Banco Montepio

Market Discipline Report

2018

This report is the English version of the document “Relatório de Disciplina de Mercado 2018” published by Banco Montepio in the website. Should there be any doubt or contradiction between documents, the aforementioned Portuguese version prevails.

Valores que
crescem consigo.

Table of Contents

Banco Montepio

Index of Tables and Charts

Declaration of responsibility

The present declaration of responsibility is issued by the Board of Directors (BD) with regards to the Market Discipline Report within the scope of the disclosure requirements laid down in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013, concerning the prudential requirements for credit institutions and for investment companies, so as to complement the information required within the scope of the financial statements and of article 70(2) of the Portuguese Law for Commercial Companies.

Since there was no provision in the regulations, this report has not been audited by Banco Montepio's Statutory Auditor. However, this report includes information disclosed in the consolidated and audited Financial Statements reported in the Annual Report for 2018.

The relevant events occurred during 2018, as well as between the end of the 2018 financial year and the publication of the Annual Report which can be consulted on pages 326 to 328 of the Annual Report for 2018. After the publication of the Annual Report there are no relevant facts to report.

With regard to the information disclosed in the Market Discipline Report, the BD of Banco Montepio:

- Confirms that all procedures deemed necessary were carried out and that, to its knowledge, all the provided information is true and accurate;
- Ensures the quality of all provided information; including information relative to or originating in entities included in the Banco Montepio Group;
- Informs that information related to the provisions laid out in Article 432 (2) of Regulation (EU) 575/2013 of the European Parliament and of the Council was not omitted;
- Undertakes to disclose, in good time, any significant changes which may take place during the financial year following that which this document refers to;

1. Introductory Note

1. Caixa Económica Montepio Geral, caixa económica bancária, S.A - with registered office at Rua Castilho, n.º 5, 1250 066 Lisbon and registered at the Lisbon Commercial Registry under the unique registry and tax identification number 500792615 - incorporated in 1844 (hereinafter referred to as Banco Montepio or BM), is a credit institution, a type of savings bank which has adopted the form of a public limited liability company that is governed by the applicable legal provisions and respective Articles of Association. The share capital of BM amounts to 2,420,000 thousand euros and is fully paid up.
2. This document was prepared taking into consideration Instruction 5/2018 of Banco de Portugal (which implements in the Portuguese legal system the EBA/2016/11 and EBA/GL/2017/01 guidelines), the EBA/GL/2018/01, the Implementing Regulations (IR) 2016/200 and 1423/2013 and the requirements set out in Part VIII of Regulation (EU) No. 575/2013 of the European Parliament and the Council of 26 June 2013 (also known as CRR - Capital Requirements Regulation), concerning the prudential requirements for credit institutions and for investment companies, so as to complement the information required within the scope of the financial statements and its objective is to disclose information on the risk management processes and the adequacy of the capital on a consolidated basis of Banco Montepio, as well as detailed information on own funds, own funds requirements and the risks assumed by the Institution.
3. The information presented complies with the prudential requirements and regulations, the international accounting standards or recommendations of the regulatory authorities at a European level, when applicable, and reflect the information on a consolidated basis for the Banco Montepio Group (hereinafter referred to as BM Group or Group), with reference to 31 December 2018.
4. Unless otherwise specified, the amounts presented are expressed in thousands of euros.
5. The references to the governing bodies and corporate structure are based on the governance model in force at the reference date of this report, relative to 31 December 2018. The new articles of association of BM entered into force on 30 October 2018, following their approval by the General Meeting.

2. Scope of application

6. BM is a savings bank, incorporated in the form of a public limited liability company (*Sociedade Anónima*), with 99% of its share capital held by Montepio Geral – Associação Mutualista and the remainder of its share capital held by other shareholders.

7. BM holds a number of equity stakes in entities that aim to offer a broad and diversified range of banking and financial products and services, and which contribute with their earnings to the mutualist goals. In this context, the Group positions itself as a diversified banking and financial group, a centennial institution of reference in the national market made up of Portuguese capital, aligned with its mutualist nature and objectives, which lend its unique features in the sectors in which it operates and in Portuguese society. Further information may be found at https://www.bancomontepio.pt/institucional.

8. The scope of the information disclosed in this Report is the consolidated basis for prudential purposes of the BM Group which does not differ from the accounting consolidation perimeter. The EU LI1 and EU LI2 templates will thus not be disclosed.

9. It is important to note that in terms of accounting reporting and disclosure, taking into consideration the applicable international standards, the assets, liabilities and contribution towards the consolidated net income as at 31/12/2018 of the entity Finibanco Angola S.A. were recognised in the consolidated financial statements in accordance with IFRS 5 - Non-current assets held for sale and discontinuing operations. However, for the purposes of prudential reporting and the calculation of capital requirements on a consolidated basis, the total assets and liabilities of this subsidiary are consolidated under the full consolidated method (i.e. not considering the reclassification of assets and liabilities in accordance with IFRS 5). Likewise, in the present report, the tables presented relative to the prudential information include the balance sheet (and off-balance sheet) components of the entity subject to the application of IFRS 5, which correspond to the subsidiary in Angola.

10. Without prejudice to the principles and rules that govern intra-Group relations, and as far as BM is aware, there is no significant, current or foreseen, impediment to the prompt transfer of own funds or repayment of liabilities among BM and its subsidiaries. With regards to Angola, the rules in force in the country can condition the fluidity of fund transfers.

11. Pursuant to Article 436 (d) and (e) of CRR, there are no subsidiaries included in the consolidation perimeter for prudential purposes and that are subject to the calculation of own funds.

12. The following table shows the entities included in the consolidation perimeter in accordance with the international accounting standards and applicable prudential rules. In addition, information is presented relative to the country in which each entity is based, BM's equity stake in its share capital, including its activity industry.

Table 1 | EU LI3 Entities of the consolidation perimeter of the BM Group

Ref: Dec 18

Name of the entity	Accounting consolidation method	Regulatory consolidation method	Activity	Head office	% Share
Caixa Económica Montepio Geral	Full	Full	Banking	Portugal	100%
Montepio Crédito, Instituição Financeira de Crédito, S.A.	Full	Full	Specialised loans	Portugal	100%
Montepio Holding SGPS, S.A.	Full	Full	Management of shareholdings	Portugal	100%
Finibanco Angola, S.A.	Full	Full	Banking	Angola	81%
Montepio Investimento, S.A.	Full	Full	Banking	Portugal	100%
Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto	Full	Full	Real estate investment fund	Portugal	100%
Banco Montepio Geral - Cabo Verde, Sociedade Unipessoal, S.A.	Full	Full	Banking	Cape Verde	100%
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
Montepio Arrendamento II – Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
SSAGINCENTIVE - SSAG, S.A.	Full	Full	Management of Real Estate	Portugal	100%
Casa da Sorte - O.N.S., S.A.(2)	Full	Full	Lotteries and other betting services	Portugal	100%
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	Full	Full	Management of investment funds	Portugal	100%
Polaris - Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
PEF - Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
Pataca da Sorte - B.A.Unipesoal, Lda (2)	Full	Full	Lotteries and other betting services	Portugal	100%
Binganimus - B.A., S.A.(2)	Full	Full	Lotteries and other betting services	Portugal	100%
Herdeiros M.M.Travassos, Lda(2)	Full	Full	Lotteries and other betting services	Portugal	100%
Augusto da Silva Carvalho, Lda(2)	Full	Full	Lotteries and other betting services	Portugal	100%
Carlos Augusto Lança & Filhos, Lda(2)	Full	Full	Lotteries and other betting services	Portugal	100%
Torre da Sorte, Lda(2)	Full	Full	Lotteries and other betting services	Portugal	100%
Montepio - Gestão de Ativos Imobiliários, A.C.E.	Equity Method	Equity Method(1)	Management of investment funds	Portugal	26%
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	Equity Method	Equity Method(1)	Hotels, restaurants and similar activities	Portugal	20%
CESource, ACE	Equity Method	Equity Method(1)	Management of IT resources	Portugal	100%

(1) Impact on prudential capital indicators results from the calculation of the capital requirements relative to the equity method value recorded in the consolidated balance sheet.

(2) Stake sold on 24 April 2019

3. Risk management in the Banco Montepio Group

3.1 Declaration on the appropriateness of the risk management measures

13. The BD, to the best of their knowledge, ensures that the risk management system implemented in the Group is appropriate for ensuring the correct execution of the business strategy, considering the profile and size of the Group, and that the procedures and measures aimed at ensuring that the prudential and risk limits are complied with are adequate.

3.2 Declaration on the overall risk profile and its relation with the business strategy

14. The risk appetite is based on certain principles – namely soundness, sustainability and profitability – and defined according to the business strategy and positioning in the intended market, whose responsibility falls under the BD. Within the scope of the annual process of identification and review of risks, the Group examines the risks that it faces in its activities, under a consolidated perspective, and identifies those which are materially relevant, complemented by the individual perspective concerning the main entities. In this regard, goals are established according to the desired level of return and strategy, tolerance levels, i.e. risk variation range which may lead to

discussions and decisions on corrective measures, and limits which, if exceeded, may lead to immediate corrective measures.

