 2007, for fulfilling the condition foreseen in article 3, no. 2, subparagraph b, ii), of Decree-Law no. 145/2006, of 31 July, reflecting a balance sheet of the insurance subsector, the Group's smallest subsector, in excess of 6 billion Euros.

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

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



### 3. RISK MANAGEMENT IN THE GROUP

#### 3.1. RISK MANAGEMENT PRINCIPLES

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

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

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

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

- Credit risk - credit risk reflects the potential losses and the degree of uncertainty regarding the future returns to be generated by the loan portfolio, due to the inability of borrowers (and of their guarantors, if any), issuers of securities or counterparties to agreements, to fulfil their obligations.
- Market risk - market risk consist of the potential losses that might occur in a given portfolio, as a result of changes in interest or exchange rates and/or in the prices of the different financial instruments of the portfolio, considering either the correlations that exist between those instruments or its volatility.
- Operational risk - operational risk consists in the occurrence of losses as a result of failures and/or inadequacies of internal processes, people or systems or due to external events.
- Liquidity risk - liquidity risk reflects the Group's potential inability to meet its obligations at maturity without incurring significant losses, resulting from a deterioration in funding conditions (funding risk) and/or from the sale of its assets below market values (market liquidity risk).
- Defined benefit pension fund risk - pension fund risk stems from the potential devaluation of the Bank's Defined Benefit Pension Fund, or from the decrease of its expected returns, implying the undertaking of unplanned contributions.

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

#### 3.2. RISK MANAGEMENT GOVERNANCE

On 28 February 2012, the Bank's General Meeting approved an amendment to the corporate bodies, resulting in the current governance model which is composed of, besides the General Meeting of Shareholders, corporate bodies are the Board of Directors, with non-executive and executive directors, the latter composing an Executive Committee, an Audit Committee, composed of non-executive directors, and a Statutory Auditor. In addition, it is also composed by a Remuneration and Welfare Board and a Board for International Strategy.

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

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

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

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

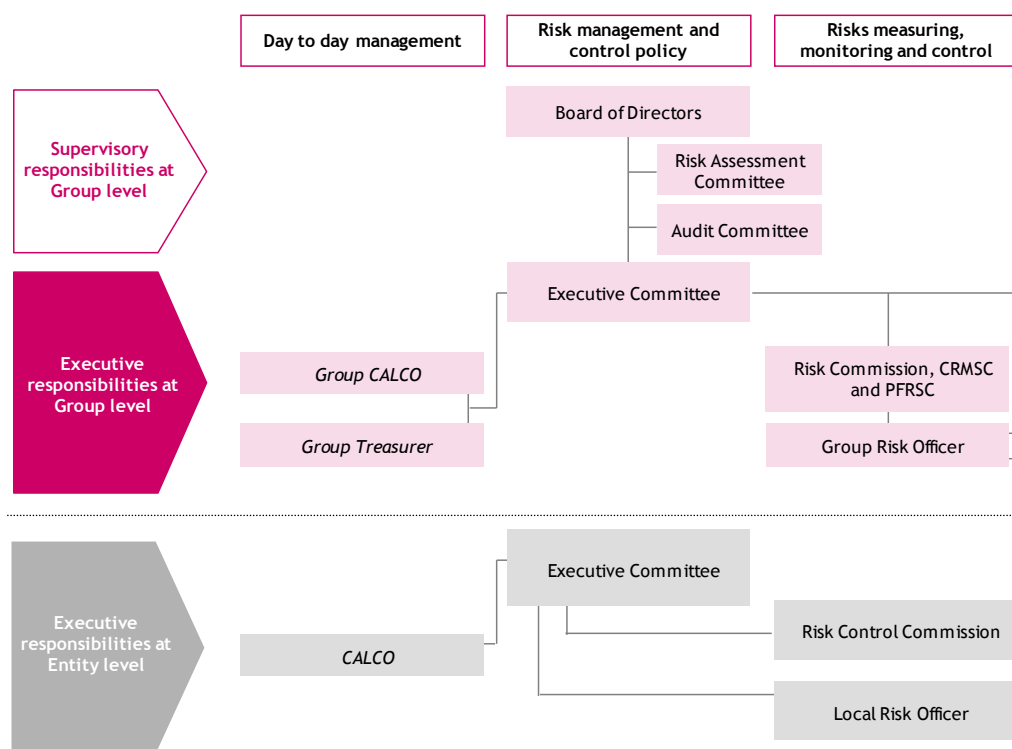
In 2014, there were also two specialised sub-commissions appointed from within the Risk Commission: the Credit Risk Monitoring Sub-Commission (CRMSC) and the Pension Fund Risk Sub-Commission (PFRSC).

In 2014, the Group Risk Officer was responsible for the risk control function for all entities of the Group in order to ensure the monitoring and transversal alignment of concepts, practices and objectives. The Group Risk Officer gives support to the Risk Commission, informing the commission on the general level of risk and proposing measures to improve the internal control environment and to implement approved limits. The Group Risk Officer also has the power to veto any decision that is not subject to the approval of the Board of Directors or of the Executive Committee and that may have an impact on the Group's risk level (for example: the launch of new products or changes to processes).

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

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

Table 4 - Risk management model



### 3.3. RISK ASSESSMENT

#### 3.3.1. Credit risk

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

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

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

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

The stage of development of the processes and systems allocated by the Group to credit risk management and control enabled Banco de Portugal to approve the Group's application for the use of IRB approach for the calculation of the regulatory capital requirements for this type of risk and for the main risk classes, with effect as of 31 December 2010 for the Group's activities in Portugal, which was followed by the joint authorisation given by the Polish and Portuguese supervision authorities for the sequential adoption of that approach for Bank Millennium (Poland), effective as at 31 December 2012. Effective from 31st of December 2013, Banco de Portugal has approved, for the Group activities in Portugal, the use of own LGD estimates for the Corporates risk class (IRB Advanced), as well as internal rating models with own LGD estimates for the real estate promotion clients.

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

In 2014 the following actions should be highlighted:

- Submission of the application to the use of the Internal Ratings Based (IRB) approach for the calculation of Risk Weighted Assets (RWA) of the Corporate portfolio of Bank Millennium (Poland);
- Revamping of the credit impairment calculation process, including the redevelopment of the collective impairment model;
- Implementation of a new IT reporting tool, under the new EBA requirements for prudential and financial reporting (new COREP/FINREP);
- Integration, in the Internal Audit Division, of the independent validation function of internal risk models;
- Integration of data from Angola, Mozambique, Macau and Switzerland in the Risk Office Datamart (RODM), allowing for a more detailed knowledge of the respective loan portfolios, as well as for the automation and robustness of the regulatory capital requirements calculation regarding these countries;
- Development of a new credit risk assessment model for Project Finance in Portugal;

- Development of the credit recovery areas performance measurement and monitoring;
- Updating of the LGD estimates for the Retail and Corporate segments, as well as of the Expected Loss Best Estimate (ELBE) model applicable to corporate Customers in default;
- Development of a new EL<sub>BE</sub> model for the Retail segment Customers.

### 3.3.2. Market risks

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

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

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

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

The Group uses an integrated market risks measure that allows the monitoring of all the relevant sub-types of risk considered. This measure covers the evaluation of the following types of risk: generic risk, specific risk, non-linear risk and commodities' risk. The measurement used on the assessment of the generic market risk - relative to interest rate risk, exchange rate risk, equity risk and price risk of Credit Default Swaps uses a VaR (Value-at-Risk) model based on the analytical approximation defined in the methodology developed by RiskMetrics, where the calculation considers a time horizon of ten business days and a significance level of 99%.

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

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

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

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

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

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

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

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

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

Within the scope of market risk management, we underline the following accomplishments in 2014:

- Collaboration in the Asset Quality Review (AQR) tasks and joint stress-testing exercises (EBA/ECB), under the Comprehensive Assessment of the European Central Bank (ECB), to prepare the implementation of the new European SSM (Single Supervisory Mechanism);
- The development of the first stage of implementation of the Group's new IT treasury solution (integrating Front/Middle/Back Office) encompassing foreign exchange products and money market products.

### 3.3.3. Operational risk

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

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

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

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

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

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

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

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

- Approving changes to existing processes, as well as the design of new processes.

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

A Working Group for the revision of processes, stemming from the PBSMC, was established in 20014, for a more systematic approach to the follow-up of the processes structure.

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

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

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

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

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

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

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

The main accomplishments in terms of operational risk management of 2014 were:

- The reinforcement of the losses database through the systematic identification of new cases in the Group's main operations, new RSA exercises in Portugal, Poland and Mozambique and regular monitoring of the risk indicators that contribute to the early identification of changes in the risk profile of processes;
- Continuation of the implementation/development of the structures and mechanisms for operational risk control and management in Angola;
- Launch of a project for the significant strengthening of the operational risk management system, with the assistance of external consultants and within the scope of the preparation of the Group's application to adopt the Advanced Measurement Approach (AMA) for calculating capital requirements for this risk type. In this context, there is the need to redesign the governance framework of operational risk, aiming at a greater involvement of the organisational units (as a complement to the processes structure);
- The strengthening of the partnership with ORX (Operational Riskdata eXchange Association), through the participation in working groups and studies promoted by the association, as well as through the sharing of a first set of historical data on operational losses.



### 3.3.4. Liquidity risk

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

The control of the Group's liquidity risk, for short-term horizons (up to 3 months) is carried out daily on the basis of two internally defined indicators - the immediate liquidity and the quarterly liquidity. These indicators measure the maximum fund-taking requirements that might occur in one day, considering the cash-flow projections for the periods of, respectively, 3 days and 3 months.

These indicators are calculated by adding to the liquidity position registered on the assessment date the future cash flows estimated for each one of the days of the respective timeframe (3 days or 3 months) for the group of operations intermediated by the market areas, including the operations made with customers from the Corporate and Private networks that, for their size, are mandatorily listed by the Trading Room. To the value thus estimated one adds the amount of assets considered highly net that are in the Bank's securities portfolio, being, this way, calculated the liquidity gap accumulated in each one of the days of the period of time under analysis.

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

In 2014, regarding liquidity risk management, emphasis should be made to the implementation of calculation processes to support the new liquidity indicators defined in CRD IV/CRR.

#### **New regulatory requirements**

In relation to the new requirements established by international financial regulations, BCP Group has been monitoring the application and compliance with the new framework by participating in study exercises promoted by Basel Committee (Quantitative Impact Study), and by reporting exercises executed in the scope of European supervision, through the Single Supervisory Mechanism (Short-term exercise) and the European Banking Authority (EBA), with regular reporting of liquidity information (COREP).

#### **i. Liquidity coverage ratio**

In 2014, the Basel Committee published a definition of liquidity coverage ratio (LCR), having been adopted, later, the European Commission's delegated act that introduced, versus CRD IV/CRR, new calculation metrics and criteria to be implemented by the European Union. The adoption of the new framework shall begin in October 2015, with a minimum requirement of 60% until the end of 2015, which will gradually increase to 100% in 2018. BCP Group's liquidity situation, which is also monitored under the Capital and Liquidity plan, has reached compliant levels of over 100% throughout 2014, based on highly liquid assets portfolio that meet the Group's short-term liquidity needs.

#### **ii. Net stable funding ratio**

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

#### **iii. Encumbered and unencumbered assets**

Within the scope of Banco de Portugal's instruction no. 28/2014, focused on EBA's orientation regarding the disclosure of encumbered and unencumbered assets (EBA/GL/2014/3), and considering the recommendation made by the European Systemic Risk Board, presented below is information relative to assets and collaterals:

Table 5 - Encumbered assets

Euro thousand

31 December 2014				
Assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	unencumbered assets
Assets of the reporting institution	15,585,596	n/a	60,841,956	n/a
Equity instruments	-	-	2,220,081	2,218,963
Debt securities	3,059,616	3,059,616	8,551,366	8,354,230
Other assets	-	n/a	7,470,914	n/a
31 December 2014				
		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	
Collateral received				
Collateral received by the reporting institution		-	-	
Equity instruments		-	-	
Debt securities		-	-	
Other collateral received		-	-	
Own debt securities issued other than own covered bonds or ABS		-	-	
31 December 2014				
Encumbered assets, encumbered collateral received and matching liabilities		Carrying amount of selected financial liabilities		
Matching liabilities, contingent liabilities and securities lent		11,451,473		
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS		15,279,091		

At the end of 2014, the total encumbered assets in financing operations represented 20% of the Group's balance sheet assets, according to the criteria defined by EBA.

Encumbered assets are mostly related with the Group's funding operations, namely with ECB, in repo operations, through the issue of mortgage bonds and securitisation programs. The type of assets used as collateral for the previously stated funding operations are divided in customer loans portfolio, which support securitisation programs and the issue of mortgage bonds, placed either outside the Group or meant to reinforce the collateral pool at ECB, and Portuguese sovereign debt, which are collateral for repo operations in the money market. Portuguese sovereign debt and debt issued by public entities are collateral for funding obtained from the European Investment Bank (EIB).

The other assets in the amount of 7,471 million Euros, although unencumbered, are mostly linked to the Group's activity, namely: investments in associated companies and subsidiaries, tangible assets and investment properties, intangible assets, assets associated with derivatives and current and deferred taxes.

The values presented in the previous tables refer to 31 December 2014 and reflect the high level of collateralisation of BCP Group's wholesale funding. The buffer of assets eligible for central banks stood at 10,433 million Euros in 31 December 2014 (value of unencumbered assets net of haircuts).

### 3.3.5. Defined benefit pension fund risk

The defined benefit pension fund risk stems from the potential devaluation of the Bank's Defined Benefit Pension Fund, or from the decrease of its expected returns, implying the undertaking of unplanned contributions. The Pension Fund Risk Sub Commission is responsible for the regular monitoring and follow-up of this risk.



## 4. CAPITAL ADEQUACY

### 4.1. REGULATORY FRAMEWORK

CRD IV/CRR established new and more stringent capital requirements to credit institutions, with effect from 1 January 2014.

These stricter requirements result from a narrower definition of the instruments and elements that constitute own funds and from changes in risk weights related to certain assets, together with the establishment of minimum ratios, including a capital conservation buffer, of 7% for Common Equity Tier 1 (CET1), 8.5% for Tier 1 and 10.5% for Total Capital. The CRD IV/CRR also stipulates a transitional period (phased-in) in which institutions may accommodate the new requirements, both in terms of own funds and compliance with minimum capital ratios.

Nevertheless, Banco de Portugal, through Notice no. 6/2013 of 23 December, stipulated the obligation to ensure the maintenance of a CET1 ratio not lower than 7%, determining the adoption of capital conservation measures whenever such minimum is not complied with. Given that as of 31 December 2013, capital ratios were calculated based on the rules set out by Banco of Portugal under Basel II regulatory framework, the capital ratios as at 2013 and 2014 year-end are not on a comparable basis.

As of 31 December of 2013 and of 2014, methodologies based on Internal Rating models (IRB) for the calculation of capital requirements for credit and counterparty risk were used, covering a substantial part of the retail portfolio in Portugal and Poland and of the corporate portfolio in the activity in Portugal. For the purpose of general market risk coverage, the advanced method was used (internal model) while for operational risk coverage the standard method was applied.

### 4.2. OWN FUNDS AND CAPITAL ADEQUACY ON 31 DECEMBER 2014 AND 2013

According to CRD IV/CRR rules (After 1 January 2014)

Own funds are calculated according to Directive 2013/36/UE and Regulation (EU) 575/2013 approved by the European Parliament and the Council, and the Notice no. 6/2013 from Banco de Portugal, and result from adding tier 1 and tier 2. Tier 1 comprises common equity tier 1 and additional tier 1.

Common equity tier 1 includes: (i) paid-up capital, share premium, hybrid instruments eligible for this line item, fully subscribed by the Portuguese State within the scope of the Bank's capitalisation process, reserves and retained earnings and non-controlling interests in fully consolidated subsidiaries; ii) and deductions related to own shares, the shortfall of value adjustments and provisions to expected losses concerning risk weighted exposure amounts cleared under the IRB approach and goodwill and other intangible assets. Reserves and retained assets are adjusted by the reversal of unrealised gains and losses on cash-flow hedge transactions and on financial liabilities valued at fair value through profits and losses, net of taxes, to the extent related to own credit risk.

The minority interests are only eligible up to the amount of the capital requirements attributable to the minorities. In addition, the deferred tax assets arising from unused tax losses are deducted, as well as the deferred tax assets arising from temporary differences relying on the future profitability and the interests held in financial institutions and insurers of at least 10%, in this case only in the amount that exceeds the thresholds of 10% and 15% of the common equity tier 1, when analysed on an individual and aggregated basis, respectively.

Additional tier 1 comprises preference shares and other hybrid instruments that are compliant with CRR requirements and the minority interests eligible up to the amount of tier 1 capital requirements attributable to the minorities.

Tier 2 includes the subordinated debt that are compliant with CRR requirements and the minority interests eligible up to the amount of total capital requirements attributable to the minorities.

CRD IV/CRR stipulates a transitional period to exclude some elements previously considered (phase-out) and include/deduct new elements (phase-in), in which institutions may accommodate the new requirements. The transitional period for the majority of the elements will last until the beginning of 2018, with the exception of the deferred tax assets already recorded on the balance sheet of 1 January 2014, and the subordinated debt and all the hybrid instruments not eligible to the own funds, that have a longer period (until the end of 2023 and 2021, respectively).

The calculation of risk-weighted assets also presents some changes comparing with how it is performed in accordance with the regulatory framework of Basel II, with emphasis on the 250% risk weighting of the deferred tax assets from temporary differences and investments higher than 10% held in financial institutions and insurance companies that are within the limits established for not deducting them to

common equity tier 1 (instead of 0% and 100%, respectively), on the Credit Value Adjustments (CVA) and on the calculation of capital requirements to cover credit risk of small and medium companies.

The main headings of the consolidated own funds and own funds requirements, as of 31 December 2014 as well as the respective capital ratios are shown in Table 6-A:

Table 6-A - Capital ratios and summary of the main aggregates		Euro thousand
		31-12-2014
<b>Own funds</b>		
Tier I		5,076,642
of which: Common Equity Tier I		5,076,642
Tier II		723,124
Total capital		5,799,766
<b>Capital requirements</b>		
Credit risk and counterparty credit risk		3,052,801
Market risk		73,597
Operational risk		245,749
Credit Valuation Adjustments (CVA)		17,941
Total		3,390,088
<b>Capital ratios</b>		
Common Equity Tier I		12.0%
Tier I		12.0%
Total capital		13.7%

According with Banco de Portugal rules (Until 31 December 2013)

Consolidated own funds, determined by Notice no. 6/2010 from Banco de Portugal, result from adding tier 1 and tier 2 and subtracting the component of deductions. For the calculation of tier 1 are considered the core tier 1 elements, comprising the steadiest components of the own funds, and other relevant elements to discharges of tier 1.

Core tier 1 includes: i) paid-up capital, share premium, hybrid instruments eligible for this line item, fully subscribed by the Portuguese State within the scope of the Bank's capitalisation process, the reserves and the retained earnings, non-controlling interests in fully consolidated subsidiaries and the pension fund corridor; ii) and deductions related to own shares, goodwill and other intangible assets and customers deposits with yields above a certain threshold. Core tier 1 is also influenced by the reversal of unrealised gains and losses which do not represent impairment on debt securities, loans and other receivables recorded in the available-for-sale portfolio, on cash-flow hedge transactions and on financial liabilities valued at fair value through profits and losses, net of taxes, to the extent related to own credit risk, as well as by the reversal of unrealised gains on equity securities classified as available-for-sale.

The additional elements that integrate the tier 1 are preference shares and other hybrid instruments and even some deductions taken by 50%: (i) of interests held in financial institutions and insurers higher than 10% and 20%, respectively; and (ii) the shortfall of value adjustments and provisions to expected losses concerning risk weighted exposure amounts cleared under the IRB approach.

Tier 2 includes the subordinated debt eligible pursuant to authorization of Banco de Portugal which, in respect to non-perpetual subordinated loans, is subject to a prudential amortization during the last five years to maturity. The tier 2 is also subject to the deduction of the remaining 50% of interests held in financial institutions and insurers and the shortfall of value adjustments and provisions to expected losses that have not been deducted to tier 1.

There are also some deductions to total own funds that need to be performed, namely the amount of real-estate assets resulting from recovered loans that have exceeded the regulatory period of permanence in the Bank's accounts and the potential excess of exposure to risk limits within the scope of the Notice no. 7/2010 from Banco de Portugal.