15. The Risk Appetite Statement reflects the principles of risk acceptance that guide and form part of the Group's strategy, which includes a series of comprehensive high-level limits in terms of material (financial and non-financial) risks.

16. The definition of risk appetite ensures its alignment with the other organisational components (business strategy and global vectors of risk strategy), as well as with the planning and budgeting exercises, ICAAP (Internal Capital Adequacy Assessment Process), ILAAP (Internal Liquidity Adequacy Assessment Process) and the Recovery Plan. In addition, it seeks to ensure that the risk appetite is well understood by the whole organisation, mainly by the business units responsible for decision-making, origination and investment, which can affect risk exposure and its monitoring.

17. The establishment of risk appetite takes into account the maintenance of solid balance sheet ratios, through a strong capital position and a stable and safe liquidity profile, enabling stress situations to be faced. The BD intends to ensure that there are sufficient levels of capital to cover potential losses, above the minimum limits required by the supervisory authorities, with an efficient balance sheet structure enabling the maintenance of a stable financing capacity and strong liquidity reserves, limiting the risk of potential liquidity problems and ensuring the continuity of its operations, without the intervention of the supervisory authorities, and the protection of its depositors and holders of non-subordinated debt.

18. Hence, the defined risk appetite is based on the following overall goals:

- Maintain a capital level that ensures compliance with the minimum regulatory requirements and the prudential requirements in terms of the Common Equity Tier 1 (CET1), Total Capital and leverage ratios;

- Maintain a liquidity level that enables compliance with the minimum regulatory requirements for the Liquidity Coverage Ratio (LCR), ensuring an adequate survival level, both in a base scenario and stress scenario, preventing excessive concentration in funding sources, and taking into account Net Stable Funding Ratio (NSFR) requirements and levels;

- Ensure stable profitability reflected in the sustainability of its business model in order to enable the organic growth of capital levels and liquidity buffers, and an adequate return for the shareholder;

- Ensure the availability of sufficient financial resources to cover the economic capital requirements in the base scenario, and taking into account the stress scenarios;

- Maintain a robust and stable reputation position in the market.

19. The high-level definition of risk management and risk appetite is supported by a series of capital metrics, quality of assets (NPL, Property, average rating and concentration in terms of sectors, among others), profitability and liquidity, which arise from Banco Montepio's business plan and strategy, and conduct and reputation risk indicators.

20. During the past two years, the Group presented the following ratios and risk indicators:

Table 2 | Main capital and liquidity indicators

thousands of euros

CRD IV/CRR Phasing-in	Dec/2018	Dec/2017
Common Equity Tier 1	1,456,528	1,572,163
Risk Weighted Assets	10,758,512	11,874,751
CET1 Ratio	13.54%	13.24%
T1 Ratio	13.54%	13.24%
Total Capital Ratio	14.07%	13.31%
Leverage Ratio	7.77%	7.64%
LCR Ratio	160.50%	153.24%

3.3 Risk management policy and governance

Global risk management principles

21. The Group's overall risk management includes a series of policies, procedures, limits and controls that enable, in an appropriate and integrated manner, identifying, assessing, monitoring, mitigating and reporting the risks derived from the activities developed in the different business lines and entities of the Group, supported by, among others, the following main elements:

- Risk appetite table;
- Risk management strategy;
- Organisational structure, policies and procedures;
- Risk identification and assessment;
- Internal capital and liquidity planning and management;
- Monitoring and overall reporting of risk and internal capital;
- Stress tests;
- Contingency planning.

22. The above mentioned elements are developed within the scope of the global risk reporting table, which is the responsibility of the Risk Management Function (RMF), which performs its duties independently of the other risk-taking areas.

23. The RMF reports information on a regular basis to the Risk Committee, an autonomous body that comprises elements with non-executive functions, composed of three members, which includes a Chairman, appointed by the BD. The mission of the Risk Committee is to permanently monitor the definition and implementation of the risk strategy and risk appetite, and check that they are compatible with the medium and long-term sustainable strategy and with the action programme and budget that have been approved, advising the management body on these matters.

24. Throughout 2018, in articulation with the BD and the various departments of the organic structure of BM, and with the Risk Department (RID) in particular, as the entity responsible for the RMF, the Risk Committee conducted a detailed analysis of the themes related to the competencies conferred on it. During this year, the Risk Committee held eleven meetings, with members of the BD and of the various departments of BM or of the Group having taken part.

25. In addition, various Committees providing support to the management body had been constituted as at the reference date of this report, as forums of debate and support to decision-making, through formulation of proposals and recommendations to the body in the areas of their scope of intervention.

26. Within the scope of its risk management function, the Risk Department (RID) is part of the composition of the Capital, Assets and Liabilities Committee (CALCO), the Credit Committee and the Impairment Committee, and takes part in their regular meetings within the context of Business Continuity, the Crisis Management Office and Pension Fund Follow-Up.

Risk appetite framework

27. The risk appetite framework (RAF) comprises the main element of the Group's risk management system, consisting of a global and integrated management approach, according to which the strategy and risk appetite are established, communicated and monitored within the organisation.

28. This framework is supported by the risk management policies, governance processes, indicators and their limits, as well as by the information systems necessary for its establishment, and its objective is to promote:

- The effective transmission to and awareness raising of all of the Group's employees regarding the risks that the Group is exposed to;
- The knowledge of the strategy outlined by the management body to manage and control those risks;
- Informed decision-making, at the different operational levels, consistent with the Group's objectives.

29. The risk limits underlying the implementation of the risk management strategy and the maintenance of appropriate levels of capital and liquidity result from the Risk Appetite Statement (RAS) approved by the BD, taking into account:

- The definition of the high-level risk strategy and risk appetite;
- The recognition of the relevant risks, based on the identification and assessment exercises, from which the relevant risk categories and factors are defined for the pursuit of the strategic objectives;
- The analysis of the risk taking capacity and materialisation of the risk appetite, which consists in the assessment of the internal risk-taking capacity taking into account, namely, the available internal capital and liquidity;
- The identification of risk metrics, which involves the definition of quantitative metrics, for each material risk category, which permit the implementation of objectives and risk limits, in conformity with the defined appetite;
- The establishment of objectives and risk limits, where for each category risk limits and/or risk objectives are defined, underpinned by the assessment metrics that result from the previously described process;

- The integration in the strategic planning processes, whereby the RAS must integrate by principle, in an interdependent scheme, the planning and management processes of BM and of each of the entities of its consolidation perimeter.

30. There is an instituted process of monitoring and reporting of the approved risk limits and objectives. The RAS must be reviewed and updated at least annually, approved by the BD and supported by the RMF, within the scope of the strategic planning processes, or as the result of a change in business strategy or of an extraordinary event.

Risk management strategy

31. The risk management strategy is established in conformity with the Group's risk appetite statement and takes into account the following aspects:
    - Solvency;
    - Liquidity;
    - Profitability based on risk adjusted return.

32. The risk management strategy includes the main business segments and must be sufficiently granular - so that each of the material risk categories must be associated with the entity's plans to accept, manage and control those risks.

33. Global risk management is based on the identification and assessment of the financial and non-financial risks of the institution, and on the implementation of management and control approaches, differentiated according to the relevance of each risk category and its factors. The process is supported by a Risk Taxonomy, which includes the risk categories and concepts defined transversally for the Group.

34. In the risk identification and assessment procedures, prospective scenarios must be considered, according to the Group's business strategy, enabling a prospective analysis of the risks. In addition to that, the RMF must challenge the results of those procedures based on the historical risk events and their impacts. The RMF is responsible for implementing and coordinating a risk identification and assessment process, which guarantees, no less than once every year, that the main financial and non-financial risks are identified, assessed, reported and managed/controlled.

Internal capital and liquidity planning and management

35. The capacity to absorb risks depends on internal capital and available liquidity. Therefore, each entity of the Group develops consistent and coherent processes over time, for the planning of its capital and liquidity levels, basing itself on (i) the current and long-term objectives of the risk management strategy; (ii) the indicators and limits of the risk appetite framework; and (iii) the assessment of the adequacy of that capital and liquidity.

36. The regulatory requirements are used as a minimum reference to calculate and assess internal capital adequacy. Taking into consideration the risk profile of the institution and its business strategy, the RMF develops its own methodologies and models to quantify the risks that the Group is materially exposed to.

37. The quantification of risks is used by the RMF to analyse and control the adequacy of the institution's internal capital, assessing in a comprehensive manner the sufficiency of the capital and financing plans relative to the risk profile of the entity and the market environment. The analyses conducted by the RMF are presented on a regular basis to the BD, which is responsible for defining and approving any action plans, objectives and risk limits with a view to controlling the adequacy of internal capital.

38. The assessment of the adequacy of the institution's liquidity is guided by the principles of (i) maintenance of an adequate structure of financing of the Group's activity, considering the characteristics of its assets, liabilities and off-balance sheet items, as well as the respective residual or behavioural maturities; and (ii) existence of sufficient levels of liquidity to cope with adverse scenarios.

Stress tests and contingency planning

39. Within the scope of overall risk management, the RMF must, on a regular basis, conduct stress tests on key risks. In this regard, the objective of which is to: (i) identify new risks or emerging risks; (ii) assess exposure to material risks; and (iii) support the internal capital adequacy assessment. The entity's management body is responsible, under the proposal of the RMF, for defining objectives and limits for the results of the stress tests.

40. Based on the results of the internal capital monitoring processes, the evaluation of the overall risk profile of the entity and, in particular, the results of the stress tests, the presentation of a capital or liquidity contingency plan may be requested.

41. The plan aims to identify the measures that can be adopted to promptly correct a situation in which the entity is in financial imbalance, or at risk of becoming financially imbalanced.

42. In addition, the BM Group, and each of its entities, needs to have a business continuity management framework, based on concrete plans for an alternative recovery of its activities that allows them to deal with the occurrence of any disruptive events, in accordance with the defined business continuity policy.

3.4 Additional information on the governance system

43. Additional information relative to the governance system and the corporate bodies of BM may be found in the "Institutional" area (www.bancomontepio.pt/investor-relations-governance).

44. The recruitment policy of the management body can be consulted in Chapters 2.3, 2.4, 2.5, 3, 4 and 5 of the Internal Policy of Selection and Evaluation of the Adequacy of the Members of the Banco Montepio's Board of Directors and Supervisory Board specifically members of the Audit Committee and the Executive Committee, as well as the Non-Executive Members of the BD who are not members of the Audit Committee[1].

45. It should be noted that the policy is under review, in view of the change in governance model, namely the General and Supervisory Council and the Executive Board of Directors (EBD) bodies, referred to in this policy, which are now integrated in the BD body.

[1] https://www.bancomontepio.pt/resources/SiteMontepio/documentos/institucional/informacao-financeira/politica-remuneracoes-membros-orgaos-administracao-fiscalizacao.pdf.

46. More specifically, the Remuneration, Appointments and Assessments Committee is responsible for performing all the duties established in article 115-B of the General Framework of Credit Institutions and Financial Companies (RGICSF) and, in particular, assess, on an independent basis, the remuneration policy and practice and respective criteria for the setting of incentives attributable to the employees responsible for risk taking and control functions, for the purposes of risk, capital and liquidity management, monitor the independence of the employees responsible for risk taking and control functions, verify the implementation and compliance with remuneration policies and procedures adopted by the competent corporate body, set an objective for the representation of gender diversity in the management body and promote a policy in accordance with this objective, and make recommendations on candidates to members of the management and supervisory bodies, among others.

47. This Committee is composed of three members appointed by the BD from among its non-executive members, the majority of which must have an independent status, being responsible for namely reflecting on the appointment of the management and supervisory bodies, in terms of knowledge, competencies, diversity and experience, within the framework of the description of functions and qualifications inherent to those positions, in accordance with the Internal Policy of Selection and Evaluation of the Adequacy of the Members of the Banco Montepio's Board of Directors and Supervisory Board; and set an objective for the representation of men and women in the management and supervisory bodies and draw up a policy aimed at increasing the number of persons of the under-represented gender with a view to achieving the mentioned objectives, in the light of those outlined in Article 115-B of the RGICSF. In view of the objective of promoting gender diversity within the management bodies, the General Meeting promotes a selection of members for these bodies to ensure that, both tendentiously and in the medium-term, each gender is adequately represented.

3.5 Process of identification, measurement and control of each risk

Credit risk

48. Credit risk is associated with the degree of uncertainty of the expected returns, by inability either of the borrower (or guarantor, if there is one), the issuer of a security or the counterparty in a contract to comply with the respective obligations.

49. Credit risk management benefits from an adequate process of credit analysis and decision-making, based on a series of tools to support the decision-making process. The quantification of credit risk is also supported by credit risk management models, including the calculation of impairment losses.

50. One of the fundamental principles of credit risk analysis is independence with regards to business decisions. In the analysis, instruments are used and rules are defined according to the materiality of the exposures, the familiarity with the types of risk in question (i.e. the capacity of modelling of those risks) and the liquidity of the instruments.

51. The credit risk models play an essential role in the credit-decision procedure. Therefore, the procedure of decision of credit operation transactions is based on a set of policies making use of scoring models for retail portfolios and rating models for the non-retail segment.

52. Within the scope of the credit risk, regarding the analysis methodologies, the risk control techniques and models are essentially based on statistical models, supported by the experience

of the institution in granting various types of credit and also, whenever possible, at the level of recovery.

53. The credit decisions depend on the risk classification and compliance with various rules on financial capacity and bidding behaviour.

54. There are acceptance scoring models for lending to individuals in retail portfolios, namely for mortgage loans, personal loans and for credit cards. Regarding Sole Proprietors (SPs) and Micro-companies, these are classified as retail, such that the respective scoring models are applied. For the retail portfolios, there are also behavioural scoring models, which are used in the monitoring of the credit portfolio, as well as in the assessment of new credit proposals, which are, when applicable, combined with application scoring information.

55. In what regards to credit to the non-retail segment, internal rating models are used for small, medium-sized and large companies, differentiated by sectors of activity, such as the tertiary industry, or by the number of years of company activity, namely startups.

56. Regardless of the type of applicable model, any proposal, contract or customer is classified in a category of the single risk scale, in ascending order of Probability of Default. This scale is composed of 19 categories, of which the first 15 correspond to performing risk categories, categories 16 to 18 correspond to credit incidents or registration of delay in the financial system or in the actual entity, and category 19 corresponds to the definition of default, according to the definition in force, which follows the guidelines of the regulatory authorities in terms of prudential requirements.

57. Limits delegated by different decision levels, by operation amount and client global exposure, type of operation/collateral and assigned risk rating are defined. Within this scope, the greatest exposures must be scaled to higher hierarchical levels and delegation of powers in the various levels depends on the risk rating. The highest decision level corresponds to the BD, which in turn empowers the Credit Committee in accordance with the established internal regulation. In the intermediate levels, without intervention of the members of the management bodies, a loan approval can only be granted with the unanimity of the two agents - the four-eyes principle -, one belonging to the commercial network and the other to the Credit Analysis Department, a body that is independent from the commercial structure and the RMF. The RID is the unit responsible for the development of the credit risk models (scoring and rating), and for the control and monitoring of the Group’s risk in overall terms, including BM in individual terms.

58. Within the scope of credit risk, weekly, monthly and quarterly reports on the evolution of credit risk for the various levels of the organisation, including the management bodies, are prepared by the RID. The internal reports contain the main risk indicators of the credit portfolios and metrics on the use of the rating/scoring models. With regards to preventive monitoring, an alerts system is in force for indicators of increased credit risk (Early Warning Signs).

59. IFRS 9, which replaced IAS 19, entered into force on 1 January 2018. IFRS 9 is divided into three pillars:

- Classification and Measurement;
- Impairment; and
- Hedge accounting.

60. Regarding impairment, IFRS 9 establishes the need to recognise Expected Credit Losses (ECL) as impairment for all financial assets that comply with the SPPI criteria (Solely Payment of

Principal and Interest), considering the expected credit loss of one year, or the expected credit loss up to the maturity of the financial instrument (ECL lifetime).

61. The Expected Credit Loss model (IFRS 9) replaces the incurred loss model (IAS 39).

62. According to this change, financial assets are classified into segments, based on the evolution of their credit risk.

- Stage 1: regular financial assets, i.e. without any indication of a significant increase in credit risk since initial recognition and which are not in default.
- Stage 2: financial assets with a significant increase in credit risk since initial recognition, based on the criteria that are defined in the internal standard on the recognition of a significant increase in credit risk or other financial assets (namely, Amounts due for collection, Other debtors, Other receivables or other assets). It should be noted that restructured credit due to financial difficulties is considered an indicator of a significant increase in credit risk, which is why the portfolio of credits marked as restructured is included in Stage 2;
- Stage 3: Non-performing financial assets, based on the non-performing loans indicators that are defined in the internal standard on non-performing or acquired or created credit-impaired financial assets, considered, for the purposes of the requirements in force, as impaired financial assets.

63. The measurement of expected credit losses (ECL) for the segment of homogeneous populations is the result of the product of probability of default (PD) of the financial asset, the loss given default (LGD) and the exposure on the date of default (EAD), discounted at the effective interest rate of the contract up to the reporting date.

64. The main difference between the measured impairment losses for financial assets classified in the stages refers to the time horizon of the probability of default.

65. The probability of default (PD) is one of the main differences in the calculation of IFRS 9 impairment (ECL), with two types of probability of default being estimated:

- 12-month PD: the probability of a default occurring in the next 12 months (for contracts belonging to Stage 1);
- Lifetime PD: the probability of a default occurring during the remaining life of the credit (for contracts belonging to Stage 2); In this case lifetime parameters are used, taking into consideration forward-looking information; and
- PD = 100% for all contracts belonging to Stage 3.