There are still limits to the eligibility of some financial instruments to own funds, namely; (i) hybrids instruments, including those fully subscribed by the Portuguese State within the scope of the Bank's

capitalisation process, may only contribute to tier 1 up to 50% of the value of the latter, and any excess must be deducted to tier 1 and added to upper tier2; (ii) lower tier 2 cannot surpass 50% of tier 1 and (iii) tier 2 cannot surpass the total amount of tier 1.

Banco de Portugal established that financial institutions should report total capital ratios of at least 8% and consolidated core tier 1 ratios no lower than 10% as at the year-end 2012 and onwards.

On the other hand, the core tier 1 ratio, determined in accordance with the European Banking Association (EBA) criteria reached 10.8% as at 31 December 2013 and exceeded the defined minimum limit of 9%. Core tier 1 of EBA is based on core tier 1 calculated according to Banco de Portugal's criteria, adjusted by the impact of the following items: i) deduction of 50% of both the value of significant investments held in shareholdings and the impairment shortfall in comparison to the expected losses of the exposures treated under IRB methodologies; and ii) the capital buffer set by EBA with reference to 30 September 2011 to cover sovereign risks, adjusted by the provisioning undertaken subsequently within the scope of the restructuring of the Greek sovereign debt.

On 22 July 2013, EBA issued a Recommendation which establishes the preservation, in absolute value, of the necessary capital to the fulfilment of a minimum 9% ratio previously foreseen, with reference to the capital requirements as at 30 June 2012, including the same capital buffer for sovereign exposures, to ensure an adequate transition to the minimum capital requirements imposed by the CRD IV/CRR. The excess core tier 1 resulting from the application of the new Recommendation of capital preservation as at 31 December 2013, assuming as reference to the calculation of the mentioned excess the capital requirements calculated for the year-end 2013, was 805 million euros.

However, making use of the exceptions provided by this recommendation, particularly for institutions involved in the process of restructuring and orderly gradual deleveraging, for which the minimum nominal capital can be fixed with reference to the capital requirements determined in a later reference date, the Group in due time submitted to Banco de Portugal the request to waive the fulfilment of the nominal core tier 1 capital amount foreseen by that recommendation, having the authorization granted in May 2014.

The own funds and the capital requirements determined according to the methodologies of the Notice no. 23/2007 from Banco de Portugal and the criteria of EBA previously referred as of 31 December 2013, are shown in Table 6-B:

Table 6-B - Capital ratios and summary of the main aggregates		Euro thousand
		31-12-2013
<b>Own funds</b>		
Tier I		5,646,239
of which: Core Tier I		6,040,340
Tier II		879,994
Total capital deductions		-105,602
Total capital		6,420,631
<b>Capital requirements</b>		
Credit risk and counterparty credit risk		3,225,845
Market risk		38,843
Operational risk		249,410
Total		3,514,099
<b>Capital ratios</b>		
Core Tier I		13.8%
Tier I		12.9%
Total capital		14.6%
<b>EBA Capital ratio <sup>(1)</sup></b>		<b>10.8%</b>

<sup>(1)</sup> Core tier I of EBA is based on core tier I calculated according to Banco de Portugal's criteria, deduct of 50% of both the value of significant investments held in shareholdings and the impairment shortfall in comparison to the expected losses of the exposures treated under IRB methodologies and by the capital buffer set by EBA with reference to 30 September 2011 to cover sovereign risks, adjusted by the provisioning undertaken subsequently within the scope of the restructuring of the Greek sovereign debt.

CET1 ratio, calculated in accordance with CRD IV/CRR was 12.0% as at 31 December 2014, having the core tier 1 ratio, calculated in accordance with Bank of Portugal rules, reached 13.8% as at 31 December 2013, both above the respective minimum required thresholds.

According to the new rules on the calculation date, the estimated impact of the transition to CRD IV/CRR rules on 1 January 2014 was negative in 152 basis points, setting CET1 ratio at 12.2%, to which contributed the CET1 reduction of 477 million euros and the increase of 1,574 million euros in risk weighted assets. The decrease of CET1 was due to the adoption of phase-in rules, namely related to the deduction of the shortfall of impairment to expected losses, and with the eligibility of minority interests and of the pension fund corridor. The increase in risk weighted assets resulted from the weighing of deferred tax assets from temporary differences and significant financial investments not deducted to CET1 and CVA, notwithstanding the more favourable weight applied to small and medium enterprises loans.

Table 6-C Impact of the transition to CRD IV/CRR					Euro thousand
	CT1 31-12-2013	CRD IV/CRR Introduction	CET1 01-01-2014	Activity 2014	CET1 31-12-2014
CT1 / CET1	6,040,340	-476,896	5,563,444	-486,802	5,076,642
RWA	43,926,235	1,574,122	45,500,357	-3,124,252	42,376,105
Ratio	13.8%	-152pb	12.2%	-25pb	12.0%

Additionally, the following effects determined CET1's evolution from 12.2% as at 1 January 2014 to 12.0% as at 31 December of 2014:

- Increase of 2,242 million euros in share capital in July 2014 and the reimbursement of 2,250 million euros of hybrid financial instruments (CoCos), of which 400 million euros in May 2014 and 1,850 million euros in August 2014, having an aggregated impact on CET1 as of 1 January 2014 of -2 basis points;
- Sale of Non-Life insurance business and distribution of Millenniumbcp Ageas's excess capital, which resulted in a gain of 69 million euros and a reduction of the equity held in this subsidiary on the consolidated balance sheet of 199 million euros, with an aggregated impact of +31 basis points on CET1 ratio (comparing with 1 January 2014);
- The fulfilment of the Caravela SME4 synthetic securitization, which increased CET1 ratio as of 1 January 2014 in 7 basis points, due to the 266 million euros of savings in risk weighted assets;
- Sale of the Tagus EDP EnergyON investment securitization in October 2014, with a positive impact of 10 basis points in CET1 ratio as of 1 January 2014, resulting from the release of 475 million euros of risk weighted assets, notwithstanding the decrease of 14 million euros in CET1, affected by the loss registered in the sale;
- Sale of the Group's Operation in Romania, which originated a 5 basis points favourable impact on CET1 as of 1 January 2014, due to the related 371 million euros of savings in risk weighted assets, which offset the unfavourable impact of 24 million euros on CET1 determined by the loss in the sale;
- Increase of the pension fund's negative actuarial differences, after taxes and including the corridor variation, which reduced CET1 by 422 million euros and caused a decrease of 89 basis points in CET1 as of 1 January 2014, resulting from the change of the actuarial assumptions (-574 million euros before taxes), the favourable deviation of the fund's return (97 million euros before taxes) and from the increase in the corridor defined for regulatory effects (47 million euros phased-in);
- Increase of risk weighted assets for the coverage of market risk in 433 million euros, associated with the growth of the sovereign debt securities trading portfolio in the fourth quarter of 2014, having a negative impact of 12 basis points on CET1 ratio as of 1 January 2014;
- Decrease of the regulatory add-on level defined for the capital requirements of the Polish subsidiary, determined according to the IRB method, which reflected decreases of 980 million euros of risk weighted assets and 15 million euros of CET1, positively contributing with 24 basis points to CET1 ratio as of 1 January 2014;
- Excluding the effects of the previously described operations, the aggregated impact on CET1 from the net loss of 253 million euros, the increase of minority interests of 78 million euros and from the reduction of 1.3 billion euros in risk weighted assets, was practically null.

Tables 7-A e 7-B present the consolidated own funds as at 31 December 2014 and 2013, detailed in accordance with their main components. Table 8 provides additional information about the financial instruments that contributed to the consolidated own funds on those dates:

Table 7-A - Equity on 31 December 2014 (transitional model of disclosure of own funds)

		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No 575/2013 (CRR) ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No 575/2013	EXPLANATORY NOTES
<b>Common Equity Tier 1 capital: instruments and reserves</b>					
1	Capital instruments and the related share premium accounts	3,703,972	26 (1), 27, 28, 29, EBA list 26 (3)		
	of which: ordinary shares	3,703,972	EBA list 26 (3)		Excludes own shares/ not eligible
2	Retained earnings	760,297	26 (1) (c )		
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-421,932	26 (1)		
3a	Funds for general banking risk	0	26 (1) (f)		
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1	0	486 (2)		
	Public sector capital injections grandfathered until 1 January 2018	750,000	483 (2)		
5	Minority interests (amount allowed in consolidated CET1)	686,240	84, 479, 480	366,479	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	26 (2)		
6	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>5,478,576</b>		<b>366,479</b>	

		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No 575/2013 (CRR) ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No 575/2013	EXPLANATORY NOTES
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>					
7	Additional value adjustments (negative amount)	0	34, 105		
8	Intangible assets (net of related tax liability) (negative amount)	-50,404	36 (1) (b), 37, 472 (4)	201,618	
9	Empty set in the EU	0			
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)	-35,179	36 (1) (c), 38, 472 (5)	399,588	
11	Fair value reserves related to gains or losses on cash flow hedges	23,408	33 (a)	0	
12	Negative amounts resulting from the calculation of expected loss amounts	-82,635	36 (1) (d), 40, 159, 472 (6)	330,541	
13	Any increase in equity that results from securitised assets (negative amount)	0	32 (1)		
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-14,238	33 (b)	0	
15	Defined-benefit pension fund assets (negative amount)	0	36 (1) (e), 41, 472 (7)	0	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0	36 (1) (f), 42, 472 (8)	0	
17	Holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	36 (1) (g), 44, 472 (9)	0	
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) and (3), 79, 472 (10)	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)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	0	
20	Empty set in the EU	0			
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	36 (1) (k)		
20b	of which: qualifying holdings outside the financial sector (negative amount)	0	36 (1) (k) (i), 89 a 91		
20c	of which: securitisation positions (negative amount)	0	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258		
20d	of which: free deliveries (negative amount)	0	36 (1) (k) (iii), 379 (3)		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-41,718	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	1,515,019	
22	Amount exceeding the 15% threshold (negative amount)	-8,388	48 (1)	451,138	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-6,854	36 (1) (i), 48 (1) (b), 470, 472 (11)	209,632	Amounts relating to line 22
24	Empty set in the EU	0			
25	of which: deferred tax assets arising from temporary differences	-1,534	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	241,506	Amounts relating to line 22
25a	Losses for the current financial year (negative amount)	0	36 (1) (a), 472 (3)		
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	36 (1) (l)		
26	Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment	0			
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-129,490		-129,490	
	Of which: unrealised losses	5,870	467	5,870	
	Of which: unrealised losses in relation to central Government	910	467	910	
	Of which: unrealised gains	-135,359	468	-135,359	
	Of which: unrealised gains relating to central Government	-61,680	468	-61,680	
26b	Amount to be deducted or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	247,930	481	247,930	
	of which: pension fund row	250,691		250,691	
	of which: deduction of deposits with higher interest rates to certain thresholds	-2,761		-2,761	
	of which: deferred taxes assets dependent on future profitability that are not caused by temporary differences (net of associated deferred tax liabilities )	0			
	of which: insufficient credit adjustments related to expected losses on positions using the IRB approach	0			
	of which: deferred taxes assets dependent on future profitability from temporary differences	0			
	of which: Adjustment the 15% limit	0			
	of which: adjustment of national filters				
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-311,220	36 (1) (j)	-311,220	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-401,934		2,705,124	
29	COMMON EQUITY TIER 1 (CET1) CAPITAL	5,076,642		3,071,604	

		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No 575/2013 (CRR) ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No 575/2013	EXPLANATORY NOTES
<b>Additional Tier 1 (AT1) capital: instruments</b>					
30	Capital instruments and the related share premium accounts	0	51, 52		
31	of which: classified as equity under applicable accounting standards	0			
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	92,896	486 (3)	92,896	
	Public sector capital injections grandfathered until 1 January 2018		486 (3)		
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0	85, 86, 480	-59,474	
35	of which: instruments issued by subsidiaries subject to phase-out	0	486 (3)		
36	Additional Tier 1 (AT1) capital before regulatory adjustments	92,896		33,422	
<b>Additional Tier 1 (AT1) capital: regulatory adjustments</b>					
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0	52 (1) (b), 56 (a), 57, 475 (2)		
38	Holdings of the AT 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	56 (b), 58, 475 (3)		
39	Direct, indirect and synthetic holdings by the institution 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	56 (c), 59, 60, 79, 475 (4)		
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56 (c), 59, 60, 79, 475 (4)		
41	Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e., CRR residual amounts)	311,220		311,220	CET1 allocation to cover insufficient AT1 (versus 27 line)
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	-380,596	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	-380,596	
	Of which: Intangible assets	-201,618		-201,618	
	Of which: Insufficient provisions for expected losses	-165,271		-165,271	
	Of which: residual Amounts of CET1 instruments of financial entities in which the institution has a significant investment	-13,708		-13,708	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	-23,520	477, 477 (3), 477 (4) (a)	-23,520	
	Of which elements to drill down line by line, for example, cross-shareholdings reciprocal of T2 instruments, direct shareholdings in non significant investments in other financial entities equity, etc.				
41c	Amount to be deducted or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	0	467, 468, 481		
	Of which: ... possible filter for unrealised losses		467		
	Of which: ... possible filter for unrealised gains		468		
	Of which:...		481		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0	56 (e)		
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-92,896		-92,896	
44	ADDITIONAL TIER 1 (AT1) CAPITAL	0		-59,474	
45	TIER 1 CAPITAL (T1 = CET1 + AT1)	5,076,642		3,012,130	

		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No 575/2013 (CRR) ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No 575/2013	EXPLANATORY NOTES
<b>Tier 2 (T2) capital: instruments and provisions</b>					
46	Capital instruments and the related share premium accounts	471,908	62, 63	0	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	404,344	486 (4)	404,344	
	Public sector capital injections grandfathered until 1 January 2018		483 (4)		
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	141,019	87, 88, 480	61,720	
49	of which: instruments issued by subsidiaries subject to phasing-out		486 (4)		
50	Credit risk adjustments	0	62 (c) and (d)		
51	<b>Tier 2 (T2) capital before regulatory adjustments</b>	<b>1,017,271</b>		<b>466,064</b>	
<b>Tier 2 (T2) capital: regulatory adjustments</b>					
52	Direct and indirect holdings by an institution of own T2 instruments (negative amount)	0	63 (b) (i), 66 (a), 67, 477 (2)		
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	66 (b), 68, 477 (3)		
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	66 (c), 69, 70, 79, 477 (4)		
54a	Of which, new holdings not subject to transitional arrangements	0			
54b	Of which, holdings existing before 1 January 2013 and subject to transitional arrangements	0			
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)	-35,280	66 (d), 69, 79, 477 (4)	23,520	
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to the pre-treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e., CRR residual amounts)	0			
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	-178,978	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	-178,978	
	Of which: insufficient provisions for expected losses	-165,271		-165,271	
	Of which: residual amounts of FPP1 instruments of financial entities in which the institution has a significant investment	-13,708		-13,708	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	0	475, 475 (2) (a), 475 (3), 475 (4) (a)		
	Dos quais elementos a pormenorizar por linha, por exemplo, detenções cruzadas recíprocas de instrumentos de FPA1, detenções diretas de investimentos não significativos nos fundos próprios de outras entidades do setor financeiro, etc.				
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	-79,888	467, 468, 481	-79,888	Amount associated with properties in restitution that exceed the regulatory deadline for permanence in the active
	Of which: ... possible filter for unrealised losses	467			
	Of which: ... possible filter for unrealised gains	468			
	Of which:...	481			
57	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	<b>-294,147</b>		<b>-235,347</b>	
58	<b>TIER 2 (T2) CAPITAL</b>	<b>723,124</b>		<b>230,718</b>	
59	<b>TOTAL CAPITAL (TC = T1 + T2)</b>	<b>5,799,766</b>		<b>3,242,848</b>	
59a	Risk-weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e., CRR residual amounts)	0			
	Of which: ... non-deducted elements to CET1 (Regulation (EU) no 575/2013, residual amounts) (elements to detail row by row, for example, deferred tax Assets that depend on future profitability net of corresponding tax liability, indirect shareholdings of an institution in their own CET1, etc.)		472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)		
	Of which: ... non-deducted elements to AT1 (Regulation (EU) no 575/2013, residual amounts) (elements to detail row by row, for example, reciprocal cross holdings of FP2 instruments, direct shareholdings in non significant investments in equity of other financial sector entities, etc.)		475, 475 (2) (b), 475 (2) (c), 475 (4) (b)		
	Elements not deducted to T2 elements (Regulation (EU) no 575/2013, residual amounts) (elements to detail row by row, for example, indirect shareholdings of an institution in it T2, indirect shareholdings in insignificant own funds of other financial sector entities, indirect shareholdings in significant investments in equity of other financial sector entities, etc.)		477, 477 (2) (b), 477 (2) (c), 477 (4) (b)		
60	<b>TOTAL RISK-WEIGHTED ASSETS</b>	<b>42,376,105</b>		<b>1,207,354</b>	



# 2014 Market Discipline Report

		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No 575/2013 (CRR) ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No 575/2013	EXPLANATORY NOTES
<b>Capital ratios and buffers</b>					
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	11.98%	92 (2) (a), 465		
62	Tier 1 (as a percentage of total risk exposure amount)	11.98%	92 (2) (b), 465		
63	Total capital (as a percentage of total risk exposure amount)	13.69%	92 (2) (c)		
64	Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	0%	CRD 128, 129 and 130		
65	of which: capital conservation buffer requirement	0%			
66	of which: countercyclical capital buffer requirement	0%			
67	of which: systemic risk buffer requirement	0%			
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0%	CRD 131		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.48%	CRD 128		
69	(not relevant on EU regulations)				
70	(not relevant on EU regulations)				
71	(not relevant on EU regulations)				
<b>Amounts below the thresholds for deduction (before risk weighting)</b>					
72	Direct and indirect holdings of the capital 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)	102,227	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)		
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	358,194	36 (1) (i), 45, 48, 470, 472 (11)		
74	Empty set in the EU	0			
75	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 No 3 are met)	543,797	36 (1) (c), 38, 48, 470, 472 (5)		
<b>Applicable caps on the inclusion of provisions in Tier 2</b>					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	62		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	230	62		
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0	62		
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	116	62		
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)</b>					
80	Current cap on CET1 instruments subject to phase-out arrangements	0	484 (3), 486 (2) and (5)		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484 (3), 486 (2) and (5)		
82	Current cap on AT1 instruments subject to phase-out arrangements	135,261	484 (4), 486 (3) and (5)		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	484 (4), 486 (3) and (5)		
84	Current cap on T2 instruments subject to phase-out arrangements	528,272	484 (5), 486 (4) and (5)		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484 (5), 486 (4) and (5)		

Table 7-B - Own funds as at 31 December 2013 (Bank of Portugal)

Euro thousand

	31-12-2013
<b>1. Total own funds for solvency purposes (1.1.+ 1.2.+ 1.3.+ 1.6.)</b>	<b>6,420,631</b>
1.1. Original own funds (=Σ(1.1.1. to 1.1.5.))	6,080,680
1.1.1. Eligible capital (=Σ(1.1.1.1. to 1.1.1.4.))	6,487,243
1.1.1.1. Paid-up capital	3,500,000
1.1.1.2. (-) Own shares	-12,757
1.1.1.3. Share premium	0
1.1.1.4. Other instruments eligible as capital	3,000,000 <sup>(1)</sup>
1.1.2. Eligible reserves and profits and losses (=Σ(1.1.2.1. to 1.1.2.7.))	-447,758
1.1.2.1. Reserves	-409,917
1.1.2.2. Eligible non-controlling interests	699,062
1.1.2.3. Profits from the previous financial year and preliminary profits from the current financial year	
1.1.2.4. (-) Losses from the previous financial year and preliminary losses from the current financial year	
1.1.2.5. Losses from the previous financial year and preliminary losses from the current financial year	-736,903 <sup>(2)</sup>
1.1.2.6. (-) Net gains from capitalisation of future margin income from securitised assets	
1.1.2.7. Valuation differences eligible as original own funds	
1.1.3. Funds for general banking risks	
1.1.4. Other items eligible as original own funds (1.1.4.1. to 1.1.4.3.)	188,032
1.1.4.1. Other eligible items	171,040
1.1.4.2. Impact on the transition into IAS/AAS (negative impact)	16,992
1.1.4.3. Other items eligible as original own funds	
1.1.5. (-) Other deductions from original own funds (=Σ(1.1.5.1. to 1.1.5.3.))	-146,838
1.1.5.1. (-) Intangible fixed assets	-250,418
1.1.5.2. (-) Items included in original own funds exceeding the eligibility limits	-130,700 <sup>(3)</sup>
1.1.5.3. (-) Other deductions to original own funds	234,280 <sup>(4)</sup>
1.2. Additional own funds (=Σ(1.2.1. to 1.2.3.))	1,314,434
1.2.1. Core additional own funds - Upper Tier II	163,357 <sup>(3)</sup>
1.2.2. Supplementary additional own funds - Lower Tier II	1,151,077
1.2.3. (-) Deductions from additional own funds	
1.3. Deductions from original and additional own funds	-868,881 <sup>(5)</sup>
1.3a. Of which: (-) from original own funds	-434,440
1.3b. Of which: (-) from additional own funds	-434,440
1.4. Total original own funds for solvability purpose	5,646,239
1.5. Total additional own funds for solvability purpose	879,994
1.6. (-) Deductions from total own funds	-105,602 <sup>(6)</sup>
1.7. Total additional own funds specific to cover market risks	
1.8. Memorandum items	
1.8.1. (+) Excess of/(-) shortfall provisions in risk-weighted exposures under the internal ratings based approach	
1.8.1.1. Amount of provisions for the internal ratings based approach	
1.8.1.2. (-) Internal ratings based approach measurement of expected losses	
1.8.2. Gross amount of subordinated loan capital recognised as a positive item of own funds	4,313,192
1.8.3. Minimum initial capital requirements	17,458
1.8.4. Reference own funds for the purpose of limits to large exposures	7,092,590

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

(2) Comprises the retained earnings, considering the provisional amount of ordinary dividends payable (null in 2013), and the adjustment resulting from regulatory filters, namely those due to the effect of change of own credit risk on financial liabilities accounted at fair value through profit or loss.