66. In the group of Individually Significant clients, the clients' exposures are subject to analysis on a case by case basis. This analysis focuses on the credit quality of the debtor, as well as on the expectations of credit recovery, namely considering the existing collaterals and guarantees and the other factors considered relevant for this analysis.

67. The impairment amount for the Individually Significant clients is ascertained through the discounted cash-flows method, i.e., the impairment value corresponds to the difference between the credit value and the sum of the expected cash-flows relative to the various client's operations, updated as per the interest rates of each operation.

Concentration risk

68. Within the scope of the established risk appetite, limits and strategic objectives were defined for key indicators, with concentration risk being one of the relevant dimensions, namely in the sub-components of credit risk, liquidity risk and sovereign risk. This process subject to annual review. The limits currently in force were approved in 2018 by the respective management body.

69. In this way, based on the defined limits, the RID monitors the evolution of the risk profile in relation to risk appetite, which includes the concentration risk, with the respective reporting to the Executive Committee and to the Risk Committee, as well as every six months to the BD as a whole, in accordance with the Group's Risk Management Policy.

70. Credit concentration risk management considers four sub-categories of this risk that are considered materially relevant in the activity:

- **Counterparty concentration**: possibility of occurrence of significant losses arising from risk assumed by a counterparty or by a group of related counterparties.

  Within the scope of the control of the concentration risk of the counterparty credit risk, the Major Risks procedure aims to assess, among other objectives, compliance with the CRR requirements regulated by Notice 9/2014 of the Banco de Portugal regarding prudential limits by economic group. These limits correspond to a percentage of the eligible own funds of the Institution under analysis.

  The procedure in question covers all the exposures assumed by the counterparties, both in terms of assets and of the off-balance sheet items, on a consolidated and individual basis, for the entities subject to the prudential supervision of the Banco de Portugal. Within the scope of this procedure, reports are prepared at least quarterly for the Executive Committee within the context of the monitoring of the risk appetite, as well as for the Risk Committee on a regular basis.

  Within the scope of the control of the counterparty concentration risk, the procedure of the Largest Exposures aims to complement the control undertaken in terms of Major Risks. To this end, internally defined concepts, methodologies and metrics are used.

- **Concentration by risk category**: possibility of occurrence of significant losses arising from an exposure or a series of exposures assumed vis-à-vis high risk ratings.

  In the individual approval of the activity of specific business areas, limit matrices are defined by rating and by counterparty type. Exposure is monitored on a daily basis to ensure that the limits are complied with.

  In addition, according to the internal policy of concentration risk, the monitoring of exposures to the Economic Groups is undertaken, taking into account the respective ratings. Within the scope of this procedure, reports are prepared at least every quarter for the Executive Committee within the context of risk appetite monitoring.

- **Sectoral concentration**: possibility of occurrence of significant losses arising from an exposure or a series of exposures assumed vis-à-vis a specific industry of economic activity.

- **Geographical concentration**: possibility of occurrence of significant losses arising from an exposure or a series of exposures assumed vis-à-vis a specific country or geographical area.

The process of sectoral distribution of the exposure aims to monitor the concentration at the level of the sectors of activity which are based on internally defined groupings, namely taking into account the existence of correlation between sectors (such as, for example, the classification of economic activities (NACE) aggregation related with construction and real estate activities, regarding which limits are defined within the scope of the RAS. Within the scope of this procedure, reports are prepared at least every quarter for the management bodies within the context of risk appetite monitoring.

Market risk

71. The concept of market risk reflects the possible loss that may be registered by a given portfolio as a result of changes to rates (interest and exchange rates) and/or to the prices of the different financial instruments composing it, taking into account both the correlations existing between them and the respective volatilities.

72. With respect to market risk information and analysis, there is regular reporting on own financial assets portfolios. Therefore, for the own portfolios of each Group entity, if applicable, various risk limits are defined and the VaR methodology is also used. Different exposure limits are also defined, including global VaR limits, by issuer taking into account the level of credit quality (rating), by country and by asset type/category. There are also Stop Loss limits and Loss Trigger limits defined for the positions held for trading and available for sale.

73. The VaR is calculated on a regular basis both for the trading book and for the other securities portfolios, and that value is ascertained on the basis of a day time horizon of 10 business days and at a significance level of 99% by the historical simulation method. The types of risk taken into account by the methodology are the interest rate risk, the exchange rate risk, the price risk, the credit risk and the commodities risk.

74. The produced reports are used to control the different limits of exposure, analysing the risks of concentration, credit, interest rate and asset price variation, among others. These evaluations encompass the analysis of scenarios, namely the sensibilities of securities portfolios to changes in interest rates, spreads, as well as analysis of stress scenarios based on past extreme events, such as the Sovereign Debt Crisis of 2011. Regarding the trading book, specific risk reports are produced.

75. The RID produces specific reports for the Executive Committee and the Risk Committee on market risk exposure on a monthly basis and for the BD on a half-yearly basis.

Banking book interest rate risk

76. The interest rate risk assessment arising from banking book operations is carried out by analysing risk sensibility, under a consolidated perspective.

77. The interest rate risk is assessed according to the impacts on net interest income and on economic value and own funds caused by changes to market interest rates. The main risk factors result from the mismatch between the repricing dates and/or residual maturities between assets and liabilities (repricing risk), from the non-parallel change in the interest rate curves (yield curve risk), from the lack of a perfect correlation between different interest rates with the same repricing time limit (basis risk) and from the options associated with instruments enabling a diverse action

on part of the stakeholders dependent on the level of contracted and practised interest rates in the moment (option risk).

78. Based on the financial characteristics of each contract, the respective forecast of the expected cash flows is carried out, according to the rate repricing dates and possible behaviour assumptions taken into consideration.

79. The aggregation, for each of the analysed currencies, of the expected cash flows on each time interval makes it possible to determine the interest rate gaps by repricing time period.

80. Following the Basel recommendations and Instruction No. 34/2018 of 26 December from the Banco de Portugal, the Group calculates, at least quarterly, its exposure to the exchange rate risk based on the methodology of the Bank of International Settlements (BIS), classifying all the assets, liabilities and off-balance items, which do not belong to the trading book, by levels of repricing.

81. In this context, limits are defined for exposure to interest rate risk factors which are monitored by CALCO, where any overrunning of the established limits requires the approval of the BD or the implementation of measures to cover the exposure.

82. At the same time, a stress test is conducted with six shock scenarios on the interest rate curve. The test also measures impacts on net interest income at one year and on economic value arising from shocks on the interest rate curve specified in the BIS document of April 2016, Standards – Interest rate risk in the banking book.

83. The RID submits specific reports to the Executive Committee and the Risk Committee on the interest rate risk of the banking book at least quarterly and to the BD on a half-yearly basis.

FX risk

84. Concerning the exchange rate risk of the banking book, in general, the different resources attracted are invested in different currencies through assets in the respective money market for maturity periods that are not higher than those of the resources. Therefore, the existing foreign exchange gaps essentially derive from possible mismatches between the maturity periods of the investments and resources.

85. The defined limits of exposure to exchange rate risk include limits of position by currency (in consolidated terms and individual terms), as well as in terms of VaR, also being disaggregated in terms of the trading book and banking book. These limits are monitored by CALCO. In this regard, the established limits may only be exceeded in case of approval and the respective action plan must be analysed, which may involve the hedging of the exchange rate risk.

86. The RID submits specific reports to the Executive Committee and the Risk Committee on the exposure to exchange rate risk and to the BD on a half-yearly basis.

Liquidity risk

87. The liquidity risk reflects the Group's inability in fulfilling its obligations at the respective maturity, without incurring in significant losses arising from a disintegration of the financing conditions (financing risk) and/or from the sale of its assets at values inferior to the market values (market liquidity risk).

88. The assessment of the liquidity risk is carried out by using defined regulatory indicators, as well as other internal metrics for which internal limits are also defined. This control is strengthened with the regular carrying out of stress tests, with the purpose of characterising the risk profile and ensuring that the Group complies with its obligations in a scenario of liquidity crisis.

89. The control of the levels of liquidity aims to keep a satisfactory level of cash resources to meet financial needs in the short, medium or long term. Liquidity risk is monitored on a daily basis, and various reports are drawn up for the purpose of control and follow-up and to support the decision-taking process in the context of the CALCO.

90. The development of the liquidity situation is carried out, specifically, based on the future cash flows estimated for various time horizons, considering the Group's balance sheet. The liquidity position on the day of the analysis and the amount of assets deemed highly liquid existing in the uncommitted securities portfolio are added to the ascertained values, thus determining the accumulated liquidity gap for many time horizons.