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

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

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

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

Financial instruments eligible for own funds as at 31 December 2014 are as follows:

Table 8 - CET1 eligible financial instruments

ISIN	Issuer	Description	BoP 31-12-2013	Eleg. CRD IV 31-12-2014	Euro thousand Own funds	
					31-12-2013	31-12-2014
PTBCPOAM00007	BCP, S.A.	Ordinary shares	CT1	CET1	3,487,243	3,703,972
PTBIZQOM0059	BCP, S.A.	BCP's "CoCo" Bonds - Subscribed by the Portuguese State	CT1	CET1	3,000,000	750,000

Table 8 - AT1 eligible financial instruments

ISIN	Issuer	Description	Issue date	Maturity date	Amount 31-12-2014 <sup>(1)</sup>	1st Call date	BoP 31-12-2013	Eleg. CRD IV 31-12-2014	Euro thousand Own funds	
									31-12-2013	31-12-2014
PTBCPMOM0002	BCP, S.A.	BCP FRNPLD	29-06-2009	Perpetual	8,614	-	AT1	N	8,644	8,614
XS0194093844	BCP Finance Co	BCP Finance Co 5,543 EUR	09-06-2004	Perpetual	92,946	09-09-2017	AT1	N	94,171	50,036
XS0231958520	BCP Finance Co	BCP Finance Co 4,239 EUR	13-10-2005	Perpetual	67,516	13-07-2017	AT1	N	68,225	34,246

TABLE 8 - T2 eligible financial instruments

ISIN	Issuer	Description	Issue date	Maturity date	Amount 31-12-2014 <sup>(1)</sup>	1st Call date	BoP 31-12-2013	Eleg. CRD IV 31-12-2014	Euro thousand Own funds	
									31-12-2013	31-12-2014
PTBIVXOM0013	BCP, S.A.	Bcp Obrigacoes Subordinadas March 2021	28-03-2011	28-03-2021	114,000	-	T2	T2	114,000	114,000
PTBIU6OM0028	BCP, S.A.	Bcp Subordinadas September 2019	14-10-2011	28-09-2019	50,000	-	T2	T2	47,547	47,444
PTBCL2OM0016	BCP, S.A.	Bcp Subordinadas November 2019	08-11-2011	08-11-2019	40,000	-	T2	T2	36,305	38,844
PTBCUWOM0011	BCP, S.A.	Bcp Subordinadas 11/25.08.2019	25-08-2011	25-08-2019	7,500	-	T2	T2	7,945	6,979
PTBCTZOM0037	BCP, S.A.	Millennium Bcp Subordinadas December 2019	30-12-2011	09-12-2019	26,600	-	T2	T2	22,651	26,290
PTBCU9OM0028	BCP, S.A.	Millennium Bcp Subordinadas January 2020	27-01-2012	13-01-2020	14,000	-	T2	T2	11,324	14,000
PTBIVSOM0077	BCP, S.A.	Bcp Obrigacoes Subordinadas April 2021	01-04-2011	01-04-2021	64,100	-	T2	T2	64,100	64,100
PTBIUGOM0072	BCP, S.A.	Bcp Obrigacoes Subordinadas 3Sr April 2021	21-04-2011	21-04-2021	35,000	-	T2	T2	35,000	35,000
PTBIZUOM0053	BCP, S.A.	Bcp Subordinadas July 2020	18-07-2012	02-07-2020	26,250	-	T2	T2	21,928	26,250
PTBCQJOM0030	BCP, S.A.	Millennium Bcp Subordinada Feb2020	04-04-2012	28-02-2020	23,000	-	T2	T2	20,004	23,000
PTBIUMOM0082	BCP, S.A.	Bcp Subordinadas April 2020	12-04-2012	03-04-2020	51,000	-	T2	T2	44,718	51,000
PTBIZKOM0063	BCP, S.A.	Bcp Subordinadas 2 Serie April 2020	12-04-2012	12-04-2020	25,000	-	T2	T2	21,758	25,000
XS0686774752	BCP, S.A.	Bcpf Fixed Rate Subordinated Notes 13 Pct	13-10-2011	13-10-2021	98,850	-	T2	N	71,149	98,850
PTBSMFOE0006	BCP, S.A.	TOPS's BPSM /97 (1ª e 2ª série)	04-12-1997	Perpétua	22,791	-	T2	N	22,968	22,791
PTBCLAOE0000	BCP, S.A.	Obr. Perpétuas Subord. BCP Leasing /2001	28-12-2001	Perpétua	5,313	-	T2	N	5,182	5,313
PTBCPZOE0023	BCP, S.A.	Mbcp Ob Cx Sub 2 Serie 2008-2018 - 2Cpn	15-10-2008	15-10-2018	70,727	15-10-2017	T2	N	70,802	39,489
PTBCLWXE0003	BCP, S.A.	Mbcp Ob Cx Sub 1 Serie 2008-2018 - 2Cpn	29-09-2008	29-09-2018	250,972	29-09-2017	T2	N	251,440	137,895
XS0278435226	BCP, S.A.	Bcp Finance Bank Ltd - Floating Rate Notes	21-12-2006	21-12-2016	71,209	-	T2	N	42,715	28,128
PTBIPNOM0062	BCP, S.A.	Bcp Obrigacoes Subordinadas June 2020	29-06-2010	29-06-2020	87,178	29-06-2017	T2	N	89,405	43,541
PTBCTCOM0026	BCP, S.A.	Bcp Obrigacoes Subordinadas Aug 2020	27-08-2010	27-08-2020	53,298	27-08-2017	T2	N	55,491	28,337
PTBCPSOE0006	BCP, S.A.	Obrigações Caixa Perpétuas Subordinadas 2002	19-06-2002	Perpétua	90	-	T2	N	52	0
PTBII1XE0001	BII, S.A.	Bii Ob.Cx.Sub.2004/2014	31-12-2004	31-12-2014	15,000	-	T2	-	2,999	-
XS0336845333	Bank Millennium	MB Finance AB (Z)	20-12-2007	20-12-2017	149,617	-	T2	N	119,795	88,939

(1) Net nominal value of own shares or securities held by Group entities

(2) In CRR, is subject to phased-out until maturity and is registered in minority interests (T2)

Tables 9-A and 9-B show the reconciliation between the accounting and regulatory capital as at 31 December 2014 and, with respect to the reconciliation of core tier 1, 31 December 2013, respectively:

**Table 9-A - Reconciliation between the accounting and regulatory capital - 2014**

	31-12-2014
	CRD IV/CRR
Share capital	3,706,690
Own shares	-13,547
Share premium	0
Preference shares	171,175
Other capital instruments	9,853
Reserves and retained earnings	564,985
Net income for the period attributable to Shareholders	-226,620
<b>Total equity attributable to Shareholders of the Bank</b>	<b>4,212,536</b>
Non-controlling interests (minority interests)	777,257
<b>Total equity</b>	<b>4,989,793</b>
Own shares of CET1 not eligible instruments	10,828
Preference shares not eligible for CET1	-171,175
Other capital instruments not eligible for CET1	-9,853
Subordinated debt fully subscribed by the Portuguese State eligible for CET1	750,000
Non-controlling interests not allowed in CET1	-91,017
Other regulatory adjustments	-401,934 <sup>(1)</sup>
<b>CET1</b>	<b>5,076,642</b>
Subordinated debt	92,896
CET1 transferred adjustments	311,220
T2 transferred adjustments	-23,520
Other Adjustments	-380,596
Of which: Intangible assets	-201,618
Of which: Shortfall of impairment to expected loss	-165,271
Of which: Residual amounts of CET1 instruments of financial entities in which the institution has a significant investment	-13,708
<b>T1</b>	<b>5,076,642</b>
Subordinated debt	876,252
Non-controlling interests eligible for T2	141,019
Preference shares eligible for T2	
Adjustments with impact in T2, including national filters	-294,147
Adjustments that are transferred for T1 for insufficient T2 instruments	
<b>T2</b>	<b>723,124</b>
<b>Own funds</b>	<b>5,799,766</b>

(1) According to the line 28 of Table 7-A - Equity on 31 December 2014 (transitional model of disclosure of own funds)

**Table 9-B - Reconciliation between the accounting and regulatory capital - 2013**

Euro thousand

	31-12-2013	
Total equity attributable to Shareholders of the Bank	2,583,207	
Non-controlling interests	699,062	(1)
Regulatory adjustments:		
(-) Preference shares and other hybrid instruments	-171,040	
(+) Equity instruments (CoCo's)	3,000,000	
(+) Impact on the transition into IAS/AAS	16,992	
(+) Corridor of the pension fund's staff in active	254,728	
(-) Intangible assets	-250,418	(2)
(-) Profit / Loss after tax in debt securities and gains on equity securities	-83,435	
(-) Results in emissions of financial assets at fair value in the part referring to own credit risk	-8,687	
(+/-) Other adjustments	-70	(3)
<b>Core tier I</b>	<b>6,040,340</b>	

(1) The differences between the perimeter of accounting consolidation and prudential consolidation led to differences in this heading, as showed in Table 3.

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

(3) Includes the adjustments related to regulatory filters, namely those related to unrealised gains and losses on cash-flow hedge transactions and customers' deposits with high interest rates.

Table 10 shows BCP Group capital requirements as at 31 December 2014 and 2013 with a detail that allows comparison in these two dates, notwithstanding the changes related to the adoption of the CRD IV/CRR mentioned above. Regarding the end of 2013, the "Collective investments undertakings" and the "Other items" processed by the standard method were broken down, face to the respective prudential reporting, in order to individualize the values associated with the "Items associated with particular high risk" and "Equity", respectively, in order to align this with the information reported for 31 December 2014 and thereby increase the comparability. Such a breakdown was also reproduced in the following tables, where applicable.

Table 10 - Capital requirements

Euro thousand

	31-12-2014	31-12-2013
<b>2. Capital requirements</b>	<b>3,390,088</b>	<b>3,514,099</b>
2.1. For credit, counterparty credit and dilution risks and free deliveries	3,021,233	3,116,075
2.1.1 Standardised approach	1,471,251	1,217,898
2.1.1.1 Standardised Approach exposure classes, excluding securitisation positions	1,471,251	1,217,898
2.1.1.1.1 Claims or contingent claims on central governments or central banks	81,699	23,562
2.1.1.1.2 Claims or contingent claims on regional governments or local authorities	7,657	8,213
2.1.1.1.3 Claims or contingent claims on Public Sector Entities	2,124	775
2.1.1.1.4 Claims or contingent claims on multilateral development banks		
2.1.1.1.5 Claims or contingent claims on international organisations		
2.1.1.1.6 Claims or contingent claims on institutions	96,933	97,782
2.1.1.1.7 Claims or contingent claims on corporates	500,250	517,536
2.1.1.1.8 Retail claims or contingent retail claims	104,835	96,539
2.1.1.1.9 Claims or contingent claims secured on real estate property	64,563	74,281
2.1.1.1.10 Past due items	51,146	43,024
2.1.1.1.11 Items belonging to regulatory high-risk categories	153,299	126,086
2.1.1.1.12 Claims on covered bonds		
2.1.1.1.13 Claims on institutions and companies with short-term credit assessment		
2.1.1.1.14 Claims on collective investment undertakings (CIUs)	66,407	61,353
2.1.1.1.15 Equity positions	68,246	6,097 <sup>(1)</sup>
2.1.1.1.16 Other items	274,092	162,650 <sup>(2)</sup>
2.1.1.2 Securitisation positions under the Standardised Approach		
2.1.2 IRB approach	1,549,982	1,898,177
2.1.2.1 Not using own estimations of LGD and/or credit conversion factors	145,550	
2.1.2.1.1 Claims or contingent claims on central governments or central banks		
2.1.2.1.2 Claims or contingent claims on institutions		
2.1.2.1.3 Claims or contingent claims on corporates	145,550	<sup>(3)</sup>
2.1.2.2 Using own estimations of LGD and/or credit conversion factors	1,330,321	1,807,681
2.1.2.2.1 Claims or contingent claims on central governments or central banks		
2.1.2.2.2 Claims or contingent claims on institutions		
2.1.2.2.3 Corporate claims or contingent corporate claims	805,199	1,229,613 <sup>(4)</sup>
2.1.2.2.4 Retail claims or contingent retail claims	525,122	578,067 <sup>(5)</sup>
2.1.2.3 Equity positions	26,961	17,261
2.1.2.4 Securitisation positions	45,906	73,236
2.1.2.5 Other assets not related to bond loans	1,245	
2.2. Settlement risk		
2.3. Capital requirements for position, foreign-exchange and commodities risks	73,597	38,843
2.3.1 Standardised approach	8,608	2,182
2.3.1.1 Traded debt instruments	2,923	1,996
2.3.1.2 Equity	165	133
2.3.1.3 Foreign exchange risks	5,270	
2.3.1.4 Commodities risks	249	52
2.3.2 Internal models approach	64,989	36,662
2.4. Capital requirements for operational risk	245,749	249,410
2.4.1 Basic indicator approach		
2.4.2 Standard method	245,749	249,410
2.5. Capital requirements - Fixed overhead		
2.6. Capital requirements on unilateral adjustment of credit evaluation	17,941	
2.6.1 Advanced method		
2.6.2 Standard method	17,941	
2.6.3 OEM method		
2.7. Other capital requirements	31,568	109,770 <sup>(6)</sup>

(1) Change between the end of 2013 and 2014 was particularly influenced by increased weighting of the significant financial investments not deducted to CET1 in 2014, under the CRD IV/CRR.

(2) Change between the end of 2013 and 2014 was particularly influenced by weighting of deferred tax assets relating to temporary differences that are not object of deduction to CET1 in 2014 under the CRD IV/CRR (in 2013 were not subject to the calculation of capital requirements under Basel II).

(3) For the purposes of presentation of the information, specialised credits whose capital requirements are calculated according to IRB method without use of PD and LGD parameters were recorded under this heading in 2014.

(4) Change between the end of 2013 and 2014 was influenced by the effect referred to in (1), in addition to reducing exposure, in particular the implementation of synthetic securitization operation Caravela SME No. 4 or the application of a more favorable weighting to credit to small and medium-sized enterprises.

(5) Change between the end of 2013 and 2014 influenced particularly by reducing exposure and by applying a more favorable weighting to credit to small and medium-sized enterprises.

(6) Transitional capital requirements associated with adoption of IRB methodologies in "Loans secured by residential real estate" and "renewable positions" in Retail portfolio in Poland (at 31 December 2014 the capital requirements of the Group due to these portfolios could not be less than 70% of that would result if the calculation was performed by the standardised method. This limit can be eliminated from December 2015 if the conditions underlying the authorization granted by the supervisory authorities to adopt IRB methodologies in Poland are assured according to the established schedule).

By the end of 2014 and 2013, the Group had an own funds surplus, comparing with the respective capital requirements, of 2,410 million euros and 2,907 million, respectively, as referred to in Table 11. As previously mentioned the group is no longer considered financial conglomerate, therefore capital requirements were not calculated.

**Table 11 - Capital adequacy** Euro thousand

	31-12-2014	31-12-2013
CET1 / CT1 (%) ratio	12.0%	
Surplus (+)/ Deficit (-) of CET1 / CT1	3,169,717	
T1 ratio (%)	12.0%	
Surplus (+) / Deficit (-) of T1	2,534,076	
Total capital ratio (%)	13.7%	14.6%
Surplus (+)/ Deficit (-) of own funds	2,409,678	2,906,532
Capital adequacy of the financial conglomerate <sup>(1)</sup>		
Own funds of the financial conglomerate		
Capital requirements of the financial conglomerate		
Surplus (+)/ deficit (-) of the conglomerate's own funds		

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

#### 4.3. LEVERAGE RATIO ON 31 DECEMBER 2014

The calculation of the regulatory leverage ratio is specified in article 429 of the CRR. These methods were amended and replaced by the Delegated Act no. 62/2015 of 10 October 2014.

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

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

The following table shows the Group's leverage ratio, in both phased-in and fully implemented basis, as of 31 December 2014:

Table 12 - Leverage ratio on 31 December 2014

Euro thousand

	Fully implemented LR exposure 31-12-2014	Phased-in LR Exposure 31-12-2014
SFT exposure according to article 220 of CRR	484	484
Derivatives: Market value	858	858
Derivatives: <i>Market value add-on</i>	542	542
Unused credit facilities, which may be unconditionally cancelled at any time without notice	258	258
Medium/low risk Off-balance items	823	823
Medium risk Off-balance items related to trade finance and export credits with public support	720	720
Other <i>Off-balance items</i>	4,161	4,161
Other assets	75,974	75,974
<b>Total exposure measure</b>	<b>80,596</b>	<b>83,412</b>
<b>Capital Tier 1 - fully implemented / phased-in</b>	<b>2,490</b>	<b>5,567</b>
Additional values due to article 429 (4), second subparagraph of the CRR	127	137
Tier 1 regulatory adjustments - fully implemented / phased-in	-3,344	-538
Regulatory adjustments of own credit risk	-8	-8
<b>Leverage Ratio- fully implemented / phased-in of capital Tier 1</b>	<b>3.1%</b>	<b>6.7%</b>
<b>Leverage Ratio - fully implemented / phased-in of capital Tier 1 - average of 2014, 4th quarter</b>	<b>2.9%</b>	<b>6.5%</b>

#### 4.4. EVENTS WITH A MATERIAL IMPACT ON OWN FUNDS AND CAPITAL REQUIREMENTS IN 2015

The main events with possible material impact on own funds and capital requirements in 2015 could be related with:

##### i) Impact of the transition to the CRD IV/CRR in 1 January 2015:

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

However, the CRD IV/CRR also establishes a transitional period (phase-in) in which institutions can accommodate the new requirements, being the respective progression recognized in the day January 1 of each year during that period.

On 1 January 2015, the progression of the phase-in determined a reduction of 404 million euros in CET1 and 99 million euros in the risk weighted assets, decreasing the CET1 ratio by 93 basis points.

##### ii) Entry into force of the law on the special scheme applicable to deferred tax assets:

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

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

In 1 January 2015, the new prudential framework related to deferred tax assets established by law no. 61/2014, with the notice no. 3/95 of Banco de Portugal, resulted in CET1 and risk weighted assets' increases of 247 million euros and 1,513 million euros, respectively, corresponding to +15 basis points in CET1 ratio.



**iii) Changing the risk weights applicable to the central government and the central bank of Republic of Angola:**

Since 1 January 2015 exposures in Kwanza of the BCP Group to the central government and the central bank of Republic of Angola, held by the subsidiary Banco Millennium Angola, no longer benefit from the risk weights assigned by the local supervisory authority, which are lower than those defined in CRR, as Republic of Angola was not included in the list of third countries with equivalent regulation and supervision to the Union that was disclosed by the European Commission. This amendment has determined, with reference to 1 January 2015, an increase of 539 million euros of risk weighted assets, standing at -15 basis points the effect on CET1 ratio.

**iv) Sale of 15.41% of participation in the capital of Bank Millennium, S.A.:**

In March 2015, BCP launched an accelerated placement of ordinary shares of Bank Millennium S.A. (Poland) constituting 15.41% of its capital, subject to demand, price and market conditions, and intended only to certain eligible institutional investors. The sale of this participation reached 303 million euros, resulting in +64 basis points in CET1 ratio. After this transaction, BCP Group continues to hold a majority stake in Bank Millennium S.A., corresponding to 50.1% of its share capital, keeping control of the subsidiary.

**v) Completion of the sale of Millennium bcp Gestão de Activos, Sociedade Gestora de Fundos de Investimento, S.A.:**

In May 2015, BCP completed the sale of the entire share capital of Millennium bcp Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A. to Corretaje e Información Monetária y de Divisas, S.A., which integrates the CIMD Group. The base price agreed for the sale of this subsidiary was 15.75 million euros, with a contribution of +3 basis points to CET1 ratio.

**vi) Public exchange offer for the acquisition of subordinated securities:**

In May 2015, BCP Group launched a public exchange offer for the acquisition of subordinated securities issued by itself for exchange of new ordinary shares of the Bank, to be issued as a result of the capital increase decided. Following the Special Session of the Regulated Market for the purpose of assessing the results of the partial and voluntary public tender offer for the acquisition of subordinated securities for exchange of new shares to be issued, held on 11 June 2015, securities in a global nominal amount of 481,208,950 euros were transmitted as inputs in this share capital increase representing around 75.71% of the total amount available for exchange. As a consequence of the subscriptions made, 4,844,313,860 ordinary, nominative and book-entry shares with no par value were issued, at the issue price of €0.0834 per share (of which €0.08 corresponds to the respective unitary issue value and €0.0034 corresponds to share premium), the total amount of the share capital increase being thus 387,545,108.8 euros. With the conclusion of the Offer, Millennium bcp reaches proforma CET1 ratio in March 2015, after the share capital increase, of 12.7% on a phased-in basis (calculated on the basis of Notice no. 3/95 from Banco de Portugal and Law no. 61/2014 of 26 August, relating to deferred tax assets, and the net results of the first quarter of 2015).

In addition, notwithstanding the target securities are currently eligible for the consolidated additional tier 1 and tier 2 under the transitional provisions of CRD IV/CRR, they are subject to a phase-out process, so its exchange induces a growing positive effect on the Group's capital, in addition to strengthening the quality of capital that this transaction causes.

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

The Internal Capital Adequacy Assessment Process (ICAAP) is a key process for the Group's risk management. It is performed yearly, aiming at assessing the capital that the Group needs to adequately cover the risks in which it incurs by developing its business strategy - both current and projected for the medium term.

The results of the ICAAP are a management tool for the Board of Directors, in the sense that these will test if the Group's capitalization is adequate for the risks of the Group's activities and if the strategic plan and the budget are sustainable in the medium term and fall within the risk limits defined in the Risk Appetite Statement approved for the Group.

In 2014, in order to improve the fulfilment of these goals, the Group upgraded the methodology that was followed until then for ICAAP - which consisted the quantification of economic capital for a set of risks considered relevant - and adopted a methodology based on the stress testing tools (and corresponding impacts over the regulatory capital ratios), aligning with the industry trends.

The new ICAAP includes a prospective vision of the impact estimates concerning the occurrence of risks over the Bank's capital, considering their scale or dimension, complexity, frequency, probability and materiality, against a background consisting of the medium term (3 years) projection for the developments of the Group's activities, considering a base scenario and a stress scenario; the latest,

with a severely negative evolution of macro-economic indicators in order to test the Group's resilience and the adequacy of the capital levels to cover the risks to which its activity may become subject.

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

The ICAAP's first stage is the identification of the material risks to which the Group's activity is subject. For this purpose, the Group used a methodological approach based on an internal list of risks, covering more than 50 different risks, considering the relevancy of each one by taking into consideration its probability of occurrence and the magnitude of the impacts of its occurrence - either before or after the implementation of risk mitigation measures.

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

The result of this stage is the list of risks to be incorporated in the ICAAP, which will also be helpful in defining the variables to be considered for the establishment of the base and the stressed scenarios, mentioned below.

In a second stage, the Group defined the base and stressed scenarios that are the framework of the ICAAP process. While the base scenario represents the Group's vision on the most probable evolution of the business constraints in the medium term, the stressed scenario incorporates extreme conditions, with low probability of occurrence but with severe impact over the Group's activity.

The modelling of the stress scenario considered severity levels that are in line with the stress scenario that was defined for the Comprehensive Assessment exercise, promoted by the European Central Bank in 2014.

In the third stage, the Group modelled the impact of the main risks within the scope of its stress testing tools. Some risks are incorporated in this framework as a capital add-on, while others are considered in terms of their P&L impacts.

Within the ICAAP the Group has considered the following risks:

Risks incorporated in the scenario models (impacts on P&L and RWA)
Credit Risk - Default, CCR
Credit Risk - Transfer risk
Credit Risk - Sovereign risk
Credit Risk - Securitization
Market Risk - Price risk
Financial Margin Risk
Operational Risk
Real Estate Risk
Business Risk - Insurance
Pension Fund Risk - Actuarial risk

Risks incorporated through an Add-on
Market Risk - CVA risk
Market Risk - FX risk related to equity holdings
Liquidity Risk - Short term and structural
Model Risk - Regulations' changes risk
Legal Risk- Litigation risk
Liquidity Risk - Liquidity risk of assets
Regulation Risk - Credit risk-weighted assets (RWA) in CHF
Concentration Risk - Single name exposures

The various risks were modelled within the Group's stress testing framework, producing estimated impacts over the capital levels, either through the impact on the P&L or through changes in RWA.

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

The Group adopts a RTC level that is in line with the regulatory capital ratios defined by the CRD IV (Directive 2013/36/EU), the CRR (Regulation (EU) 575/2013) and Banco de Portugal's regulation Notice no. 6/2013, ensuring adequate conservatism levels in what concerns the approach to the projections of Consolidated Own Funds.

The ICAAP's results are tested against the regulatory capital ratio limits approved by the Board of Directors, within the scope of the Group's Risk Appetite Statement.

In conclusion, the ICAAP exercise has evidenced that the current capitalisation levels are adequate for a 3-year horizon, either under the base scenario or the stressed scenario.

## 5. CREDIT RISK

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

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

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

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

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

The credit object of impairment analysis comprises all the exposures subject to credit risk where one has detected objective impairment evidence. Thus, it comprises the individual exposures of certain clients or counterparties and homogeneous groups of credits that are not considered individually significant in accordance with the conditions hereinafter described. However, this definition - consistent with the values presented in Table 18 “Breakdown of past due and impaired exposures” - does not include the exposures with losses incurred but not identified that are also provisioned in accordance with the Group’s policy in this matter and hereinafter detailed.

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

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

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

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

#### (i) Individual assessment

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

- Total exposure of each client, on a consolidated basis, and the existence of past due loans;
- Economic-financial feasibility of the client’s business and its capacity to generate sufficient means to meet the debt service in the future;
- Existence, nature and the estimated amount of the collaterals associated with each credit;
- Economic-financial situation of the client, as well as its evolution;
- Client’s assets in a situation of liquidation or bankruptcy;
- Existence of privileged creditors;
- Amount and the recovery deadlines estimated.

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

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

(ii) Collective assessment

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

- For homogeneous groups of credits with objective signs of impairment but not considered individually significant; or
- Relating to incurred but not reported losses (“IBNR”) in credits where there is not an objective evidence of impairment.

The collective impairment losses are determined considering the following aspects:

- Losses past records in portfolios with a similar risk;
- Knowledge on the current credit and economic environment and its influence on past losses; and
- Estimated period of time between the occurrence of the loss and its identification.

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

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

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

If impairment is detected in a financial asset available for sale, the accumulated loss (measured as the difference between the acquisition cost and the fair value, excluding impairment losses previously recognised against results) is allocated to fair value reserves and recognised in the results. If, in a subsequent period, the fair value of the debt instruments classified as financial asset available for sale increases and that increase may be objectively related with an event that occurred after the recognition of the impairment loss in the results, the impairment loss is reverted against results. The recovery from impairment losses recognised in equity instruments classified as financial assets available for sale is registered against fair value reserves when it occurs (not being reversed against results).

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

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

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

The allocations and recoveries of impairments and provisions with impact in the consolidated financial statements of 2014 and 2013 are shown in Table 13.

**Table 13 - Impact of impairment and provision charges and recoveries on results** Euro thousand

Impairment and provisions	2014	2013
Charges net of reversions and annulments	1,208,542	1,152,034
Recoveries	-15,630	-16,493
<b>Charges net of recoveries</b>	<b>1,192,912</b>	<b>1,135,541</b>

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

## 5.2. MANAGEMENT OF CONCENTRATION RISK

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

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

- the monitoring of the concentration risk and the follow-up of major risks is made, at Group level, based on the concept of "Economic Groups" and "Groups of Clients";
- A "Group of Clients" is a group of clients (individuals or companies) related among themselves, that represent a single entity from a credit risk standpoint, as follows: if one of those clients is affected by adverse financial conditions it is likely that another client (or all the clients) of that group also experiences difficulties in servicing their debts;
- The relations between clients that originate "Groups of Clients": the formal participation in an economic group, the evidence that there is a control relationship (direct or indirect) between clients (including an individual's control over a company) or the existence of a significant business interdependence between clients that cannot be altered in a near future;
- So as to control the concentration risk and limit the exposure to this risk, there are soft limits defined in view of the own funds (consolidated or for each entity of the Group);
- The Risk Office has, validates and monitors a centralised information process relating to concentration risk, with the participation of all the Group's entities.

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

Besides, the definition of concentration limits (more specifically the several types of limits established) also identifies the types of concentration risk deemed relevant. The definition of the concentration limits of the Group takes into account all types of credit concentration risk mentioned in the Banco de Portugal Instruction no. 5/2011, namely:

- Two types of "major exposures", at Group level and at the level of each Group entity;
- The basis used to define major exposures and to estimate the limit-values of the concentration are own funds (consolidated or individual, at the level of each Group entity);
- The concentration is measured, in case of direct exposures, in terms of net exposures (EAD x LGD, assuming that PD=1) relating to a counterparty or a group of counterparties;
- Concentration limits are defined for major exposures as a whole, for major exposures at Group's level or for major exposures of each entity;
- Sectorial limits and limits for country-risk are equally defined.

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

Thus, the quantification of the concentration risk in credit exposures (direct and indirect) involves, firstly, the identification of specific concentration and major exposure cases and the comparison of the exposure values in question versus the own funds levels expressed in percentages that are compared with

the pre-defined concentration limits. For such, Risk Office uses a database on credit exposures (the risk Datamart), regularly updated by the Group's systems.

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

The control and management of concentration risk represents for the Group one of the main pillars of its risk mitigation strategy. It is in this context - and, particularly in credit risk - that the Group is making an ongoing monitoring of potential or effective risk concentration events adopting, whenever justified, the preventive (or corrective) measures deemed necessary.

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

In 2014, the Group's Risk Office regularly sent internal reports to the Risk Commission, to the Audit Committee and to the Credit Risk Monitoring Sub-Commission, which significantly contributed towards the identification and correction of risk concentration (not only of credit concentration risk but also of other types of concentration related with other types of risk).

### 5.3. CHARACTERISATION OF THE EXPOSURES

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

The total of original exposures, corresponding to the respective gross value of impairments and amortisations attained 91.796 million Euros, as at 31 December 2014, and 99.970 million Euros as at 31 December 2013, including securitisations. Table 14 presents a breakdown of these amounts in accordance with the risk types defined by the Basel II Accord.

Table 14 - Exposures by risk class

Euro thousand

Risk classes (securitisation positions included)	Original exposure		Original exposure (average)	
	31-12-2014	31-12-2013	2014	2013
<b>Standardised approach</b>	<b>36,588,207</b>	<b>41,171,551</b>	<b>38,048,641</b>	<b>49,893,888</b>
Standardised approach, excluding securitisation positions	36,588,207	41,171,551	38,048,641	49,893,888
Central governments or central banks	8,706,052	11,378,621	9,973,936	10,649,179
Regional governments or local authorities	719,651	774,719	333,836	704,300
Public Sector Entities	412,878	302,772	365,760	306,179
Multilateral development banks	80,971	73,468	79,102	81,846
International organizations				
Institutions	3,617,244	4,471,187	4,033,545	5,380,322
Corporates	10,155,147	10,501,824	10,243,086	14,278,843
Retail portfolio	2,327,401	2,147,837	2,441,273	2,223,391
Positions guaranteed by real estate	1,592,181	1,758,483	1,646,245	3,477,082
Past due items	990,561	927,567	979,355	3,324,687
High-risk regulatory categories items	1,513,711	1,242,782	1,474,589	1,033,826
Covered bonds				
Institutions and companies with short-term credit assessment				
Exposures on collective investment undertakings (CIUs)	814,794	778,811	814,933	694,504
Shares	392,351	102,924	439,282	101,182
Other items	5,265,267	6,710,556	5,223,699	7,638,548
Securitisation positions on standardised approach				
<b>IRB approach</b>	<b>55,208,276</b>	<b>58,798,027</b>	<b>56,344,763</b>	<b>54,735,584</b>
Not using own estimations of LGD and/or credit conversion factors	1,977,132		1,919,906	16,145,383
Claims or contingent claims on central governments or central banks				
Claims or contingent claims on institutions				
Claims or contingent claims on corporates	1,977,132		1,919,906	16,145,383
Using own estimations of LGD and/or credit conversion factors	49,407,357	55,647,420	50,478,709	36,442,174
Claims or contingent claims on central governments or central banks				
Claims or contingent claims on institutions				
Claims or contingent claims on corporates	17,261,144	22,022,387	18,100,728	1,835,199
Retail claims or contingent retail claims	32,146,213	33,625,033	32,377,982	34,606,975
Equity positions	94,167	62,104	71,555	183,434
Securitisation positions	3,691,435	3,088,503	3,836,407	1,964,593
Other assets not related to bond loans	38,186		38,186	
<b>TOTAL</b>	<b>91,796,483</b>	<b>99,969,578</b>	<b>94,393,404</b>	<b>104,629,472</b>

The geographical distribution of the Group's original risk positions at the end of 2014 and 2013 are provided in Table 15.



Table 15 - Distribution of exposures by geographical areas

Risk Classes	Portugal		Poland		Other	
	31-12-2014	31-12-2013	31-12-2014	31-12-2013	31-12-2014	31-12-2013
<b>Standardised approach</b>	<b>17,145,052</b>	<b>23,726,230</b>	<b>8,738,162</b>	<b>8,457,340</b>	<b>10,704,993</b>	<b>8,987,980</b>
<b>Risk classes</b>	<b>17,145,052</b>	<b>23,726,230</b>	<b>8,738,162</b>	<b>8,457,340</b>	<b>10,704,993</b>	<b>8,987,980</b>
Central governments or central banks	4,515,992	7,073,594	2,623,754	2,563,777	1,566,305	1,741,250
Regional governments or local authorities	555,949	565,912	158,547	203,693	5,155	5,114
Public Sector Entities	368,914	229,973	15,294	70,692	28,669	2,106
Multilateral development banks					80,971	73,468
International organisations						
Institutions	869,822	2,437,700	258,548	289,263	2,488,874	1,744,224
Corporates	3,559,715	5,181,215	2,543,247	2,592,533	4,052,185	2,728,076
Retail portfolio	320,364	273,818	1,444,349	1,111,674	562,689	762,344
Positions guaranteed by real estate	379,749	481,044	935,713	836,654	276,719	440,785
Past due items	424,568	412,750	342,799	337,969	223,194	176,848
High-risk regulatory categories items	824,254	690,713			689,457	552,069
Covered bonds						
Institutions and companies with short-term credit assessment						
Exposures on collective investment undertakings (CIUs)	809,715	685,785			5,078	93,026
Shares	303,662	47,391	829	2,255	87,860	53,278
Other items	4,212,347	5,646,334	415,082	448,829	637,838	615,392
<b>Securitisation positions on standardised approach</b>						
<b>IRB approach</b>	<b>45,486,525</b>	<b>48,849,377</b>	<b>6,842,063</b>	<b>7,177,055</b>	<b>2,879,688</b>	<b>2,771,596</b>
<b>Not using own estimations of LGD and/or credit conversion factors</b>	<b>1,806,235</b>				<b>170,898</b>	
Claims or contingent claims on central governments or central banks						
Claims or contingent claims on institutions						
Claims or contingent claims on corporates	1,806,235				170,898	
<b>Using own estimations of LGD and/or credit conversion factors</b>	<b>39,887,874</b>	<b>45,698,770</b>	<b>6,840,447</b>	<b>7,177,055</b>	<b>2,679,036</b>	<b>2,771,596</b>
Claims or contingent claims on central governments or central banks						
Claims or contingent claims on institutions						
Claims or contingent claims on corporates	16,071,186	20,590,088	3,281	106	1,186,677	1,432,194
Retail claims or contingent retail claims	23,816,688	25,108,682	6,837,166	7,176,949	1,492,359	1,339,402
Equity positions	63,830	62,104	1,616		28,721	
Securitisation positions	3,691,435	3,088,503				
Other assets not related to bond loans	37,152				1,034	
<b>TOTAL</b>	<b>62,631,577</b>	<b>72,575,607</b>	<b>15,580,225</b>	<b>15,634,395</b>	<b>13,584,681</b>	<b>11,759,576</b>

The sectorial distribution of the Group's original risk positions at the end of 2014 and 2013 are provided in Table 16.

Table 16 - Distribution of exposures by economic sector Euro thousand

Risk Classes	31 December 2014							
	Mortgage credit	Services	Consumer credit	Construction	Other activ. - national	Other activ. - international	Wholesale business	Other
<b>Standardised approach</b>	367,113	3,959,023	1,863,417	388,500	19,708,288	546	292,659	10,008,661
<b>Risk Classes</b>	367,113	3,959,023	1,863,417	388,500	19,708,288	546	292,659	10,008,661
Central governments or central banks		224,248			8,252,971	188		228,644
Regional governments or local authorities		241			719,410			
<b>Public Sector Entities</b>		355,799			57,078			
Multilateral development banks		80,971						
International organisations								
Institutions		1,835,445			1,781,798			
Corporates		1,288,046		291,539	6,791,429		217,050	1,567,083
Retail portfolio		38,881	1,628,470	45,238	496,256	81	38,973	79,501
Positions guaranteed by real estate	222,128	92,482	7,089	8,812	1,187,371	277	9,639	64,382
Past due items	144,985	42,909	227,858	42,911	421,974		26,997	82,928
<b>High-risk regulatory categories items</b>								1,513,711
Covered bonds								
Institutions and companies with short-term credit assessment								
Exposures on collective investment undertakings (CIUs)								814,794
Shares								392,351
Other items								5,265,267
<b>Securitisation positions</b>								
<b>IRB approach</b>	25,637,268	8,301,316	4,506,108	3,408,349	1,408,001	15	1,689,677	10,257,543
<b>Not using own estimations of LGD and/or credit conversion factors</b>		143,235		154,099	94,806			1,584,992
Claims or contingent claims on central governments or central banks								
Claims or contingent claims on institutions								
Claims or contingent claims on corporates		143,235		154,099	94,806			1,584,992
<b>Using own estimations of LGD and/or credit conversion factors</b>	25,637,268	7,269,045	4,506,108	3,010,028	989,708	15	1,236,213	6,758,972
Claims or contingent claims on central governments or central banks								
Claims or contingent claims on institutions								
Claims or contingent claims on corporates		6,990,912		2,543,231	862,742	7	883,163	5,981,089
Retail claims or contingent retail claims	25,637,268	278,133	4,506,108	466,797	126,966	8	353,050	777,883
<b>Equity positions</b>								94,167
<b>Securitisation positions</b>		883,843		242,891	303,196		451,336	1,810,168
Other assets not related to bond loans		5,193		1,330	20,290		2,129	9,244
<b>TOTAL</b>	<b>26,004,381</b>	<b>12,260,339</b>	<b>6,369,525</b>	<b>3,796,849</b>	<b>21,116,289</b>	<b>561</b>	<b>1,982,336</b>	<b>20,266,204</b>

Risk Classes	31 December 2013							
	Mortgage credit	Services	Consumer credit	Construction	Other activ. - national	Other activ. - international	Wholesale business	Other
<b>Standardised approach</b>	678,922	19,517,794	1,646,306	766,913	7,575,379	496	486,339	10,499,402
<b>Risk Classes</b>	678,922	19,517,794	1,646,306	766,913	7,575,379	496	486,339	10,499,402
Central governments or central banks		11,378,621						
Regional governments or local authorities		774,719						
Administrative and non-profit organisations		302,772						
Multilateral development banks		73,468						
International organisations								
Institutions		4,471,187						
Corporates		2,304,819		654,050	5,761,185		326,527	1,455,242
Retail portfolio		27,474	1,497,885	37,935	449,010		48,877	86,657
Positions guaranteed by real estate	551,085	125,165		20,467	968,572	496	41,289	51,408
Past due items	127,838	59,568	148,421	54,460	396,612		69,646	71,022
<b>High-risk regulatory categories items</b>								1,242,782
Covered bonds								
Institutions and companies with short-term credit assessment								
Exposures on collective investment undertakings (CIUs)								778,811
Shares								102,924
Other items								6,710,556
<b>Securitisation positions</b>								
<b>IRB approach</b>	25,389,867	11,124,173	4,307,058	5,663,225	1,209,737	65	3,896,629	7,207,274
<b>Not using own estimations of LGD and/or credit conversion factors</b>								
Claims or contingent claims on central governments or central banks								
Claims or contingent claims on institutions								
Claims or contingent claims on corporates								
<b>Using own estimations of LGD and/or credit conversion factors</b>	25,389,867	10,326,542	4,307,058	5,461,898	1,209,545	8	3,623,712	5,328,791
Claims or contingent claims on central governments or central banks								
Claims or contingent claims on institutions								
Claims or contingent claims on corporates		9,395,598		4,917,618	978,890		2,210,831	4,519,451
Claims or contingent claims on retail portfolio	25,389,867	930,945	4,307,058	544,280	230,655	8	1,412,881	809,339
<b>Equity positions</b>								62,104
<b>Securitisation positions</b>		797,631		201,327	192	57	272,917	1,816,379
Other assets not related to bond loans								
<b>TOTAL</b>	<b>26,068,789</b>	<b>30,641,967</b>	<b>5,953,364</b>	<b>6,430,139</b>	<b>8,785,116</b>	<b>561</b>	<b>4,382,967</b>	<b>17,706,676</b>

The distribution of the Group's original risk positions by residual maturity term at the end of 2014 and 2013 are provided in Table 17.