91. In addition to that, a follow-up of the liquidity positions from a prudential perspective is also carried out, as well as a follow-up of the level of compliance with the liquidity prudential indicators, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Additional Liquidity Monitoring Metrics (ALMM), and of internal ratios, such as deposit to loans, of concentration of financing sources, of short-term financing and of eligible assets.

92. There are limits defined for various indicators of liquidity risk, which are monitored through monthly reports that are submitted by the RID to the Executive Committee and the Risk Committee. In addition, the liquidity risk is reported on a half-yearly basis by the RID to the BD.

Real estate risk

93. Real estate risk results from possible negative impacts on results or own funds, due to fluctuations in the market price of real estate assets.

94. Real estate risk arises from exposure in real estate assets, whether from properties given in lieu of repayment or judicial auction sale in the context of recovery procedures for loans, or participation units of real estate funds majority owned by BM or held in the securities portfolio. These exposures are monitored based on analyses of scenarios that seek to estimate potential impacts of changes to the real estate market on the portfolios of these real estate assets and provide the necessary information for the definition of the real estate risk management policy.

95. Monthly reports are prepared by the Strategy, Planning and Control Department and submitted to the CALCO which presents analyses of real estate exposure, as well as the evolution of real estate risk over time. A report on the control of the plan to reduce the exposure to real estate risk is produced and submitted to the Executive Committee on a quarterly basis.

Operational risk

96. Operational risk is regarded as the potential loss arising from failures or inadequacies in the internal procedures, in people or systems, or even the potential losses arising from external events.

97. The BM Group has approval from the Banco de Portugal to use the standard approach to quantify its own fund requirements for operational risk, supported by an implemented operational risk management system that is based on identifying, assessing, monitoring, measuring, mitigating and reporting this type of risk.

98. The assessment of the operational risk profile for new products, processes and systems and their monitoring, on a regular basis, has permitted the prior identification and mitigation of situations of operational risk.

99. At the level of risk monitoring, the main activities carried out consist in the process of collection and analysis of events of operational risk loss, in the analysis of the Key Risk Indicators, in the assessment of the exposure to the operational risk and in the drawing up of periodic reports on the operational risk profile of the Institution. Specifically, there are quarterly reports of follow-up of the events of operational risk loss and of implemented mitigation measures that are drawn up and submitted to the Executive Committee. A report is also drawn up on an annual basis, envisaging the analysis of all the operational risk management instruments.

100. Within the scope of the mitigation stage, action plans are prepared for the more significant risks, identified based on the previously referred to operational risk management tools.

101. In addition to that, a business continuity management procedure has been implemented, supported by a series of activities of assessment, of design, of implementation and monitoring, integrated in an ongoing improvement cycle.

102. This procedure is crucial as a risk mitigating instrument, making the business procedures more resilient and enabling the continuity of operations in case of occurrence of events which cause the interruption of the activity, and also taking into account the defined Recovery Time Objective (RTO).

Pension fund risk

103. Pension Fund risk arises from the potential devaluation of the fund's portfolio of assets or from the decrease of the corresponding expected returns, as well as from the increase in the fund's liabilities as a result of the evolution of the different actuarial assumptions. When faced with scenarios of this type, unforeseen contributions are required so as to maintain the benefits defined by the Pension Fund.

104. The Pension Fund Monitoring Committee holds regular meetings to analyse and monitor the management of Banco Montepio's Pension Fund. Moreover, the RID produces monthly reports on the evolution of the market value of the Pension Fund portfolio and associated risk indicators. The RID submits specific reports to the Executive Committee and the Risk Committee on the risk of the pension fund at least quarterly and to the BD on a half-yearly basis.

105. Considering the investment policy provisions of the Pension Fund regarding the exposure to different risks and to the different legal provisions, those limits are controlled on a daily basis, through a detailed review of the "exceeded legal and investment limits". In this regard, there are a series of procedures that are carried out if the limits are exceeded.

106. The RID monitors the effect of the adopted measures and their impact on the investment policy. At the same time, the levels of exposure to the legal and prudential limits that govern the Pension Fund are also monitored.

107. In addition to verifying compliance with the investment policy and the legal and prudential limits, the managing body (Futuro - Sociedade Gestora de Fundos de Pensões, S.A.) decided to strengthen control and monitoring through the use of various risk measures and a number of internal procedures aimed at maintaining a prudent management of risk. On this basis, a risk management model is used based on the technical perspective of the “QIS pension Funds” studies of EIOPA (European Insurance and Occupational Pensions Authority). The development of tolerance indicators for this model permits the monitoring of variations in these indicators, according to the defined investment policy for the Pension Fund.

Other risks

108. Regarding other risks - reputation risk, strategy and business risk - these are also followed-up by the BD, which controls the risks and takes corrective measures in light of the obtained results relative to the objectives/limits established. It is important to note, in this regard, the monitoring undertaken within the scope of the CALCO, namely the control of deviations relative to the approved strategic plan and budget. The RID submits specific reports to the Executive Committee and the Risk Committee at least quarterly and to the BD on a half-yearly basis, which include other risks considered material in addition to those referred to in the previous sections.

3.6 Hedging policies and risk mitigating

109. For the purpose of reducing credit risk, the risk mitigation elements associated with each operation are considered. Specifically, real mortgage guarantees and financial collateral are relevant, as well as the provision of personal credit protection, namely collateral. Different hedging policies are defined for different types of credit.

110. In prudential terms, the direct reduction of the exposure value includes the credit operations collateralised by financial collateral, namely term deposits and securities. In financial collaterals, the market risk of the assets involved is considered, and, when applicable, an adjustment of the value of the collateral is carried out.

111. Regarding real mortgage guarantees, valuation and revaluation models are defined which are applied to the properties that may constitute collateral for credit operations, in the origination phase and in the monitoring and subsequent follow-up of the risk. The asset evaluation is carried out by independent experts, and the management of evaluations and inspection is centralised in a unit of the Institution, regardless of the commercial area.

112. According to the CRR, the requirements for the verification and reassessment of the assets' value is ensured, depending on the case, by statistical and computerised methods or by review or revaluation of the valuation value by the expert.

113. For personal credit guarantees, the principle of substitution of the customer's risk by that of the protection provider is applied, provided the latter's risk is better than the former's.

114. Processes for on- and off-balance sheet netting are not used and neither are credit derivatives held for hedging or mitigating risk of the positions in portfolio.

115. Trading portfolio market risk mitigation techniques essentially consist of hedging exposures for financial products with symmetric risk to decrease the net risk of exposures or the partial or total sale of exposures to reduce exposure or cancel it completely.

116. With regards to the banking book, interest rate and foreign exchange rate risk mitigation techniques consist of hedging operations with derivatives to hedge interest rate or exchange rate risk and close positions through the sale of open exposures, when applicable.

4. Capital adequacy

4.1 Own funds and capital ratios

117. The Group's own funds are established in accordance with the applicable regulatory standards, namely Directive 2013/36/EU (CRD IV), CRR and Notice No. 10/2017 of the Banco de Portugal. Own funds include Tier 1 capital and Tier 2 capital. Tier 1 includes common equity tier 1 (CET1) capital and additional tier 1 capital with the following composition:

- Common Equity Tier 1 (CET1) capital**:** This category includes the paid-up share capital (with deduction of treasury shares), eligible reserves (including the fair value reserves), retained earnings, positive and certified retained earnings for the period or wholly if negative. The value of reserves and retained earnings is adjusted by reversal of the results in financial liabilities at fair value through profit or loss in the part corresponding to the risk of the institution's own credit. The minority interests are only eligible to the extent necessary to cover the Group's capital requirements attributable to the minority shareholders. The balance sheet value of the amounts related to goodwill, other intangible assets, as well as the difference, if positive, between assets and the pension fund’s liabilities, is deducted. The value of the prudent valuation calculated in accordance with Article 34 and 105 of CRR is also deducted, as well as the deferred tax assets associated with tax losses. With regards to financial investments in financial industry entities and to deferred tax assets arising from temporary differences that depend on future profitability, the values of those items are deducted, providing that they are, individually, above 10% of CET1, or, subsequently, above 15% of CET1 when considered in aggregate (only in the non-deducted part in the first barrier of 10% and only taking into consideration the significant financial investments). The non-deducted values will be subject to a weight of 250% for the total risk-weighted assets. Regarding financial investments in financial institutions, the eventual deduction is proportionally realised on the respective held capital levels. Within the scope of the implementation of the requirements defined in CRR a transition plan was defined which permitted the gradual recognition of the most significant impacts of this new regulation. In 2018 this transition plan reached total recognition (i.e. of 100%) for almost all of the items covered. For deferred tax assets, which do not depend on future profitability, the transitional cumulative recognition plan is maintained on a 10% annual basis, on the balance sheet as at 1 January 2014. In 2018 it will be of 40%.

- Tier 1 (T1) capital: Includes capital equivalent instruments, whose conditions comply with the requirements defined in article 52 of CRR and that have obtained approval from the Banco de Portugal. The non-controlling interests relating to the minimum additional own funds’ requirements of the institutions for which the Group does not hold full ownership are also eligible. Furthermore, possible holdings of T1 capital of financial institutions subject to deduction are deducted from the above-mentioned capital.

- Tier 2 (T2) capital: includes quasi-equity instruments, whose conditions comply with the requirements defined in Article 63 of CRR and that have been approved by the Banco de Portugal. The non-controlling interests relating to the minimum total own funds’ requirements of institutions for which the Group does not hold full ownership are equally eligible. Furthermore, possible holdings of T2 capital of financial institutions subject to deduction are deducted from the above-mentioned capital.

118. Total Own Funds or Total Capital consist of the sum of the three levels of own funds previously referred to.

119. With regards to the calculation of risk-weighted assets, in addition to credit, operating and market risks requirements, it is important to mention the weighting of 250% of deferred tax assets arising from temporary differences which depend on future profitability and investments which are within the limit established for non-deduction to CET1. With respect to deferred tax assets arising from temporary differences which do not depend on future profitability, these are subject to a weighting of 100% for the purposes of capital requirements. The CVA (credit valuation adjustments) requirement is also ascertained.

120. With the adoption of IFRS 9 - Financial instruments, applicable from 1 January 2018 and considering Regulation (EU) 2017/2395 of the European Parliament and of the Council, the Group has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a period of 5 years. Therefore, in 2018, Banco Montepio prudentially recognised only 5% of the impact related to the adoption of IFRS 9.

121. As previously mentioned, in 2018, the effects of the new Basel III regulation regarding deferred tax assets, which do not depend on future profitability, as well as the effects resulting from the adoption of IFRS 9 are still subject to a gradual recognition. This gradual recognition process is known as phasing-in. The full adoption of the new regulation, without considering transition plans, is known as full implementation. The phasing-in process is currently in force, and it is on this basis that one verifies whether a given entity has an amount of own funds that is no less than that of its own funds requirements, thus certifying the adequacy of its capital. This relationship is reflected in the different capital ratios, namely the CET1 ratio, T1 ratio and total capital ratio (ratio corresponding to the respective capital level as a percentage of the amount corresponding to 12.5 times the own funds requirements).

122. The following tables exhibit the breaking down of own funds and the reconciliation of own funds with the balance sheet.

Table 3 | Reconciliation of own funds and balance sheet

(thousands of euros)

	dec/18	dec/17
Equity		
Capital	2 420 000	2 420 000
Other equity instruments	6 323	6 323
Own securities	0	0
Revaluation reserves	-18 710	27 923
Other reserves and retained earnings	-898 743	-730 598
Of which associated with the actuarial deviation of the pension fund	-223 047	-187 637
Of which initial recognition IFRS 9 (net credit impairment DTA)	-98 343	0
Net income for the period	12 512	6 437
Minority interests	15 551	32 835
Total Equity	**1 536 933**	**1 762 921**
Other equity instruments not eligible for CET1	-6 323	-6 323
Minority interests not eligible for CET1	-8 953	-20 914
Adjustments associated to the transition plan applied to the IFRS 9 impacts	93 425	0
Other regulatory adjustments	-158 555	-163 521
Of which: Intangible assets	*-40 539*	*-31 371*
Of which: Deferred tax assets	*-116 879*	*-137 847*
Common Equity Tier 1 (CET1) capital	**1 456 528**	**1 572 163**
Minority interests eligible for T1	382	0
Tier 1 (T1) capital :	**1 456 910**	**1 572 163**
Subordinated Liabilities (recorded as equity)	6 323	6 323
Subordinated Liabilities (recorded as liabilities)	50 000	235 018
Other regulatory adjustments	0	-233 257
Of which: prudential amortisation of subordinated liabilities	*0*	*-210 768*
Tier 2 (T2) capital :	**56 323**	**8 084**
Total Capital (T1+T2)	**1 513 233**	**1 580 246**

123. The following table exhibits the main characteristics of the own funds instruments issued, according to what is described in Article 437 (b) and (c) of CRR. The instruments issued consist of share capital (ordinary shares) and subordinated debt.

124. In addition to the information presented in the following table, the full terms and conditions of all the eligible issuances of Tier 2 are available at the following addresses:

Table 4 | Full terms and conditions own funds instruments

ISIN	Address
PTCMGUOM0026	https://dl.bourse.lu/dl?v=+H7GzbTEOWEZi0h+IfqJF4p/Nc72NKtW0L8/IK8sbphta0olM6Q0YtfN5o1RROjou556mE3pTvzi4q1w3d3bzUwhAiNEUK4Z9qf7+Fb04RbBebm9Vt+6SXdrYtIgZzlNAjaFDP49kwgg1ASVzibUkTNO0cFQlZEb0HHcuihKUwxqdO15k3KBZ0INOQVjZ91X
PTFNI1OM0011	https://web3.cmvm.pt/sdi2004/emitentes/docs/fsd16107.pdf https://www.bancomontepio.pt/iwov-resources/SitePublico/documentos/pt_PT/grupo/finibanco%20SA/noticias-investidor/Acta-AG-Titulares-Valores-Mobiliarios-Perpetuos.pdf

Table 5 | Main characteristics of own funds instruments

Characteristics of Own Funds Instruments[1]	Shares	MONTEPIO EMTN 35 SUB 2018/2028	FINIBANCO VALOR INVEST 2010
Issuer	CEMG	CEMG	CEMG
Unique identifier (for example, CUSIP, ISIN or Bloomberg identifier for private placement	PTCMH0AM0027	PTCMGUOM0026	PTFNI1OM0011
Governing law(s) of the instrument	Portuguese	Portuguese	Portuguese
Regulatory treatment			
Transitional CRR rules	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital
Post-transitional CRR rules	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital
Eligible at solo / group / solo and group	Solo and group	Solo and group	Solo and group
Instrument type	Ordinary shares	Subordinated debt	Subordinated debt
Amount recognised in regulatory capital (in millions of euros)	2,420.0	50.0	6.3
Nominal amount issued of the instrument (in millions of euros)	2,420.0	50.0	15.0
Issuance price	1	100%	100%
Redemption price		Repayment at par	Repayment at par
Accounting classification	Share Capital	Other subordinated liabilities	Other equity instruments
Date of Issuance	14/09/2017	27/Dec/2018	02/Feb/2010
Perpetual / Dated		Dated	Perpetual
Maturity Date		27/Dec/2028	No maturity
Issuer call subject to prior supervisory approval		Yes	Yes
Optional call date / contingent call dates and redemption amount		27/Dec/2023	02/Feb/2015
Subsequent call dates			At any moment after 02/Feb/2010, subject to 30 days' notice
Dividend / Coupon		Fixed + Fixed	Fixed + Variable / Minimum limit
Coupon rate / Related index if applicable		8% until 27/Dec/2023 then rate changes to a Mid Swap Rate + 7.77% on 27/Dec/2023	7% until 2/Feb/2012 Euribor6M+2.75%, with a minimum of 5% after 2/Aug/2012
Existence of a dividend stopper	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of maturity)	Fully	Fully	Fully
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully	Mandatory	Fully
Existence of step up or other incentive to redeem			No
Non-cumulative or cumulative		Cumulative	Cumulative
Convertible or non-convertible		Non-convertible	Non-convertible
If convertible, conversion trigger(s)	N.A.	N.A.	N.A.
If convertible, fully or partially	N.A.	N.A.	N.A.
If convertible, conversion rate	N.A.	N.A.	N.A.
If convertible, mandatory or optional conversion	N.A.	N.A.	N.A.
If convertible, specify instrument type convertible into	N.A.	N.A.	N.A.
If convertible, specify issuer of instrument it converts into	N.A.	N.A.	N.A.
Write-down features	N.A.	N.A.	N.A.
If write-down, write-down trigger(s)	N.A.	N.A.	N.A.
If write-down, full or partial	N.A.	N.A.	N.A.
If write-down, permanent or temporary	N.A.	N.A.	N.A.
If temporary write-down, description of write-up mechanism	N.A.	N.A.	N.A.
Position in subordination hierarchy in liquidation (specify instrument type immediately senior toinstrument)		Senior Creditors	Subordinated Creditors
Non-compliant transitioned features		No	No
If yes, specify non-compliant features			

(1) Indicate "N.A." if the issue is not relevant.

125. Pursuant to Article 437 (d) and (e) of CRR, a table is published disclosing the applied filters, deductions and items not deducted from own funds. It should be noted that no restrictions are applied to the calculation of own funds, in accordance with point e) of the abovementioned Article. In order to better understand the information provided, it will be broken down into three parts, in the following tables.