Table 17 - Distribution of exposures by residual maturity

Risk Classes	Euro thousand							
	RM < 1 year		1 year < RM < 5 years		5 years < RM < 10 years		RM > 10 years	
	31-12-2014	31-12-2013	31-12-2014	31-12-2013	31-12-2014	31-12-2013	31-12-2014	31-12-2013
<b>Standardised approach</b>	<b>13,215,453</b>	<b>20,291,438</b>	<b>12,986,731</b>	<b>11,183,875</b>	<b>3,799,434</b>	<b>4,602,412</b>	<b>6,586,589</b>	<b>5,093,826</b>
<b>Risk Classes</b>	<b>13,215,453</b>	<b>20,291,438</b>	<b>12,986,731</b>	<b>11,183,875</b>	<b>3,799,434</b>	<b>4,602,412</b>	<b>6,586,589</b>	<b>5,093,826</b>
Central governments or central banks	3,232,531	6,311,020	4,281,294	4,372,440	1,153,740	610,746	38,487	84,414
Regional governments or local authorities	106,738	97,252	101,451	121,991	165,724	184,825	345,738	370,652
Public Sector Entities	25,006	76,996	7,699	8,467	178,391	42,451	201,781	174,858
Multilateral development banks			8	8	48,925	45,700	32,039	27,759
International organisations								
Institutions	2,841,056	3,687,512	565,671	521,678	129,533	186,051	80,984	75,947
Corporates	4,628,834	6,451,963	3,567,794	2,155,101	750,254	1,265,246	1,208,265	629,513
Retail portfolio	522,387	1,019,468	967,864	734,744	563,341	378,817	273,808	14,809
Positions guaranteed by real estate	425,802	545,175	487,590	471,884	290,695	227,771	388,094	513,653
Past due items	588,355	638,519	122,343	64,815	87,638	53,026	192,225	171,207
Covered bonds								
High-risk regulatory categories items			1,513,711	1,242,782				
Institutions and companies with short-term credit assessment								
Exposures on collective investment undertakings (CIUs)				65,330			814,794	713,481
Shares							392,351	102,924
Other items	844,743	1,463,533	1,371,306	1,424,635	431,194	1,607,780	2,618,023	2,214,608
<b>Securitisation positions</b>								
<b>IRB approach</b>	<b>14,599,787</b>	<b>14,523,274</b>	<b>7,171,586</b>	<b>9,152,085</b>	<b>4,941,185</b>	<b>5,063,244</b>	<b>28,495,719</b>	<b>30,059,424</b>
<b>Not using own estimations of LGD and/or credit conversion factors</b>	<b>301,598</b>		<b>157,413</b>		<b>214,307</b>		<b>1,303,815</b>	
Claims or contingent claims on central governments or central banks								
Claims or contingent claims on institutions								
Claims or contingent claims on corporates	301,598		157,413		214,307		1,303,815	
<b>Using own estimations of LGD and/or credit conversion factors</b>	<b>13,058,175</b>	<b>13,397,004</b>	<b>5,800,842</b>	<b>8,339,147</b>	<b>3,880,507</b>	<b>4,787,753</b>	<b>26,667,833</b>	<b>29,123,516</b>
Claims or contingent claims on central governments or central banks								
Claims or contingent claims on institutions								
Claims or contingent claims on corporates	10,492,235	11,088,190	3,053,394	4,968,890	2,028,870	2,739,618	1,686,644	3,225,690
Retail claims or contingent retail claims	2,565,940	2,308,814	2,747,448	3,370,258	1,851,637	2,048,135	24,981,189	25,897,827
Equity positions							94,167	62,104
Securitisation positions	1,231,658	1,126,270	1,206,529	812,938	836,822	275,491	416,426	873,804
Other assets not related to bond loans	8,357		6,802		9,549		13,479	
<b>TOTAL</b>	<b>27,815,240</b>	<b>34,814,712</b>	<b>20,158,316</b>	<b>20,335,961</b>	<b>8,740,619</b>	<b>9,665,656</b>	<b>35,082,308</b>	<b>35,153,250</b>

The exposures due and those object of an impairment analysis, together with the balance of impairments and of the provisions made, as of 31 December 2014 and 2013, are presented in Table 18, detailing the main economic sectors and geographical areas to which the Group is exposed.

Table 18 - Breakdown of past due and impaired exposures

	Euro thousand					
	Past due exposures		Exposures with impairment		Impairment and provisions	
	31-12-2014	31-12-2013	31-12-2014	31-12-2013	31-12-2014	31-12-2013
<b>Total exposures</b>	<b>6,713,958</b>	<b>6,550,959</b>	<b>11,591,317</b>	<b>13,064,763</b>	<b>4,345,891</b>	<b>4,239,806</b>
<b>Breakdown by main economic sectors</b>						
Mortgage credit	1,201,157	1,387,480	1,880,876	1,991,834	372,763	271,702
Services	799,747	1,208,625	3,567,945	4,313,988	1,129,554	1,024,320
Consumer credit	741,304	613,471	941,318	788,003	440,486	370,605
Construction	501,064	1,440,602	1,387,914	2,533,945	474,105	749,302
Other activ. - national	223,551	507,167	1,220,775	850,692	499,481	478,625
Other activ. - international					0	1
Wholesale business	1,685,140	544,553	283,229	790,763	152,889	251,365
Other	1,561,995	849,061	2,309,260	1,795,538	1,276,613	1,093,885
<b>Breakdown by main geographic areas</b>						
Portugal	6,102,613	5,727,660	10,560,051	11,898,344	3,324,981	3,517,811
Poland	436,871	423,895	540,911	556,004	323,578	316,152
Other	174,474	399,403	490,354	610,415	138,032	405,842

Table 19 shows the evolution, from 2013 to 2014, of the balances of the items that justify the difference between the value of the original exposures and the net value under which the same are registered in the consolidated balance sheet: the impairments and provisions on one hand and the amortisations, on the other. The evolution registered by these balances is explained by allocations, utilisations, reversions, annulments and other adjustments.

**Table 19 - Impairment, provisions and amortisations** Euro thousand

	2014		Total	
	Impairment and provisions	Amortisations	2014	2013
<b>Opening balance on 1 January</b>	<b>4,239,806</b>	<b>1,130,159</b>	<b>5,369,965</b>	<b>6,274,162</b>
Charges	1,518,934	46,665	1,565,599	2,241,139
Uses	-1,063,764		-1,063,764	-1,046,980
Re-adjustments/Cancellations	-310,392	-36,856	-347,248	-1,095,189
Other adjustments:	-38,692	-14,705	-53,397	-1,003,167
- Adjustment for exchange rate differences	653	16	669	-22,920
- Transfers of provisions	-10,578	-14,721	-25,299	-79,726
- Business combinations				
- Acquisitions and disposals of subsidiaries	-28,767		-28,767	-900,521
- Other				
<b>Closing balance on 31 December</b>	<b>4,345,891</b>	<b>1,125,263</b>	<b>5,471,155</b>	<b>5,369,965</b>

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

## 5.4. OWN FUNDS REQUIREMENTS FOR CREDIT RISK

### 5.4.1. Framework of the approaches used

As at 31 December 2013 and 2014, the Group determined the own funds requirements for credit risk in accordance with authorisations granted by Banco de Portugal on the approach to estimate risk weighted assets (RWA).

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

In the capital requirements calculation based on the standardised approach, the exposures are weighted according to the provisions of the CRR. In the risk class "Central Government and Central Banks", credit ratings of issuers or issues are used, provided they have been attributed by recognised credit rating agencies (ECAI - External Credit Assessment Institutions), for the purpose of defining risk quality levels, as per which the corresponding risk weights are applied as defined by the CRR (no. 2 of article 114, Section 2, Chapter 2, Title II, Part III). Whenever the same issuer or issue has two or more risk evaluations, the second best rating attributed is used. The credit rating of the issuer is applicable to all of its operations, whereas the rating for a specific issue is only considered for that same issue. The ECAI used by the Group were Standard & Poor's, Moody's and Fitch Ratings. Exposures of unrated clients are treated in accordance with no. 1 of article 114, Section 2, Chapter 2, Title II, Part III of the CRR.

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

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

On 31 December 2013 and 2014, according to the authorisations granted by Banco de Portugal for the Group's activities in Portugal, the Bank used the Internal Ratings Based Approach for the exposure classes "Corporates" and "Retail Exposures" (in both cases, with own LGD estimates), "Equity exposures" and "items representing securitisation positions". Regarding the Corporates exposure class, the exposures treated under the simplified rating system were weighted using the standardised approach. From 31

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

For all the other geographies where the Group operates, the consolidated own funds requirements as at 31 December 2014 and 2013 were estimated following the standardised approach.

Also, in Portugal:

- Risk weighted assets as at 31 December 2014 for exposures to customers that exceptionally did not receive an internal risk level were computed according to the standardised approach<sup>(\*)</sup>;
- Within the Corporates risk class, the Bank used the standardised approach for a set of Special Purpose Vehicle exposures (SPV), churches, sports clubs and other non-profit organisations, in accordance with Banco de Portugal's authorisation for a permanent partial use of this approach, for these cases.

#### 5.4.2. IRB Approach - Parameters and general information

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

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

The internal ratings are given based on the Rating Master Scale, the same for all the rating systems and models used, presented in Table 20:

**Table 20 - Rating Master Scale**

Risk grades	Minimum PD	Maximum PD	Description
1	0.01%	0.05%	Maximum security (only for sovereign risks)
2	0.05%	0.07%	Superior quality
3	0.07%	0.14%	Very high quality
4	0.14%	0.28%	High quality
5	0.28%	0.53%	Very good quality
6	0.53%	0.95%	Good quality
7	0.95%	1.73%	Medium/high quality
8	1.73%	2.92%	Medium quality
9	2.92%	4.67%	Medium/low quality
10	4.67%	7.00%	Low quality
11	7.00%	9.77%	Very low quality
12	9.77%	13.61%	Conditioned 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 Max. and Min. PD for RG 13 and 14 are indicative, being applied the observed PD.

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

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

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

<sup>(\*)</sup> Except in what concerns the Real Estate Promotion exposures, treated in IRB with a client's PD corresponding to risk grade 12 of the Master Scale.

The rating models included in the various rating systems are regularly subject to validation by the Models Audit and Validation Unit (MAVU), which is integrated in Internal Audit, hence, independent from the units responsible for the development and maintenance of rating models. Besides that, the MAVU is also responsible for ensuring that the Group's Rating Master Scale is up-to-date and correct.

The conclusions of MAVU's validation, as well as its amendment/improvement recommendations and proposals, are analysed and ratified by a specific Validation Committee, whose composition varies according to the type of model analysed. The proposals to amend the models originated in the Validation Committees are submitted to the approval of the Risk Commission.

Besides its responsibilities regarding the PD models and the Rating Master Scale, the MAVU is also responsible for validating the models used to estimate LGD and CCF parameters. Regarding these models, the Bank estimates them all based on the methods validated by Banco de Portugal within the scope of the process to approve the use of the IRB approach.

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

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

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

- Ensuring compliance with the regulatory requirements for storing input and output data;
- Ensuring adequacy of the model's documentation, including the development documentation, development samples and all the documents regarding changes to model;
- Being the senior person in charge of all requests pertaining to the decision process based on the model;
- Changing the model whenever necessary;
- Ensuring the existence of monitoring processes;
- Ensuring the necessary support to the MAVU pursuant to the model validation work.

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

- Ensuring the necessary support to the MCU within the scope of the analysis of the rating systems decision flow;
- Promoting the execution of changes to the rating system whenever necessary.

#### 5.4.3. IRB Approach - Corporates risk class

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

In the first case, the Bank uses the Project Finance rating, i.e. the mapping between the scoring of a specific questionnaire and one of four possible classifications (besides the possibility of default) for the risks in question, which then define the weights to be used in the computation of risk-weighted assets in accordance with no. 5 of article 153, Sub-Section 2, Section 2, Chapter 3, Title II, Part III of the CRR.

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

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

Finally, if the rating analyst proposes an override to the client's Integrated Rating, this must be approved by the Rating Committee, resulting in the Final Rating. However the overrides are not frequent.

Table 21 summarises these rating models and systems:

Table 21 - Corporates rating models and systems

Rating system for Projects	<p><u>Rating model for Project Finance:</u> Scoring of specific questionnaire on the financial strength, the politic and regulatory frameworks, other features of the operation, the ability of sponsors/shareholders and the package of collaterals</p> <p><u>Model for Real Estate Promotion Projects for sale / Model for Real Estate Promotion Projects for income / Model for Real Estate Investment Funds:</u> 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</p> <p><u>Model for small Real Estate Projects:</u> Quantitative component + qualitative component + adjustments stemming from pre-defined situations (including those arising from the identification of "imminent risk" evidence) + Group adjustments</p>
Rating system for Corporates	<p><u>Large Corporate Model:</u> 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</p> <p><u>Small e Mid Corporate Model:</u> 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</p> <p><u>Business Model for Real Estate Development / Model for Investment Companies/Real Estate income:</u> 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</p> <p><u>Model for Small Real Estate agents:</u> Quantitative component + qualitative component + adjustments stemming from pre-defined situations or from the identification of "imminent risk" evidence + adjustments stemming from economic group relations (e.g. parents vs. affiliates)</p>

#### 5.4.4. IRB Approach - Retail portfolio risk class

In this risk class, the risk-weighted assets calculation with an IRB Approach is based on the PD that correspond to the risk scores given by the rating systems for Small Businesses and for Individuals.

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

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

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

The rating systems and models used by the Bank for the Retail Portfolio are broken down in Table 22:

**Table 22 - Retail portfolio rating models and systems**

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

Own fund requirements for credit risk and counterparty credit risk originated by portfolios subject to the standardised approach, as at 31 December 2014 and 2013, are presented in Table 23.



Table 23 - Own funds requirements for credit risk and counterparty credit risk (Standardised approach)

Euro thousand

	31 December 2014									Total
	Risk weights									
	0%	10%	20%	35%	50%	75%	100%	150%	Other	
1. Original exposure										
Central governments or central banks	7,302,747		497,381		108		905,813	2		8,706,052
Regional governments or local authorities			719,459		4		41		147	719,651
Public Sector Entities	355,639		19,864		16,129		21,245			412,878
Multilateral development banks	80,971									80,971
International organisations										
Institutions			2,436,799		612,682		538,393	29,368	2	3,617,244
Corporates			503		274		9,838,578	312,552	3,241	10,155,147
Retail portfolio	152					2,323,498	3,747		4	2,327,401
Positions guaranteed by real estate					715,836	37,099	608,228		231,018	1,592,181
Past due items					0		759,251	231,309	0	990,561
High-risk regulatory categories items								1,400,854	112,857	1,513,711
Covered bonds										
Institutions and companies with short-term credit assessment										
Exposures on collective investment undertakings (CIUs)							742,167	52,750	19,877	814,794
Shares							68,402		323,950	392,351
Other items	973,993		237,791		312		3,557,554	1,809	493,807	5,265,267
Total original exposures	8,713,502		3,911,797		1,345,346	2,360,597	17,043,419	2,028,644	1,184,902	36,588,207
2. Exposure (reserve base of risk weights)										
Central governments or central banks	7,535,736		501,146		68		920,968	2		8,957,920
Regional governments or local authorities			478,188		4		41		147	478,380
Public Sector Entities	355,639		19,649		6,890		19,181			401,359
Multilateral development banks	80,971									80,971
International organisations										
Institutions			1,833,568		563,971		518,907	29,368	2	2,945,815
Corporates			503		274		6,352,874	43,755	3,241	6,400,646
Retail portfolio	140					1,863,300	2,917		4	1,866,362
Positions guaranteed by real estate					713,262	33,701	380,574		230,757	1,358,294
Past due items					0		370,745	179,055	0	549,800
High-risk regulatory categories items								1,277,488		1,277,488
Covered bonds										
Institutions and companies with short-term credit assessment										
Exposures on collective investment undertakings (CIUs)							741,211	52,750	8,870	802,830
Shares							42,955		323,950	366,905
Other items	973,993		237,791		312		2,146,050	1,809	493,807	3,853,763
Total exposures	8,946,479		3,070,845		1,284,781	1,897,001	11,496,424	1,584,228	1,060,777	29,340,534
3. TOTAL capital requirements										
Central governments or central banks			8,018		3		73,677	0		81,699
Regional governments or local authorities			7,651		0		3		3	7,657
Public Sector Entities			314		276		1,534			2,124
Multilateral development banks										
International organisations										
Institutions			29,337		22,559		41,513	3,524	0	96,933
Corporates			8		11		494,944	5,251	36	500,250
Retail portfolio						104,655	180		0	104,835
Positions guaranteed by real estate					26,835	2,005	29,414		6,310	64,563
Past due items					0		29,660	21,487	0	51,146
High-risk regulatory categories items								153,299		153,299
Covered bonds										
Institutions and companies with short-term credit assessment										
Exposures on collective investment undertakings (CIUs)							59,297	6,330	781	66,407
Shares							3,436		64,810	68,246
Other items			3,804		10		171,678	217	98,383	274,092
Total capital requirements			49,133		49,693	106,660	905,335	190,107	170,323	1,471,251

										Milhares de euros
	31 de dezembro de 2013									Total
	Ponderadores de risco									
	0%	10%	20%	35%	50%	75%	100%	150%	Other	
1. Original exposure										
Central governments or central banks	10,687,513		459,330		54,004		177,772	2		11,378,621
Regional governments or local authorities			774,719							774,719
Public Sector Entities	267,301		14,024		21,283		163			302,772
Multilateral development banks	73,468									73,468
International organisations										
Institutions			3,697,480		125,231		648,477	0		4,471,187
Corporates			30,052		271		10,443,171	28,330		10,501,824
Retail portfolio						2,146,249	1,588			2,147,837
Positions guaranteed by real estate	2,072		5,149	393,963	652,093	77,118	628,088			1,758,483
Past due items							801,561	126,006		927,567
High-risk regulatory categories items								1,106,500	136,282	1,242,782
Covered bonds										
Institutions and companies with short-term credit assessment										
Exposures on collective investment undertakings (CIUs)							778,811			778,811
Shares							102,924			102,924
Other items	3,063,883		197,974				3,448,699			6,710,556
Total original exposures	14,094,236		5,178,729	393,963	852,881	2,223,367	17,031,254	1,260,838	136,282	41,171,551
2. Exposure (reserve base of risk weights)										
Central governments or central banks	11,346,720		452,084		53,978		177,115	1		12,029,898
Regional governments or local authorities			513,316							513,316
Public Sector Entities	250,765		13,987		13,622		82			278,456
Multilateral development banks	76,267									76,267
International organisations	730									730
Institutions	123,031		3,108,290		101,919		549,653	0		3,882,895
Corporates	20,299		79,675		271		6,419,415	22,479		6,542,138
Retail portfolio	2,318					1,608,143	635			1,611,096
Positions guaranteed by real estate	8,249		5,137	391,118	628,834	74,668	420,176			1,528,182
Past due items							366,954	113,895		480,848
High-risk regulatory categories items								1,050,718		1,050,718
Covered bonds										
Institutions and companies with short-term credit assessment										
Exposures on collective investment undertakings (CIUs)							766,911			766,911
Shares							76,215			
Other items	3,063,883		197,974				1,993,531			5,255,388
Total exposures	14,892,262		4,370,463	391,118	798,624	1,682,811	10,770,687	1,187,092		34,016,842
3. TOTAL capital requirements										
Central governments or central banks			7,233		2,159		14,169	0		23,562
Regional governments or local authorities			8,213							8,213
Public Sector Entities			224		545		7			775
Multilateral development banks										
International organisations										
Institutions			49,733		4,077		43,972	0		97,782
Corporates			1,275		11		513,553	2,697		517,536
Retail portfolio						96,489	51			96,539
Positions guaranteed by real estate			82	10,951	25,153	4,480	33,614			74,281
Past due items							29,356	13,667		43,024
High-risk regulatory categories items								126,086		126,086
Covered bonds										
Institutions and companies with short-term credit assessment										
Exposures on collective investment undertakings (CIUs)							61,353			61,353
Shares							6,097			6,097
Other items			3,168				159,482			162,650
Total capital requirements	0		69,927	10,951	31,945	100,969	861,655	142,451		1,217,898

Own funds requirements for credit risk and counterparty credit risk originated by portfolios subject to the IRB approach, as at 31 December 2014 and 2013, are presented in Tables 24 - A, B, C and D, which reflect the different portfolios (Retail, Corporates, Specialised Lending and Equity positions).

Table 24-A - Own funds requirements for credit risk and counterparty credit risk (IRB approach) - Retail Euro thousand

Retail portfolio		Internal ratings based system	Original exposure	Exposure at risk	LGD (average weighted by the exposure at risk) (%)	Capital requirements		Memorandum items	
		PD buckets of customer risk grades (%)				31-12-2014	31-12-2013	Expected losses	Corrections and provisions
<b>1. Total exposures</b>			<b>32,146,213</b>	<b>30,298,256</b>		<b>525,122</b>	<b>578,067</b>	<b>1,053,985</b>	<b>-885,343</b>
<b>1.1 - Exposures related to customers risk grades: Total</b>			<b>32,146,213</b>	<b>30,298,256</b>		<b>525,122</b>	<b>578,067</b>	<b>1,053,985</b>	<b>-885,343</b>
Breakdown of exposures related to customers risk grades (a):	Risk grade: 1	0,01% a 0,05%							
	2	0,05% a 0,07%	223,423	68,339	56,44%	140	57	12	-32
	3	0,07% a 0,14%	6,659,727	6,460,613	49,40%	29,725	30,529	1,509	-3,432
	4	0,14% a 0,28%	7,085,188	6,611,991	50,81%	43,983	40,921	2,860	-3,338
	5	0,28% a 0,53%	4,355,125	4,131,896	49,54%	48,270	45,018	3,896	-3,929
	6	0,53% a 0,95%	2,779,421	2,636,185	50,94%	47,234	48,907	4,567	-3,482
	7	0,95% a 1,73%	2,156,326	2,036,241	52,12%	53,252	53,783	6,539	-2,266
	8	1,73% a 2,92%	1,394,884	1,311,023	52,95%	48,538	55,523	7,607	-2,656
	9	2,92% a 4,67%	1,100,059	1,086,783	50,48%	51,829	60,393	9,932	-3,569
	10	4,67% a 7,00%	977,322	851,523	49,70%	49,847	56,336	11,709	-2,266
	11	7,00% a 9,77%	586,336	505,192	53,12%	35,022	45,670	10,350	-1,442
	12	9,77% a 13,61%	1,009,533	832,643	48,19%	58,188	84,145	21,343	-6,965
	13 a 15	13,61% a 100,00%	3,818,867	3,765,828	55,79%	59,093	56,787	973,662	-850,965

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

Note 1: This table doesn't include information related to the specialised lending, that is presented in Table 24-C.

Note 2: Risk grades and PD buckets presented in this table reflect the risk grades scale and corresponding PDs of Millennium bcp's Rating MasterScale.

Table 24-B - Own funds requirements for credit risk and counterparty credit risk (IRB approach) - Corporate

Euro thousand

Corporates	Internal ratings based system	PD buckets of customer risk grades (%)	Original exposure	Exposure at risk	LGD (average weighted by the exposure at risk) (%)	Capital requirements		Memorandum items	
						31-12-2014	31-12-2013	Expected losses	Corrections and provisions
1. Total exposures			17,102,968	14,342,451		802,346	1,069,895	2,366,510	-2,139,203
1.1 - Exposures related to customers risk grades: Total			17,102,968	14,342,451		802,346	1,069,895	2,366,510	-2,139,203
Breakdown of exposures related to customers risk grades (a):	Risk grade: 1	0,01% a 0,05%							
	2	0,05% a 0,07%							
	3	0,07% a 0,14%	24,373	8,397	42%	124	66	4	-1
	4	0,14% a 0,28%	760,079	576,587	37%	19,118	20,751	473	-81
	5	0,28% a 0,53%	427,242	326,337	40%	9,081	25,875	524	-291
	6	0,53% a 0,95%	1,071,981	825,032	41%	31,454	27,107	1,639	-1,106
	7	0,95% a 1,73%	1,053,216	775,472	37%	45,044	65,583	3,818	-1,075
	8	1,73% a 2,92%	909,338	689,406	32%	41,520	49,948	5,074	-918
	9	2,92% a 4,67%	1,551,031	1,304,210	33%	101,119	93,555	17,025	-2,809
	10	4,67% a 7,00%	539,884	398,734	33%	35,401	53,553	7,961	-1,619
	11	7,00% a 9,77%	864,124	688,680	34%	70,439	113,080	20,124	-2,137
	12	9,77% a 13,61%	3,303,499	2,661,713	33%	269,580	331,981	101,168	-108,490
	13 a 15	13,61% a 100,00%	6,598,202	6,087,884	48%	179,465	288,395	2,208,700	-2,020,678

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

Note 1: This table doesn't include information related to the specialised lending, that is presented in Table 24-C.

Note 2: Risk grades and PD buckets presented in this table reflect the risk grades scale and corresponding PDs of Millenniumbcp's Rating MasterScale.

Table 24-C - Own funds requirements for specialised lending (IRB approach)

Euro thousand

Risk weights	Original exposure		Capital requirements	
	31-12-2014	31-12-2013	31-12-2014	31-12-2013
0%	143,050	80,549		
50%		25		0
70%	146,920	177,086	8,207	9,804
of which: Grade 1				
90%	1,332,440	1,088,447	93,501	76,495
115%	248,789	498,571	22,366	43,809
250%	105,933	150,751	21,476	29,610
<b>TOTAL</b>	<b>1,977,132</b>	<b>1,995,428</b>	<b>145,550</b>	<b>159,719</b>

Table 24-D - Own funds requirements for equity positions (IRB approach)

Euro thousand

Using own estimations of LGD and/or credit conversion factors	Internal ratings based system	Original exposure	Exposure at risk	LGD (average weighted by the exposure at risk) (%)	Capital requirements		Memorandum items
					31-12-2014	31-12-2013	Expected losses
1. PD/LGD approach: Total risk exposures							
Breakdown of exposures related to customers risk grades (a):	Risk grade: 2						
	3						
	4						
	5						
	...						
	...						
	...						
	n						
2. Simple weight approach: Total exposures at risk		94,167	94,167		26,961	17,261	2,032
Breakdown of exposures per risk weight:	Risk weight: 190%						
	290%	14,262	14,262		3,309	4,068	114
	370%	79,905	79,905		23,652	13,192	1,918
3. IRB Approach							

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

Note: The capital requirements identified in this table are identified in the context of point 2.1.2.3 of Table 10 - Capital Requirements.

## 6. COUNTERPARTY CREDIT RISK

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

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

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

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

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

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

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

Both in 2014 and in 2013, for the purposes of reducing counterparty credit risk, the Group used the financial collateral comprehensive method, as established in article 223, Section 4, Chapter 4, Title II, Part III of the CRR, and the mark-to-market method to calculate the future exposure in the relevant positions with credit risk, as defined in article 274, Section 3, Chapter 6, Title II, Part III of the CRR.

After estimating the exposures as at 2013 and 2014, the own funds requirements were computed, on one hand, according to Chapter 2, Title II, Part III of the CRR, for risk scores and portfolios that followed the standardised approach, and, on the other hand, according to Chapter 3, Title II, Part III of the CRR, for the portfolios for which Banco de Portugal has authorised the IRB Approach.

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

The market values of the operations are collected directly from the Bank's front-end application (Kondor+), in which the management and evaluation of the operations is carried out, whilst the add-on values to be applied are directly identifiable in table I of paragraph c) of article 274, Section 2, Chapter 6, Title II, Part III of the CRR.

Table 25 shows own funds requirements for counterparty credit risk for exposures subject to the standardised approach, computed as at the end of 2014 and 2013.

Table 25 - Own funds requirements for counterparty credit risk (Standardised approach)

Euro thousand

	Original net exposure	Credit risk mitigation techniques with substitution effects on the original net exposure <sup>(a)</sup>	Credit risk mitigation techniques with effect on the net exposure amount <sup>(b)</sup>	Fully adjusted exposure	Capital requirements	
					31-12-2014	31-12-2013
Repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions	36,409			1,291	21	72
Derivatives	734,398			668,739	31,304	20,936
Contractual cross-product netting						

(a) Substitution effects in the exposure, corresponding to the net balance of outflows and inflows.

(b) Funded credit protection - comprehensive financial collateral approach.

Note: Own funds requirements shown in this table are emphasized in the scope of item 2.1.1 of Table 10 - Capital requirements.

Own funds requirements for counterparty credit risk for exposures subject to the IRB approach, computed as at the end of 2013 and 2012 are broken down in Table 26.

Table 26 - Own funds requirements for counterparty credit risk (IRB approach)

Euro thousand

	Original net exposure	Credit risk mitigation techniques with substitution effects on the original net exposure <sup>(a)</sup>	Credit risk mitigation techniques with effect on the net exposure amount <sup>(b)</sup>	Fully adjusted exposure	Capital requirements	
					31-12-2014	31-12-2013
Repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions						
Derivatives	85,706			85,706	9,540	23,810
Contractual cross-product netting						

(a) Substitution effects in the exposure, corresponding to the net balance of outflows and inflows.

(b) Funded credit protection - comprehensive financial collateral approach.

Note: Own funds requirements shown in this table are emphasized in the scope of item 2.1.2 of Table 10 - Capital requirements.

As at 31 December 2014, the Group had two risk coverage operations in force, involving credit derivatives, with a nominal value of 316 million Euros (one operation with a nominal value of 255 million Euros by the end of 2013). On those dates, the Group was exposed to other financial instruments with credit risk arising from intermediation activities, namely credit linked notes and credit default swaps, which correspond, essentially, to a number of structured products issued by the Bank and their associated economic coverage operations. These exposures are shown in Table 27.

Table 27 - Credit derivatives

Euro thousand

Credit derivatives transactions	Long positions		Short positions	
	31-12-2014	31-12-2013	31-12-2014	31-12-2013
<b>I. Credit portfolio (total):</b>				
a) Credit default swaps	316,260	255,000		
b) Total return swaps				
c) Credit linked notes				
d) Other credit derivatives				
<b>II. Intermediation activities (total):</b>	<b>1,446,060</b>	<b>1,751,560</b>	<b>1,233,250</b>	<b>1,542,714</b>
a) Credit default swaps	1,253,200	1,499,300	1,233,250	1,542,714
b) Total return swaps	19,510	19,510		
c) Credit linked notes	173,350	232,750		
d) Other credit derivatives				

Long-term positions - theoretical value of the acquired protection

Short-term positions - theoretical value of the protection sold

Notes:

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

The exposures listed in this table impact on the own funds requirements for counterparty risk, based on market value plus an add-on, with the respective amounts reflected in Tables 25 and 26 - Own funds requirements for credit risk and counterparty credit risk (Standardised and IRB approaches, respectively).

## 7. CREDIT RISK MITIGATION TECHNIQUES

### 7.1. ELIGIBILITY AND TYPE OF MITIGATION INSTRUMENTS

The internal rules and procedures relative to credit risk mitigation meet the requirements defined in the CRR, reflecting also the experience of the Credit Recovery Departments (both Retail and Specialised) and the opinion of the Legal Division with respect to the binding character of the various mitigation instruments.

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

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

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

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

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

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

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

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

### 7.2. PROTECTION LEVELS

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

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

### 7.3. COLLATERAL REVALUATION

#### Financial collateral

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

#### Real Estate: home mortgages, commercial mortgages and others

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

The appraisals and their respective revisions are, in general, carried out by external evaluation entities and ratified by the Bank's Evaluation Unit, and can also be carried out by an internal appraisal expert, irrespective of customer areas. In any case, they are the object of a written report, in standardised digital format, taking into consideration the methods applied - income, cost and reversion and/or market comparison. The value obtained within the scope of the concept of market value and for the purposes of mortgage guarantee, according to the type of real estate in question, is also considered. Evaluations have been subject to a declaration/certification of an evaluation expert, as required by the CRD IV/CRR.

Relative to residential real estate, after the initial valuation and in compliance with applicable regulations, the Bank monitors their respective values through indexes or the appraisals values are reviewed by expert valuers within the established requirements:

- If the amount of the credit operation that benefits from the mortgage is in excess of 500 thousand Euros, the value is revised by an expert valuer, every three years;
- If the value of the credit operation that benefits from the mortgage is under of 500 thousand Euros, the value is monitored using market indexes, every three years; whenever this monitoring finds a significant decrease (above 10%), the valuation must be reviewed an expert valuer.

For all non-residential real estate properties, the Bank also monitors the value using market indexes and promotes the review their respective appraisal value with the minimum regularity defined by applicable regulations in the case of offices, warehouses and industrial properties.

All real-estate properties (residential or not) for which the monitoring shows a value decrease of more than 10% are subsequently object of an appraisal review by an expert valuer.

For all other real estate properties (e.g. building sites, commercial property, farmlands), there are no market indexes available to monitor their value after the initial appraisals. Thus, in these cases, real-estate properties values are reviewed by external expert valuers, within the minimum regularity established by the applicable regulations.

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

The appraisals review according to the regulatory requirements is mostly carried out by external expert valuers.

Table 28 summarises the impact, as at 31 December 2014, of the risk mitigation techniques used by the Group, within the scope of the standardised approach, effective in terms of both the substitution of risk positions and of the amount of those risk positions per risk class.



Table 28 - Credit risk mitigation techniques (Standardised approach)

Euro thousand

	Net exposure	Credit risk mitigation techniques with substitution effects on the original net exposure				Credit risk mitigation techniques with effect on the net exposure amount: funded credit protection (a)	
		Personal credit protection: fully adjusted value of the protection (GA)		Funded credit protection		Substitution effect on the exposure (net of outflows and inflows)	Volatility adjustment to the exposure amount
		Guarantees	Credit derivatives	Simple method: financial collaterals	Other forms of funded credit protection		
<b>Total exposures</b>	<b>34,172,861</b>	<b>312,817</b>				<b>180,257</b>	<b>1,273,663</b>
Central governments or central banks	8,704,091	1,275				271,185	14
Regional governments or local authorities	719,571	240,618				-207,880	
Public Sector Entities	412,293	1,522				-1,522	3,910
Multilateral development banks	80,971						
International organisations							
Institutions	3,617,191					187,829	100,777
Corporates	9,891,396	68,589				-68,589	1,077,349
Retail portfolio	2,287,358	367				-367	79,315
Positions guaranteed by real estate	1,570,349	400				-400	10,090
Past due items	588,656	48				0	2,209
High-risk regulatory categories items	1,277,488						
Covered bonds							
Institutions and companies with short-term credit assessment							
Exposures on collective investment undertakings (CIUs)	802,830						
Shares	366,905						
Other items	3,853,763						

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

Tables 29-A and 29-B summarise the impact, with reference to 31 December 2014, of the credit risk mitigation techniques used by the Group under the IRB Approach, in terms of the substitution of exposures and the actual amount of exposures, by risk class.

Table 29-A - Credit risk mitigation techniques - total exposure - IRB approach

Euro thousand

	Original exposures	Credit risk mitigation techniques with substitution effects on the original net exposure				Credit risk mitigation techniques with impact on the LGD estimation, excluding the treatment related to simultaneous default					Treatment related to simultaneous default
		Personal credit protection		Other forms of funded credit protection	Substitution effect on the exposure (net of outflows and inflows)	Using own estimations of LGD: Personal credit protection		Funded credit protection			Personal credit protection
		Guarantees	Credit derivatives			Guarantees	Credit derivatives	Using own estimations of LGD: other	Eligible collateral	Other eligible collateral <sup>(a)</sup>	
Total exposures	51,384,489	1,598,560			-180,257				922,938	28,228,718	
Claims or contingent claims on corporates	19,238,276	222,028			-150,809				571,991	4,167,813	
Retail claims or contingent retail claims	32,146,213	1,376,531			-29,449				350,947	24,060,905	

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

Table 29-B - Credit risk mitigation techniques - equity positions (IRB approach)

Euro thousand

	Original exposures	Credit risk mitigation techniques with substitution effects on the original net exposure		
		Personal credit protection		Substitution effect on the exposure (net of outflows and inflows)
		Guarantees	Credit derivatives	
PD/LGD based approach (total)				
Simple weight based approach (total)	94,167			
Internal ratings based approach (total)				

Credit risk mitigation techniques (personal and real credit protection), with reference to 31 December 2014 and 2013, are analysed in Table 30, considering the main sectors of activity focused on.

Table 30 - Concentration analysis: personal and funded credit protection

Euro thousand

31 December 2014								
	Personal credit protection		Funded credit protection					Other forms of funded credit protection
			Eligible (financial) collateral		Other forms of eligible collateral			
	Guarantees	Credit derivatives - Simple method	Simple Method	Comprehensive financial collateral method	Real-estate	Other tangible guarantees	Amounts due for collection	
Total positions covered	1,826,764			2,052,809	29,214,530			
Mortgage loans	1,056,488			24,947	23,904,628			
Services	91,308			292,305	1,782,788			
Consumer credit	68,325			242,388	107,398			
Construction	59,492			27,175	628,165			
Other domestic activities	292,223			1,246,470	911,066			
Other foreign activities				14	277			
Wholesale business	44,178			33,260	151,353			
Other	214,750			186,251	1,728,856			

Euro thousand

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

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

## 8. EQUITY EXPOSURES IN THE BANKING BOOK

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

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

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

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

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

The Equity exposures in the banking book are analysed in Table 31, as follows:

Table 31 - Equity exposures in the banking book							Euro thousand	
	Listed shares		Unlisted shares		Other capital instruments <sup>(1)</sup>		TOTAL	
	31-12-2014	31-12-2013	31-12-2014	31-12-2013	31-12-2014	31-12-2013	31-12-2014	31-12-2013
Acquisition cost / Notional amount	45,982	44,292	132,702	69,108	24,076	30,000	202,759	143,400
Fair value	17,536	19,676	86,450	52,718	28,694	30,045	132,680	102,439
Market price								
Gains or losses arising from sales and settlements in the period							5,095	127,698 <sup>(1)</sup>
Total unrealised gains or losses							8,473	6,234 <sup>(2)</sup>
Total latent revaluation gains or losses							-70,079	-40,961 <sup>(3)</sup>

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

<sup>(1)</sup> Venture capital funds, similar to equity for prudential purposes.

(1) Gains or losses arising from sales and settlements in the period: results before taxes.

(2) Total unrealised gains or losses: reports the amount of the fair value reserves in this portfolio on the reporting dates, doesn't therefore incorporate eventual impairments or goodwill related to the respective securities; corresponds to potential accounting capital gains/losses for this portfolio, to be booked to the profit and loss account in case of divestment.

(3) Total latent revaluation gains or losses: difference between the fair value and the acquisition cost of the securities in the portfolio on the reporting dates. Reflects the total gains/losses underlying the shares of the investment portfolio; however, part of the unrealised losses may have already been recognised, via results or reserves (namely by impairment or goodwill).