Table 6 | Main items of own funds

(thousands of euros)

Common Equity Tier 1 (CET1) capital: instruments and reserves		
	(A) Amount at the reporting date	(B) Regulation (EU) 575/2013 article reference
Own funds instruments and related share premium accounts	2,420,000	26 (1), 27, 28, 29, EBA list 26 (3)
of which: instrument type 1	2,420,000	EBA list 26 (3)
of which: instrument type 2		EBA list 26 (3)
of which: instrument type 3		EBA list 26 (3)
Retained earnings	-613,438	26 (1) (c)
Accumulated other comprehensive income (and other reserves)	-304,014	26 (1)
Funds for general banking risk	0	26 (1) (f)
Amount of qualifying items referred to in Article 484(3) and the related share premium accounts subject to phase out from CET1		486 (2)
Capital injections from the public sector subject to acquired rights until 1 January 2018		483 (2)
Minority interests (amount allowed in consolidated CET1)	6,597	84, 479, 480
Independently reviewed interim profits, net of any foreseeable charge or dividend	12,512	26 (2)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,521,657**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments	133,516	34, 105
Intangible assets (net of related tax liability)	-40,539	36 (1) (b), 37, 472 (4)
Empty set in the EU		
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.	-104,073	36 (1) (c), 38, 472 (5)
Fair value reserves related to gains or losses on cash flow hedges		33 (a)
Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159, 472 (6)
Any increase in equity that results from securitised assets		32 (1)
Gains or losses on liabilities valued at fair value due to changes in own credit standing.	-143	33 (b)
Defined-benefit pension fund assets		36 (1) (e), 41, 472 (7)
Direct and indirect holdings by an institution of own CET1 instruments		36 (1) (f), 42, 472 (8)
Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the own funds of the institution	0	36 (1) (g), 44, 472 (9)
Direct and indirect holdings by the institution of CET1 instruments of financial sector entities in which the institution does not have a significant investment (amount above the 10% threshold and net of eligible short positions)	0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment (amount above the 10% threshold and net of eligible short positions)	0	36 (1) (i), 43, 45, 47, 48(1) (b), 49 (1) a (3), 79, 470, 472 (11)
Empty set in the EU		
Exposure amount of the following items which qualify for a RW of 1250%, where the institution chooses the alternative of deduction		36 (1) (k)
of which: qualifying holdings outside the financial sector		36 (1) (k) (i), 89 to 91
of which: securitisation positions		36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
of which: free deliveries		36 (1) (k) (iii), 379 (3)
Deferred tax assets arising from temporary differences (amount above the 10% threshold, net of related tax liabilities where the conditions established in Article 38(3) are met)	-53,890	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
Amount exceeding the 15% threshold.	0	48 (1)
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		36 (1) (i), 48 (1) (b), 470, 472 (11)
Empty set in the EU		
of which: Deferred tax assets arising from temporary differences		
Losses for the current financial year	0	36 (1) (a), 472 (3)
Foreseeable tax charges relating to CET1 items		36 (1) (l)
Regulatory adjustments to common equity tier 1, relative to amounts subject to treatment before CRR		
Regulatory adjustments to unrealised gains and losses under the terms of Articles 467 and 468		
of which: filter for unrealised losses relative to debt security positions	0	467
of which: filter for unrealised losses relative to equity positions	0	467
of which: filter for unrealised gains relative to debt security positions	0	468
of which: filter for unrealised gains relative to equity positions	0	468
Amount to be deducted or added to common equity tier 1 with regards to required additional filters and deductions before CRR	0	481
of which prudential filter relative to actuarial discrepancies	0	481
Qualifying AT1 deductions that exceed the AT1 of the institution	0	36 (1)
Total regulatory adjustments to common equity tier 1 (CET1)	**-65,129**	
Common equity tier 1 (CET1) capital	**1,456,528**	

Table 6.1 | Main items of own funds (continuation)

	(A) Amount at the reporting date	(B) Regulation (EU) 575/2013 article reference
Additional tier 1 (AT1) capital: instruments		
Capital instruments and the related share premium accounts	0	51, 52
of which: classified as equity under applicable accounting standards	0	
of which: classified as liabilities under applicable accounting standards		
Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1.	0	486 (3)
Capital injections from the public sector subject to acquired rights until 1 January 2018		483 (3)
Qualifying Tier 1 capital included in the consolidated AT1 (including minority interests not included in line 5) issued by subsidiaries and held by third parties	382	85, 86, 480
of which: instruments issued by subsidiaries subject to phase out		486 (3)
Additional tier 1 (AT1) capital before regulatory adjustments	**382**	
Additional tier 1 (AT1) capital: regulatory adjustments		
Direct and indirect holdings by an institution of own AT1 instruments		52 (1) (b), 56 (a), 57, 475 (2)
Holdings of the AT1 instruments of financial sector entities where these entities have reciprocal cross holdings with the institution designed to artificially inflate the own funds of the institution		56 (b), 58, 475 (3)
Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment (amount above the 10% threshold and net of eligible short positions)		56 (c), 59, 60, 79, 475 (4)
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 the 10% threshold and net of eligible short positions)		56 (d), 59, 79, 475 (4)
Regulatory adjustments applied to additional tier 1 capital, relative to amounts subject to treatment before CRR and transitional treatments subject to phasing out as prescribed in Regulation (EU) 575/2013		
Residual amounts deducted from additional tier 1 capital relative to the deduction of common equity tier 1 capital during the transitional period as per Article 472 of Regulation (EU) 575/2013	0	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
of which: Intangible assets	0	
of which: direct and indirect holdings by the institution of CET1 instruments of financial sector entities, where the institution has no significant investment		
of which: direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment (amount above the 10% threshold and net of eligible short positions)		
Residual amounts deducted from additional tier 1 capital relative to the deduction of tier 2 capital during the transitional period as per Article 475 of Regulation (EU) 575/2013		477, 477 (3), 477 (4) (a)
of which: direct and indirect holdings by the institution of tier 2 instruments of financial sector entities in which the institution has no significant investment		
of which: direct, indirect and synthetic holdings of T2 instruments of financial sector entities where the institution has a significant investment		
Amounts to be deducted or added to additional tier 1 capital with regards to required additional filters and deductions prior to CRR		467, 468, 481
Deductions to qualifying T2 that exceed the T2 of the institution		56 (e)
Total regulatory adjustments to additional tier 1 (AT1) capital	**0**	
Additional tier 1 (AT1) capital	**382**	
Tier 1 capital (T1 = CET1 + AT1)	**1,456,910**	
Tier 2 (T2) capital : instruments and provisions		
Capital instruments and the related share premium accounts	56,323	62.63
Amount of qualifying items referred to in Article 484(5) and the eligible related share premium accounts subject to phase out from Tier 2 capital.		486 (4)
Capital injections from the public sector subject to acquired rights until 1 January 2018		483 (4)
Qualifying own funds instruments included in the consolidated T2 capital (including minority interests and AT1 not included in lines 5 and 34) issued by subsidiaries and held by third parties	0	87, 88, 480
of which: instruments issued by subsidiaries subject to phase out		486 (4)
Credit risk adjustments		62 (c) , (d)
Tier 2 (T2) capital before regulatory adjustments	**56,323**	
Tier 2 (T2) capital: regulatory adjustments		
Direct and indirect holdings by an institution of own T2 instruments and subordinated loans		63 (b) (i), 66 (a), 67, 477 (2)
Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the own funds of the institution		66 (b), 68, 477 (3)
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 the 10% threshold and net of eligible short positions)		66 (c), 69, 70, 79, 477 (4)
Of which new holdings not subject to transition provisions		
Of which holdings existing before 1 January 2013 and subject to transitional arrangements		
Direct and indirect holdings by an institution of T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)		66 (d), 69, 79, 477 (4)
Regulatory adjustments applied to tier 2 capital, relative to amounts subject to treatment prior to CRR and transitional treatments subject to phasing out as prescribed in Regulation (EU) 575/2013		
Residual amounts deducted from tier 2 capital relative to the deduction of common equity tier 1 capital during the transitional period as per Article 472 of Regulation (EU) 575/2013		472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
of which: direct and indirect holdings by the institution of CET1 instruments of financial sector entities, where the institution has no significant investment		
of which: direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		
Residual amounts deducted from tier 2 capital relative to the deduction from additional tier 1 capital during the transitional period as per Article 475 of Regulation (EU) 575/2013		547, 475 (2) (a), 475 (3), 475 (4) (a)
Amount to be deducted or added to tier 2 capital with regards to required additional filters and deductions prior to CRR	0	467, 468, 481
Total regulatory adjustments to tier 2 (CET1) capital	**0**	
Tier 2 (T2) capital	**56,323**	
Total Capital (TC = T1 + T2)	**1,513,233**	

Table 6.2 | Main items of own funds (continuation)