Within the scope of the approval by Banco de Portugal for the use of IRB methodologies, the Group used the simple weight method to compute own funds requirements for the equity in the banking book held by Group entities headquartered in Portugal and held by Bank Millennium in Poland. Own funds requirements for the other operations and countries are still determined using the standardised approach.

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

Own funds requirements for exposure to equity in the banking book are presented in Table 32.

Table 32 - Capital requirements for equity exposures Euro thousand

	Risk weights	Risk positions <sup>(1)</sup>		Capital requirements	
		31-12-2014	31-12-2013	31-12-2014	31-12-2013
Standardised approach	100%	38,513	39,110	3,081	3,129
IRB approach <sup>(2)</sup>		94,167	62,104	26,961	17,261
Listed shares	290%	14,262	17,535	3,309	4,068
Unlisted shares	370%	79,905	44,569	23,652	13,192
<b>Total</b>		<b>132,680</b>	<b>101,214</b>	<b>30,042</b>	<b>20,389</b>

<sup>(1)</sup> Original exposure net of provisioning

<sup>(2)</sup> Based on the simple weight based approach; equities held by 31 December 2007 (risk weighted for 100%, as a result of the use of the applicable exemption), were included within the positions whose capital requirements are calculated according to the standardised approach.

Note1: Own funds requirements shown in this table are emphasized in the scope of item 2.1.1.1.15 (shareholdings not considered) and 2.1.2.3 of Table 10 - Capital requirements.

Note2: Risk positions differ from the fair value amounts as they don't include the amounts deducted to own funds (related to unrealised gains and financial investments over 10%).

## 9. SECURITISATION OPERATIONS

### 9.1. DESCRIPTION OF THE ACTIVITIES AND OPERATIONS

On 31 December 2014, the number of ongoing credit securitisation operations originated by the Group rose to seven, six of which from the operation in Portugal and one from Poland.

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

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

After 2007, market conditions to place these operations altered significantly. Thus up to 2014, the Bank began retaining in its books the totality of the bonds issued within the scope of each credit securitisation operation (from the senior tranche to the first loss tranche). So as to maximise its liquidity, the Bank used the senior tranche of each operation carried out as an eligible asset. These transactions have been terminated as the Bank's liquidity position was improving. In December 2014, the Bank held in its portfolio, only residual portions of market transactions.

Taking advantage of market conditions and in particular the appetite for risk originated in Portugal, the Bank carried out recently a couple of synthetic securitisations, which embodied the hedge of a significant portion of its short, medium and long-term corporate loan portfolio (Caravela SME 3) and of its leasing portfolio (Caravela SME4). These transactions were aimed at reducing risk weighted assets associated with those portfolios, achieved through an effective transfer of risk to specialized institutional investors.

As an investor, the Group does not hold significant positions in credit securitisation operations.

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

The main features of the securitisation operations with assets originated by the Group, namely in terms of goal, form and level of involvement, the existence or not of a significant risk transfer in each transaction and of securitised securities and debt, for active operations as at 31 December 2014, are summarised in Table 33.

Table 33 - Description of securitisation operations

Table 33

	MAGELLAN No.1
Identification of the securitisation operation	Magellan Mortgages No. 1 Limited
Initial objective of the securitisation operation	Securing funding and risk management (2)
Form of the securitisation operation	Traditional securitisation Credit lender (Banco Comercial Português, S.A. and Banco de Investimento Imobiliário, S.A.) Manager of the assigned credits Escrow bank of the Securitisation Credit Fund Transaction Manager
Start date	18 December 2001
Legal maturity	15 December 2036
Step-up clause (date)	15 December 2008
Revolving (years)	N.A
Securitized assets (in million of euros)	1000
Significant credit risk transfer (1)	No

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

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

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

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

	CARAVELA SME No.4
Identification of the securitisation operation	Caravela SME no. 3
Initial objective of the securitisation operation	Reduction of the RWAs associated with the portfolio
Form of the securitisation operation	Synthetic securitisation Originator of the securitised assets Manager of the assigned credits Counterparty of the credit default swap
Start date	5 June 2014
Legal maturity	25 September 2043
Step-up clause (date)	N.A.
Revolving (years)	5 years
Securitised assets (in millions of euros)	1,000.0
Significant credit risk transfer (1)	Yes

(1) For regulatory purposes.

(2) Assets that, in December 31, 2014 could be pledged by the Bank as collateral within the Eurosystem in the scope of its financing operations.

The main features of the asset securitisation operations originated in the Group at the end of 2014 and 2013 are summarised in Table 34.

Table 34 - Main characteristics of the securitisation operations

	Traditional									
	MAGELLAN 1		MAGELLAN 2		MAGELLAN 3		MAGELLAN 4		NOVA 4	
	31-12-2014	31-12-2013	31-12-2014	31-12-2013	31-12-2014	31-12-2013	31-12-2014	31-12-2013	31-12-2014	31-12-2013
<b>Information on the transactions</b>										
Amounts in debt (in millions of euros)	164.1	187.6	192.5	217.1	492.7	527.9	540.3	585.1		125.3
<b>Information on the involvement of the lender institution</b>										
Implicit support situations	N.A.	N.A.	N.A.	N.A.	Yes*	Yes*	N.A.	N.A.		N.A.
Assets assigned (per institution)/Securitized assets (total) (%)	4%	3%	4%	3%	11%	8%	12%	9%		2%
Initial gains/Value of first loss positions held	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.		N.A.

	Traditional			
	TAGUS LEASING 1		SME 2	
	31-12-2014	31-12-2013	31-12-2014	31-12-2013
<b>Information on the transactions</b>				
Amounts in debt (in millions of euros)		518.5		2,211.5
<b>Information on the involvement of the lender institution</b>				
Implicit support situations		N.A.		N.A.
Assets assigned (per institution)/Securitized assets (total) (%)		8%		33%
Initial gains/Value of first loss positions held		N.A.		N.A.

	Synthetic			
	Caravela SME 3		Caravela SME 4	
	31-12-2014	31-12-2013	31-12-2014	31-12-2013
<b>Information on the transactions</b>				
Amounts in debt (in millions of euros)	2,250.9	2,383.2	979.4	
<b>Information on the involvement of the lender institution</b>				
Implicit support situations	N.A.	N.A.	N.A.	
Assets assigned (per institution)/Securitized assets (total) (%)	49%	35%	21%	
Initial gains/Value of first loss positions held	N.A.	N.A.	N.A.	

N.A. - Not applicable

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

## 9.2. GROUP ACCOUNTING POLICIES

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

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

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

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

Within the scope of the application of such policy, the accounting consolidation perimeter included the following SPE resulting from securitisation operations: Magellan no. 2 and 3. On the other hand, the Group did not consolidate into its accounts the following SPEs that also resulted from the Group's securitisation operations: Magellan no. 1 and 4.

Regarding these SPE, not recognised in the balance sheet, we were able to verify that the associated risks and benefits were substantially transferred, since the Group does not hold securities issued by the SPE in question with exposure to most residual risks, nor is it in any other manner exposed to the performance of the credit portfolios.

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



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

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

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

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

### 9.3. OWN FUNDS REQUIREMENTS

On 31 December 2014, the Group held securitisation positions both as an investor and as an originator entity. For some of the securitisation positions as an originator there was no significant credit risk transfer, according to the criteria defined in the CRR, articles 243 and 244, Section 2, Chapter 5, Title II, Part III and, therefore, the own funds requirements were determined as if these securitisations had not occurred.

The computation of risk-weighted assets of the securitisation operations by the end of 2014 was made according to Section 3, Chapter 5, Title II, Part III of the CRR.

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

The ECAI used in 2014 to compute risk-weighted assets for securitisation operations were Standard & Poor’s, Moody’s and Fitch Ratings.

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

The Own funds requirements for securitisation operations computed according to the IRB approach, at the end of 2014 and 2013, are shown in Tables 35-A and 35-B.

Traditional securitisation	Total amount of the originated securitised exposure (for the lender institution)	Fully adjusted exposure value	Breakdown of the exposure amount subject to weighting (2+3) by a risk weight higher or equal to 100%								Capital requirements	
			Internal ratings approach		1250%		Regulatory formula approach		Internal evaluation approach		31-12-2014	31-12-2013
		Amounts deducted from own funds (-)	12% - 18%	100%	Position subject to notation	Position not subject to notation		Average risk weight (%)		Average risk weight (%)		
Total exposures (=A+B+C)		8,824									1,871	38,279
A - Lender entity: total exposures												
A.1 - Balance sheet items												
Most senior												
Mezzanine												
First loss												
A.2 - Off-balance sheet items and derivatives												
A.3 - Early amortization												
B - Investor: total exposures		8,824			8,824						1,871	38,279
B.1 - Balance sheet items		8,824			8,824						1,871	38,279
Most senior		8,824			8,824						1,871	38,179
Mezzanine												
First loss												100
B.2 - Off-balance sheet items and derivatives												
C - Sponsor: total exposures												
A.1 - Balance sheet items												
A.2 - Off-balance sheet items and derivatives												

Synthetic securitisation	Total amount of the originated securitised exposure (for the)	Fully adjusted exposure value	Amounts deducted from own funds (-)	Breakdown								Capital requirements	
				Internal ratings approach		1250%		Regulatory formula approach		Internal evaluation approach		31-12-2014	31-12-2013
				20% - 35%	100%	Position subject to notation	Position not subject to notation		Average risk weight (%)		Average risk weight (%)		
<b>Total exposures (=A+B+C)</b>	3,682,611	3,366,872						3,366,872				44,036	34,956
<b>A - Lender entity: total exposures</b>													
A.1 - Balance sheet items													
Most senior													
Mezzanine													
First loss													
A.2 - Off-balance sheet items and derivatives													
A.3 - Early amortization													
<b>B - Investor: total exposures</b>	3,682,611	3,366,872						3,366,872				44,036	34,956
<b>B.1 - Balance sheet items</b>	3,366,872	3,051,133						3,051,133				38,984	30,876
Most senior	3,029,112	3,029,112						3,029,112	7%			16,963	11,811
Mezzanine	310,234												
First loss	27,526	22,021						22,021	1250%			22,021	19,065
B.2 - Off-balance sheet items and derivatives	315,739	315,739						315,739	0			5,052	4,080
<b>C - Sponsor: total exposures</b>													
A.1 - Balance sheet items													
A.2 - Off-balance sheet items and derivatives													

Note: Own funds requirements shown in this table are emphasized in the scope of item 2.1.2.4 of Table 10 - Capital requirements.

On 31 December 2014 and 2013 there were no additional amounts of risk weighted exposures of securitisation of revolving exposures with early amortisation provisions.

## 10. OWN FUNDS REQUIREMENTS OF THE TRADING BOOK

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

In a letter dated 30 April 2009, Banco de Portugal authorised the Group to use the internal models approach to compute own funds requirements in terms of generic risk and specific risk of the trading book.

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

Thus, as at 31 December 2014 and 2013, own funds requirements for generic market risks of the Group's trading book were calculated in accordance with the internal models approach for generic risk, within the universe of entities centrally managed from Portugal. For the remaining entities, the own funds requirements were calculated in accordance with the standardised approach. With regards to specific risk, the standardised approach was used for all eligible positions.

Table 36 shows own funds requirements associated with the Group's trading book as at 31 December 2014 and 2013, by type of risk.

Table 36 - Own funds requirements for the trading book		Euro thousand	
	31-12-2014	31-12-2013	
<b>TOTAL trading book risks (=Σ(1.to 3.))</b>	<b>68,077</b>	<b>27,428</b>	
<b>1. Exposure risk (1.1.+1.2.)</b>	<b>68,077</b>	<b>27,428</b>	
1.1. Standardised approach for the trading book (=Σ(1.1.1. to 1.1.6.))	3,088	2,129	
1.1.1. Debt instruments	2,923	1,996	
1.1.1.1. Specific risk	1,989	1,180	
1.1.1.2. General risk	933	816	
1.1.2. Equity securities	165	133	
1.1.2.1. Specific risk	165	133	
1.1.2.2. General risk			
1.1.3. Collective investment undertakings (CIUs)			
1.1.4. Exchange-traded futures and options			
1.1.5. Futures and options traded in OTC markets			
1.1.6. Other			
1.2. Internal models approach for the trading book	64,989	25,299	
<b>2. Counterparty credit risk (=Σ(2.1.to 2.3.))</b>			
2.1. Sales/purchases with repurchase/resale agreement, securities or commodities lending or borrowing transactions, long-term settlement transactions and margin lending transactions			
2.2. Derivative instruments			
2.3. Contractual cross-product netting			
<b>3. Settlement risk</b>			

Nota: Own funds requirements shown in this table are emphasized in the scope of items 2.2., 2.3.1.1 e 2.3.1.2, and, partially, in item 2.3.2 of Table 10 - Capital requirements.

### 10.1. CALCULATION METHODOLOGIES

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

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

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

Table 37 presents the main Generic Risk VaR statistics, computed according to the internal models approved by Banco de Portugal, exclusively for the group of entities managed from Portugal, in 2014 and 2013:

<b>Table 37 - Historical record of generic risk in the trading book (Portugal)</b>		<b>Euro thousand</b>	
	<b>2014</b>	<b>2013</b>	
Maximum	13,513	10,711	
Average	4,268	4,987	
Minimum	1,732	1,984	
Amount on 31 December	5,212	2,151	

Note: VaR 10 days with 99% unilateral confidence level

Own funds requirements for specific market risk continued to be calculated in accordance with the standardised approach, including those of the sub-trading books regarding which Banco de Portugal authorised the use of the internal models approach to calculate the generic market risk, as previously mentioned.

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

## 10.2. STRESS TESTS ON THE TRADING BOOK

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

Table 38 summarises the results of these tests on the Group's global trading book on 31 December 2014, indicating that the exposure to the various risk factors is limited and that the main risk to account for is an increase in interest rates, especially when accompanied by an increase in the slope of the yield curve.

<b>Table 38 - Stress tests over the trading book</b>		<b>Euro thousand</b>	
<b>Tested scenarios with reference to December 31, 2014</b>	<b>Negative results scenarios</b>	<b>Result</b>	
Parallel shift of the yield curve by +/- 100 b.p.	+ 100 p.b.	-6,165	
Change in the slope of the yield curve (for maturities from 2 to 10 years) by +/- 25 b.p.	+ 25 p.b.	-367	
4 possible combinations of 2 previous scenarios	+ 100 p.b. and + 25 p.b.	-6,532	
	+ 100 p.b. and - 25 p.b.	-5,798	
Variation in the main stock market indices by +/- 30%	+ 30%	-1,587	
Variation in foreign exchange rates (against the euro) by +/- 10% for the main currencies and by +/- 25% for other currencies	- 10%, - 25%	-1,460	
Variation in the swap spreads by +/- 20 b.p.	- 20 p.b.	-1,193	

## 10.3. BACKTESTING THE INTERNAL MODELS APPROACH

The Group carries out back-tests of the results of the internal models approach, in relation to the theoretical results obtained by the target portfolio of the calculation, unchanged between 2 consecutive working days and revaluated at market prices of the second day. In parallel, the Group has a complementary process to verify the results of the model in relation to the actual results obtained (currently undergoing validation), excluding the effects of operations carried out via intermediation (at different market prices).

The evaluation of financial assets and liabilities included in the trading book is carried out by a unit that is totally independent from the negotiation of those assets, and the control of the evaluations is assured by the Models Audit and Validation Unit. The evaluation and control procedures are documented in the

Group's internal regulations. The segregation between position-taking and position-evaluation duties is also contemplated at the level of information technology systems that intervene in the entire process involving the management, evaluation, settlement and recording of operations.

The results of the approach carried out *a posteriori*, the number of excesses registered between 2012 and 2014, relative to the total trading book of companies managed from Portugal, for which Banco de Portugal has approved the use of the internal models approach to compute generic risk capital requirements, are shown in Table 39.

**Table 39 - Backtesting of the VaR approach applied in market risk calculation**

Year	Number of excesses occurred
2012	3
2013	2
2014	1

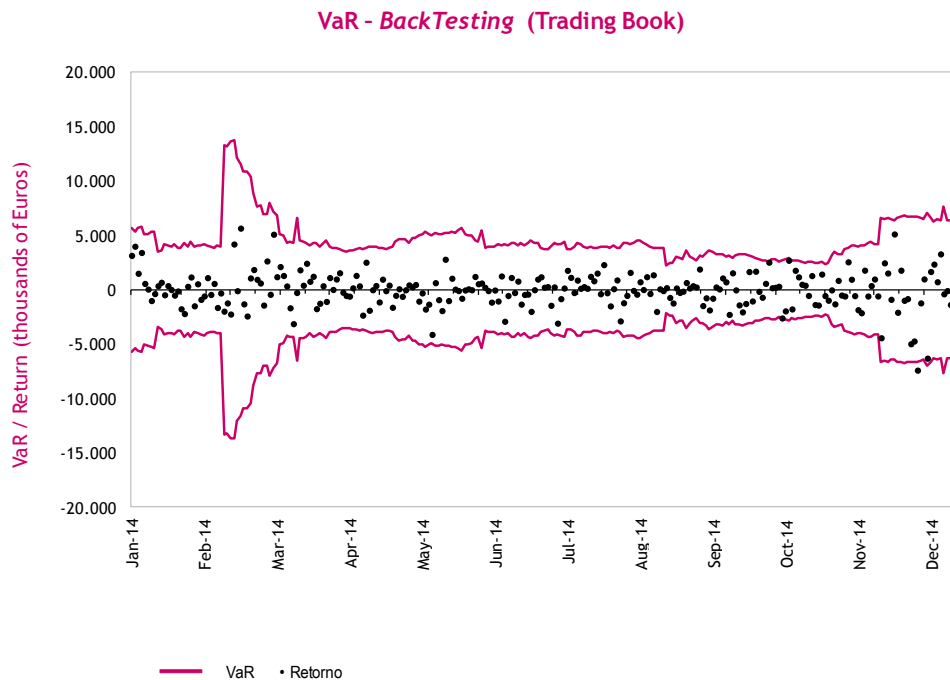
Note: The model used for the purpose of *a posteriori* verification is focused on the excesses occurred in both sides of the distribution and the expected number of excesses - according to the significance level applied - is 5 per year (2% x 250 annual observations).

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

In the following graphic, one may see this hypothetical back-testing, for the trading book centrally managed from Portugal in 2014.

In 2014 there was only one excess over the model's hypothetical results, confirming its adequacy to evaluate the risks in question.

**Graph 1**



In addition, Table 40 presents in detail the results of the daily back-testing to the trading book managed from Portugal in 2014. An excess occurs when the return registered for the portfolio is higher (in absolute value) than the theoretical result of the VaR model:

Table 40 - Hypothetical backtest of the trading book (Portugal) - 2014

Euro thousand

Date	VaR	Hypothetical results	Date	VaR	Hypothetical results	Date	VaR	Hypothetical results
02-01-2014	5,576	4,597	07-03-2014	5,114	2,234	14-05-2014	5,095	-1,237
03-01-2014	5,272	3,986	10-03-2014	5,056	1,339	15-05-2014	4,956	-4,204
06-01-2014	5,582	1,437	11-03-2014	4,437	450	16-05-2014	5,164	764
07-01-2014	5,627	3,451	12-03-2014	4,555	-1,704	19-05-2014	5,037	-933
08-01-2014	4,868	486	13-03-2014	4,531	-3,031	20-05-2014	5,045	-1,892
09-01-2014	5,037	69	14-03-2014	6,579	-367	21-05-2014	5,198	2,791
10-01-2014	5,149	-922	17-03-2014	4,668	1,524	22-05-2014	5,289	-1,194
13-01-2014	5,291	-228	18-03-2014	4,619	223	23-05-2014	5,288	1,105
14-01-2014	3,353	339	19-03-2014	4,441	2,502	26-05-2014	5,203	10
15-01-2014	3,527	610	20-03-2014	4,152	1,513	27-05-2014	5,359	-120
16-01-2014	4,094	-464	21-03-2014	4,512	1,099	28-05-2014	5,606	-780
17-01-2014	3,936	265	24-03-2014	4,303	-1,898	29-05-2014	5,084	-63
20-01-2014	4,170	180	25-03-2014	4,161	-1,097	30-05-2014	5,038	188
21-01-2014	4,062	-563	26-03-2014	4,501	192	02-06-2014	5,015	-50
22-01-2014	3,785	-32	27-03-2014	4,634	-1,139	03-06-2014	4,538	1,173
23-01-2014	3,809	-1,715	28-03-2014	4,265	976	04-06-2014	4,563	616
24-01-2014	4,079	-2,118	31-03-2014	4,151	222	05-06-2014	5,373	433
27-01-2014	4,040	533	01-04-2014	4,124	980	06-06-2014	3,880	-470
28-01-2014	4,423	1,265	02-04-2014	3,992	1,660	09-06-2014	4,028	-11
29-01-2014	3,930	-776	03-04-2014	3,752	-469	11-06-2014	4,064	-553
30-01-2014	3,894	531	04-04-2014	3,798	-799	12-06-2014	4,036	34
31-01-2014	4,029	-395	07-04-2014	3,870	-765	16-06-2014	4,203	-1,182
03-02-2014	4,102	-609	08-04-2014	3,905	180	17-06-2014	4,100	1,436
04-02-2014	4,042	676	09-04-2014	3,963	1,364	18-06-2014	4,202	-2,948
05-02-2014	4,063	-368	10-04-2014	4,096	241	19-06-2014	4,084	-543
06-02-2014	3,855	128	11-04-2014	4,016	-2,255	20-06-2014	4,159	649
07-02-2014	4,070	-1,451	14-04-2014	4,093	2,573	23-06-2014	4,131	29
10-02-2014	4,009	-341	15-04-2014	4,209	-1,879	24-06-2014	4,101	299
11-02-2014	13,240	-1,961	16-04-2014	4,232	66	25-06-2014	4,309	-1,369
12-02-2014	13,112	-1,209	17-04-2014	4,207	378	26-06-2014	4,085	-382
13-02-2014	13,513	-1,918	21-04-2014	4,176	-1,179	27-06-2014	4,321	-279
14-02-2014	13,506	3,720	22-04-2014	4,199	1,093	30-06-2014	4,479	-2,220
17-02-2014	11,876	-90	23-04-2014	4,034	-155	01-07-2014	4,308	-52
18-02-2014	11,441	5,424	24-04-2014	4,116	362	02-07-2014	4,313	1,173
19-02-2014	10,767	-1,082	28-04-2014	4,218	-1,627	03-07-2014	3,830	1,090
20-02-2014	10,765	-2,410	29-04-2014	4,564	-552	04-07-2014	3,746	-67
21-02-2014	10,325	811	30-04-2014	4,909	80	07-07-2014	3,691	171
24-02-2014	8,870	1,869	02-05-2014	4,816	-521	08-07-2014	3,943	-1,851
25-02-2014	7,627	928	05-05-2014	4,851	-102	09-07-2014	4,082	229
26-02-2014	7,639	570	06-05-2014	4,581	593	10-07-2014	4,067	-2,916
27-02-2014	6,933	-1,331	07-05-2014	4,923	-142	11-07-2014	4,125	-846
28-02-2014	6,984	2,603	08-05-2014	4,915	224	14-07-2014	4,165	192
03-03-2014	7,932	-396	09-05-2014	5,004	-1,044	15-07-2014	3,772	1,990
05-03-2014	7,212	4,975	12-05-2014	5,077	-335	16-07-2014	3,710	958
06-03-2014	6,672	1,505	13-05-2014	5,262	-1,759	17-07-2014	3,920	-166

## Hypothetical backtest of the trading book (Portugal) - 2014 (continued)

Euro thousand

Date	VaR	Hypothetical results	Date	VaR	Hypothetical results	Date	VaR	Hypothetical results
18-07-2014	4,170	1,253	22-09-2014	2,029	565	24-11-2014	2,282	64
21-07-2014	4,114	119	23-09-2014	1,940	-193	25-11-2014	2,110	-624
22-07-2014	3,952	286	24-09-2014	1,983	-210	26-11-2014	5,434	-1,242
23-07-2014	3,959	-397	25-09-2014	2,389	-361	27-11-2014	5,368	2,271
24-07-2014	3,921	1,173	26-09-2014	2,325	-240	28-11-2014	5,415	-315
25-07-2014	3,850	831	29-09-2014	2,355	-497	01-12-2014	5,340	2,068
28-07-2014	3,826	1,479	30-09-2014	2,300	-408	02-12-2014	5,387	1,685
29-07-2014	3,880	-396	01-10-2014	2,301	1,350	03-12-2014	5,650	40
30-07-2014	3,924	2,289	02-10-2014	2,321	487	04-12-2014	5,363	-776
31-07-2014	4,044	-10	03-10-2014	2,221	526	05-12-2014	5,458	-205
01-08-2014	3,836	-1,439	06-10-2014	2,318	-165	08-12-2014	5,259	816
04-08-2014	3,796	1,166	07-10-2014	2,296	591	09-12-2014	5,299	-3,272
05-08-2014	3,817	717	08-10-2014	2,241	-562	10-12-2014	5,353	-4,937
06-08-2014	3,857	-2,817	09-10-2014	1,750	380	11-12-2014	5,427	-1,865
07-08-2014	4,332	-1,182	10-10-2014	1,755	-363	12-12-2014	5,412	-1,460
08-08-2014	4,289	-569	13-10-2014	1,744	-370	15-12-2014	5,344	-934
11-08-2014	4,219	1,421	14-10-2014	1,732	184	16-12-2014	5,395	34
12-08-2014	4,277	86	15-10-2014	2,040	-3,720	17-12-2014	5,474	2,216
13-08-2014	4,529	-696	16-10-2014	2,058	-1,241	18-12-2014	5,517	2,748
14-08-2014	4,445	537	17-10-2014	1,932	1,623	19-12-2014	5,592	665
18-08-2014	4,257	-45	20-10-2014	1,962	-1,723	22-12-2014	5,555	1,704
19-08-2014	4,223	1,099	21-10-2014	1,909	294	23-12-2014	5,595	38
20-08-2014	4,048	-291	22-10-2014	1,887	433	24-12-2014	5,580	-74
21-08-2014	3,905	1,297	23-10-2014	1,846	514	26-12-2014	5,570	157
22-08-2014	3,926	-1,856	24-10-2014	1,886	503	29-12-2014	5,572	-2,399
25-08-2014	3,908	-393	27-10-2014	1,890	-907	30-12-2014	5,222	2,363
26-08-2014	3,944	-226	28-10-2014	1,895	-247	42004	5212.3473	-34
27-08-2014	2,115	132	29-10-2014	1,833	57			
28-08-2014	2,248	-535	30-10-2014	1,869	-822			
29-08-2014	2,219	-799	31-10-2014	2,122	1,850			
01-09-2014	2,160	172	03-11-2014	1,883	-262			
02-09-2014	2,225	-909	04-11-2014	1,923	-1,114			
03-09-2014	2,123	-1,022	05-11-2014	1,896	492			
04-09-2014	2,971	927	06-11-2014	1,972	78			
05-09-2014	2,375	612	07-11-2014	1,928	147			
08-09-2014	2,122	95	10-11-2014	1,899	2			
09-09-2014	2,075	102	11-11-2014	2,206	223			
10-09-2014	2,118	1,344	12-11-2014	2,459	563			
11-09-2014	2,090	-1,392	13-11-2014	2,536	-303			
12-09-2014	2,135	-126	14-11-2014	2,648	-785			
15-09-2014	2,276	-160	17-11-2014	2,558	750			
16-09-2014	2,190	-497	18-11-2014	2,533	30			
17-09-2014	2,255	-549	19-11-2014	2,471	244			
18-09-2014	2,132	475	20-11-2014	2,484	-183			
19-09-2014	2,120	56	21-11-2014	2,245	297			

(\*) Bonds yields increase between 19 and 30 bps; German Government bond yield to 9 years decrease 8 bps; 1% devaluation of Norwegian kroner.

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

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

As at 31 December 2014 and 2013, own funds requirements for exchange rate risks were determined by using the internal models approach, authorised by Banco de Portugal for exposures managed centrally from Portugal, simultaneously and in the same conditions as for the generic market risk of the trading book, previously mentioned, having been calculated in accordance with the standardised approach for all other exposures.

Own funds requirements for commodities risk, regarding the Group's banking and trading books, were calculated in accordance with the standardised approach for this risk type, at the end of 2014 and of 2013.

Market risk for the global exchange rate positions of Group entities subject to the use of the standardised approach, for the purposes of calculating own funds requirements, was assessed in accordance with the provisions of Chapter 3, Title 4, Part III of the CRR.

Besides, the Group calculated own funds requirements for market risk in connection with the portfolio positions sensitive to commodities risk in accordance with the Maturity Ladder approach, in accordance with the provisions of Chapter 4, Title 4, Part III of the CRR.

Own funds requirements for exchange rate risks and commodities risks calculated by the Group, with reference to 31 December 2014 and 2013, are shown in Table 41.

Table 41 - Own funds requirements for exchange rate and commodities risks		Euro thousand	
		31-12-2014	31-12-2013
<b>1. Exchange rate risk (1.1.+1.2.)</b>		<b>5,270</b>	<b>11,363</b>
1.1. Standardised approach		5,270	11,363
1.2. Internal models approach			
<b>2. Commodities risk (=Σ(2.1.to 2.2.))</b>		<b>249</b>	<b>52</b>
2.1. Standardised approach (=Σ(2.1.1.to 2.1.4.))		249	52
2.2.1. Maturity ladder approach or simplified approach		249	52
2.2.2. Futures and commodity options traded on the stock-exchange			
2.2.3. Futures and commodity options traded in OTC markets			
2.2.4. Other			
2.2. Internal models approach			

Note: The own funds requirements shown in this table correspond to those in items 2.3.1.3 and 2.3.1.4, and, partly, in item 2.3.2 of Table 10 - Capital requirements.



## 12. OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK

As at 31 December 2014 and 2013, the Group calculated own funds requirements for operational risk in accordance with the standard approach, pursuant to the authorisation granted by Banco de Portugal previously mentioned.

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

The framework for this calculation was provided by Title III of CRR, in addition to clarifications received from Banco de Portugal, namely with respect to the accounting items considered in the determination of the gross income.

### 12.1. GROSS INCOME

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

Yet, neither the compensations received as a result of insurance contracts or revenues from the insurance activity are added to the value of the gross income. Finally, other operating expenses cannot contribute to the reduction of the gross income value, with exception of the costs resulting from outsourcing provided by external entities to the Group or by entities that are not subject to the provisions of Decree-Law no. 104/2007, of 3 April.

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

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

Own funds requirements calculated in accordance with the standard approach are determined by the average, over the last three years, of the sum of the risk-weighted gross income, calculated each year, relative to the activity segments and the risk weights that are defined article no. 317 of CRR, whose scope corresponds in general terms to the following:

- Corporate Finance (subject to an 18% weight): underwriting activities and related services, investment analysis and other financial consulting activities;
- Trading and Sales (subject to an 18% weight): dealing on own account and intermediation activities in monetary and financial instrument markets;
- Retail Brokerage (subject to a 12% weight): placement of financial instruments without a firm underwriting and intermediation of orders relative to financial instruments, on behalf of private customers and small businesses;
- Commercial Banking (subject to a 15% weight): taking deposits and credit and guarantee concession and undertaking other commitments to companies;
- Retail Banking (subject to a 12% weight): taking deposits and credit and guarantee concession and undertaking other commitments to individual and small businesses;
- Payment and Settlement (subject to an 18% weight): payment operations and issue and management of means of payment activities;
- Agency Services (subject to a 15% weight): services associated to the safekeeping and administration of financial instruments;
- Asset Management (subject to a 12% weight): investment fund and individual portfolio management activities.

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

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

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

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

In addition, the calculation of the gross income by activity segments for the Group's foreign operations, excluding Poland, was based on the financial statements of each subsidiary, as previously mentioned. Bearing in mind that these subsidiaries develop a retail activity, they were allocated, in a first phase, to the Retail Banking segment, with exception of the values recorded in the profits and losses arising on financial transactions item, which, by their nature, are immediately placed in the trading and sales segment, and subsequently the transfers for achieving a segmentation in line with the defined perimeter for the gross income are carried out. In 31 December 2014, this calculation was carried out for the operations of Switzerland, Angola, Mozambique and of Millennium bcp Bank & Trust, with registered office in the Cayman Islands, in addition to ActivoBank, which, although it develops its activity in Portugal, verifies the same assumptions and, thus, follows the same methodology.

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

As at 31 December 2014, the Group reported 246 million Euros of own funds requirements for operational risk, having reported 249 million Euros as at 31 December 2013, computed based on Table 42. It should be noted that, for purposes of determining capital requirements for 2014, the amounts of 2012-2014 exclude the contributions of the operation in Romania, due to its sale in 2014.

Table 42 - Gross Income for operational risk

Euro thousand

Segments	Gross Income 2014			Memorandum items: Advanced measurement method - reduction of own funds requirements (2014)	
	2012	2013	2014	Expected losses captured in business practices	Risk transfer mechanisms
1. Basic indicator approach					
2. Standard approach	1,993,342	1,754,697	1,954,589		
- Corporate finance	29,191	19,977	21,396		
- Trading and sales	-240,166	-381,172	-129,281		
- Retail brokerage	19,311	21,691	23,485		
- Commercial banking	840,616	902,527	659,978		
- Retail banking	1,191,748	1,034,429	1,224,564		
- Payment and settlement	104,598	111,570	99,077		
- Agency services	28,496	29,562	32,850		
- Asset management	19,549	16,114	22,521		
Advanced measurement approach <sup>(a)</sup>					

Euro thousand

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

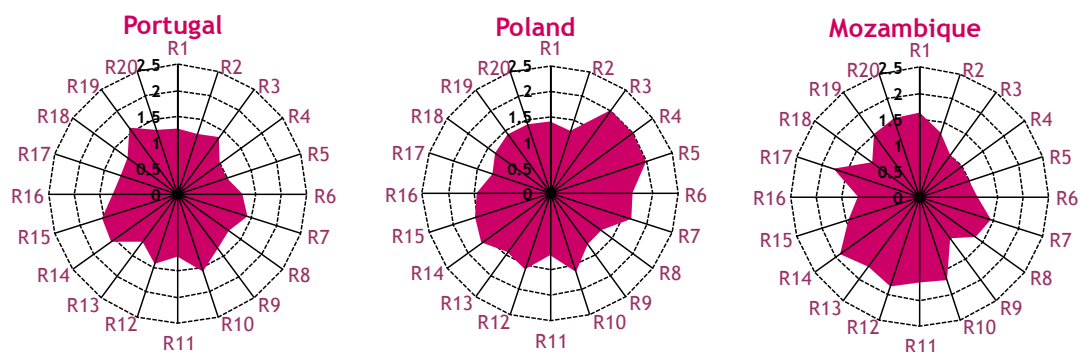
(a) Information on the relevant indicator for activities subject to the advanced measurement approach

### 12.3. OPERATIONAL RISK MANAGEMENT

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

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

Graph 2



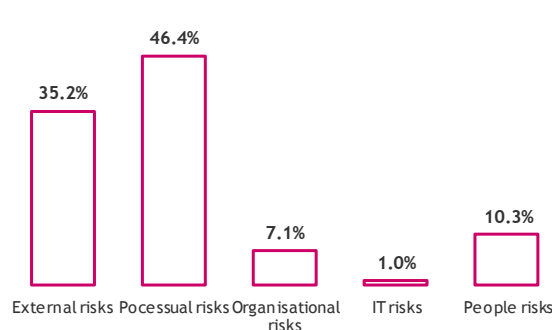
R1 Internal fraud and theft	R7 Hardware and Software problems	R14 External fraud and theft
R2 Execution of unauthorised transactions	R8 Problems related to telecom services & lines	R15 Property and disasters risks
R3 Employee relations	R9 Systems security	R16 Regulatory and tax risks
R4 Breach of work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

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

The following graphs feature the profile of accrued operational losses until 31 December 2014.

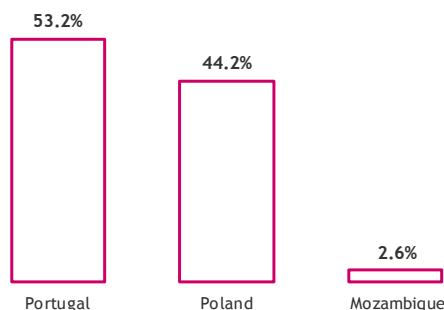
**GRAPH 3: LOSS AMOUNT DISTRIBUTION**

By type of event



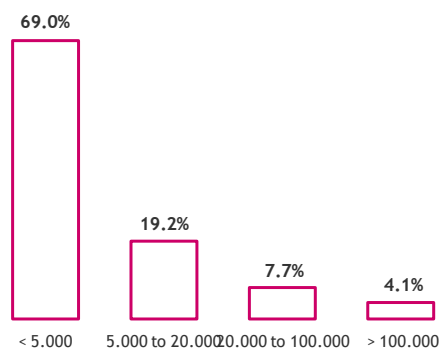
**GRAPH 4: LOSS AMOUNT DISTRIBUTION**

By country



**GRAPH 5: LOSS AMOUNT DISTRIBUTION**

By amount range (in Euros)



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

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

At the same time, the Group continued to strengthen and perfect its business continuity management along 2014, with a focus on the update of strategies, procedures and existing documentation, as well as on the regular exercises of the continuity plans, in order to improve its response ability to incidents, articulating all teams involved at different stages of the exercises.

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

- The Disaster Recovery Plan, for communication systems and infrastructure; and

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

The management of this specific operational risk area is designed, promoted and coordinated across the Group by a specific structure unit: the Business Continuity Department.

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

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

### 13. INTEREST RATE RISK IN THE BANKING BOOK

Evaluation of the interest-rate risk originated by the banking portfolio is performed via a risk-sensitivity analysis process carried out every month involving all operations included in the Group's consolidated balance sheet, reflecting the potential economical value loss that can occur as the result of adverse changes to interest rates.

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

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

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

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

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

For items for which there are no defined repricing dates, the following assumptions of repricing were applied, in 2014:

- Nostro and Vostro Accounts: assumption of repricing in 1 month;
- Demand deposits at central banks: assumption of repricing in 1 month;
- Roll-over credit (current accounts and overdrafts): assumption of 40% repricing in 12 months, 15% in 24 months, 15% in 36 months, 15% in 48 months and 15% in 60 months;
- Roll-over credit (credit cards): assumption of 50% repricing in 12 months, 15% in 24 months, 15% in 36 months, 10% in 48 months and 10% in 60 months;
- Roll-over credit (Factoring): assumption of 45% repricing in 12 months, 15% in 24 months, 15% in 36 months, 15% in 48 months and 10% in 60 months;
- Non-interest bearing demand deposits and other deposits (in Euros): assumption of 15% repricing in 12 months, 10% in 24 months, 10% in 36 months, 10% in 48 months and 55% in 60 months;
- Non-interest bearing demand deposits and other deposits (in other currencies): assumption of 20% repricing in 12 months, 20% in 24 months, 10% in 36 months, 10% in 48 months and 40% in 60 months;
- Interest earning demand deposits: assumption of 50% repricing in 1 month, 40% in 3 months and 10% in 6 months.

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

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

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

Table 43 illustrates the impacts on the shareholders equity of the Group as at 31 December 2014 and 2013, in value and percentage, as a result of shocks of +200 and -200 basis points (b.p.) in interest rates.

**Table 43 - Sensitivity analysis to the interest rate risk in the banking book** Euro thousand

		31-12-2014	31-12-2013
Value	+200 bp	164,387	-142,520
	-200 bp	39,761	166,139
% Shareholders' equity <sup>(1)</sup>	+200 bp	3.4%	4.6%
	-200 bp	0.8%	5.3%

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

On 31 December 2014, the range of shocks considered in this analysis (parallel variations of interest rate curves of +/- 200 b.p.) results in a relevant asymmetry of the impacts over the economic value of the Group, leading to gains in both scenarios. This is due to the assumption of a minimum of 0 (zero) rate of interest and to the different impacts verified over the portfolio for different repricing terms, associated to different effective impacts occurring in the two scenarios.

The sensitivity of the banking book portfolio to the increase of interest rates was quite similar between 2014 and 2013, but with an inverse sign. This is partially due to the update of the repricing assumptions for the balance-sheet liabilities without a defined term. In what concerns the decrease scenario, the impact for the end of 2014 is still positive, but to a much lesser extent than by the end of 2013, due to the changes of the portfolio structure that stemmed from the change of repricing assumptions considered.

**Owner:** Millennium bcp

[www.millenniumbcp.pt](http://www.millenniumbcp.pt)

Banco Comercial Português, S.A., public limited company  
Registered Office: Praça D. João I, 28 - 4000-295 Porto  
Share Capital: 4,094,235,361.88 Euros  
Registered at the Commercial Registry Office of Oporto  
under the single registration and TIN 501 525 882