	(A) Amount at the reporting date	(B) Regulation (EU) 575/2013 article reference
Risk Weighted Assets		
Risk weighted assets relative to amounts subject to treatment before CRR and transitional treatments subject to phasing out as prescribed in Regulation (EU) 575/2013	130,546	
of which: direct and indirect holdings by an institution of its own CET1 instruments	0	
of which: deferred taxes which depend on future profitability	16,530	
of which: direct and indirect holdings by the institution of own funds instruments of financial sector entities where the institution has no significant investment in those entities	0	
of which: direct, indirect and synthetic holdings of own funds instruments of financial sector entities where the institution has a significant investment in those entities	0	
of which: regulatory adjustments applied to tier 2 capital, relative to amounts subject to treatment before CRR and transitional treatments subject to phasing out as prescribed in CRR	0	
Total risk weighted assets	**10,758,512**	
Prudential capital ratios and reserves		
Common Equity Tier 1 capital	13.54%	92 (2) (a), 465
Level 1	13.54%	92 (2) (b), 465
Total capital	14.07%	92 (2) (c)
Institution specific buffer requirement	9.44%	DRFP 128, 129, 130
of which: capital conservation buffer requirement	1.88%	
of which: countercyclical buffer requirement	0.00%	
of which: systemic risk buffer requirement	0.00%	
of which: Global systemically important institution (G-SII) or Other systemically important institution (O-SII) buffer	0.06%	DRFP 131
Common Equity Tier 1 (CET1) available to meet buffers	4.10%	DRFP 128
Amounts below the thresholds for deduction (before risk weighting)		
Direct and indirect holdings of own funds instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	0	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)
Direct and indirect holdings by the institution of own funds instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	0	36 (1) (i), 45, 48, 470, 472 (11)
Empty set in the EU		
Deferred tax assets arising from temporary differences (amount below the 10% threshold, net of related tax liabilities where the conditions established in Article 38 (3) are met)	146,933	36 (1) (c), 38, 48, 470, 472 (5)
Applicable caps on inclusion		
Credit risk adjustments included in T2 in respect of exposures subject to the standardised approach(prior to the application of the cap)		62
Cap on inclusion of credit risk adjustments in T2 under the standardised approach		62
Credit risk adjustments included in T2 in respect of exposures subject to the internal ratings-basedapproach (prior to the application of the cap)		62
Cap for inclusion of credit risk adjustments in T2 under the internal ratings-based approach		62
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)		
Current cap on CET1 instruments subject to phase-out arrangements		484 (4), 486 (3) e (5)
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2)
Current cap on AT1 instruments subject to phase-out arrangement		484 (4), 486 (3) and (5)
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) and (5)
Current cap on T2 instruments subject to phase out arrangement		484 (4), 486 (3) and (5)
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) and (5)

126. Pursuant to Article 437 (f) of CRR, prudential ratios of own funds that are calculated based on legislation that is different from what is set out in CRR are not disclosed on an individual and consolidated basis.

127. Since the Group decided to recognise the impacts of IFRS9 in phases, pursuant to Article 473-A of CCR, introduced by Regulation 2017/2395 of the European Parliament, the model comparing own funds, own funds ratios and institutions' leverage with and without application of the transitional regime of IFRS 9 or similar expected credit losses, as referred to in the EBA/GL/2018/01 guidelines, relative to the uniform disclosure of the transitional regime to reduce the impact of the introduction of IFRS 9 on own funds, is shown below.

Table 7 | Uniform disclosure of the transitional regime to reduce the impact of IFRS 9

	AVAILABLE OWN FUNDS (AMOUNTS)	31/Dec/2018	30/Sep/2018	30/Jun/2018	31/Mar/2018
1	Common equity tier 1 (CET1) capital	1,456,528	1,496,323	1,521,345	1,494,441
2	Common equity tier 1 (CET1) capital if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	1,322,018	1,357,866	1,382,787	1,368,037
3	Tier 1 capital	1,456,910	1,499,999	1,525,413	1,498,459
4	Tier 1 capital if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	1,322,400	1,361,542	1,386,854	1,372,055
5	Total capital	1,513,233	1,507,018	1,534,229	1,513,009
6	Total capital if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	1,378,723	1,368,561	1,395,671	1,386,604
	RISK-WEIGHTED ASSETS (AMOUNTS)				
7	Total risk-weighted assets	10,758,512	11,232,170	11,259,005	11,597,185
8	Total risk-weighted assets if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	10,644,497	11,118,974	11,146,730	11,494,194
	CAPITAL RATIOS				
9	Common equity tier 1 capital (as a percentage of the amount of the exposures)	13.5%	13.3%	13.5%	12.9%
10	Common equity tier 1 capital (as a percentage of the amount of the exposures) if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	12.4%	12.2%	12.4%	11.9%
11	Tier 1 capital (as a percentage of the amount of the exposures)	13.5%	13.4%	13.5%	12.9%
12	Tier 1 capital (as a percentage of the amount of the exposures) if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	12.4%	12.2%	12.4%	11.9%
13	Total capital (as a percentage of the amount of the exposures)	14.1%	13.4%	13.6%	13.0%
14	Total capital (as a percentage of the amount of the exposures) if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	13.0%	12.3%	12.5%	12.1%
	LEVERAGE RATIO				
15	Total exposure measure of the leverage ratio	18,741,378	19,327,760	19,674,805	19,498,356
16	Leverage ratio	7.8%	7.8%	7.8%	7.7%
17	Leverage ratio if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	7.1%	7.0%	7.0%	7.0%

4.2 Capital requirements

128. The calculation of the capital requirements for credit and market risk is determined according to the standardised approach.

129. In 2018, the capital requirements for credit risk were calculated in their entirety in accordance with the standardised approach, based on the segments of activity of the various group entities, and including in the relevant indicator the contribution of the subsidiary in Angola, even though in accounting terms the activity pursued by this subsidiary is considered a discontinuing operation (recorded in accounting terms based on the application of IFRS 5).

130. In 2018, the calculation of the capital requirements for operational risk was determined in accordance with the standardised approach for BM, MG Cabo Verde, Montepio Crédito and Montepio Investimento, and in accordance with the basic indicator approach for Finibanco Angola. This calculation was carried out in conformity with the requirements foreseen for each of the mentioned calculation approaches, as indicated in CRD IV and CRR.

131. The following table exhibits, according to Article 438 (c) to (f) of CRR - with the exception of point (d) which applies to the IRB Approach -, the distribution of the capital requirements among the various types of risk, including, among others, the requirements relative to deferred taxes and CVA. The credit and counterparty risk is the most significant, corresponding to about 87% of capital requirements.

132. In December 2018, the value of risk-weighted assets (RWA) came to 10,758 million euros, which represents a decrease of about 9.4% year-on-year, essentially explained by the reduction in the credit risk component - excluding the Credit Conversion Factor (CCF), i.e. conversion of the off-

balance sheet items to a credit risk equivalent – arising from balance sheet deleveraging, namely the reduction evidenced in the consolidated credit portfolio.

Table 8 | EU OV1 Overview of the risk-weighted assets

(thousands of euros)

		RWA			Capital Requirements		
		Dec-18	Sep-18	Dec-17	Dec-18	Sep-18	Dec-17
Credit Risk (excluding CCR)		**9,261,193**	**9,729,923**	**10,298,642**	**740,895**	**788,067**	**823,891**
	of which: standardised approach	9,261,193	9,729,923	10,298,642	740,895	788,067	823,891
Art. 438 (c) (d)	of which: IRB approach	0	0	0	0	0	0
	of which: advanced IRB approach	0	0	0	0	0	0
Art. 438 (d)	of which: equity IRB under the simple risk-weighted approach or IMA	0	0	0	0	0	0
Art. 107 Art. 438 (c)(d)	**CCR**	**93,909**	**139,598**	**27,630**	**7,513**	**11,168**	**2,210**
	Of which: mark to market (MtM)	76,303	120,909	21,552	6,104	9,673	1,724
	Of which: original exposure approach	0	0	0	0	0	0
	of which: standardised approach	0	0	0	0	0	0
Art. 438 (c)(d)	of which: internal model method (IMM)	0	0	0	0	0	0
	of which: exposure amount for contributions to the Default Fund of a CCP	0	0	0	0	0	0
	of which: CVA	17,606	18,689	6,079	1,408	1,495	486
Art. 438 (e)	**Settlement risk**	**0**	**0**	**0**	**0**	**0**	**0**
Art. 449 (o)(i)	**Banking book securitisation exposures (net of cap)**	**1,869**	**1,956**	**2,487**	**149**	**157**	**199**
	of which: IRB approach	0	0	0	0	0	0
	of which: supervisory formula method (SFA)	0	0	0	0	0	0
	of which: internal assessment approach	0	0	0	0	0	0
	of which: standardised approach	1,869	1,956	2,487	149	157	199
Art. 438 (e)	**Market Risk**	**106,257**	**96,606**	**351,160**	**8,501**	**7,728**	**28,093**
	of which: standardised approach	106,257	96,606	351,160	8,501	7,728	28,093
	of which: IMA	0	0	0	0	0	0
Art. 438 (e)	**Large Exposures**	**0**	**0**	**0**	**0**	**0**	**0**
Art. 438 (f)	**Operational Risk**	**773,548**	**721,846**	**721,846**	**61,884**	**57,748**	**57,748**
	of which: basic indicator approach	0	0	0	0	0	0
	of which: standardised approach	773,548	721,846	721,846	61,884	57,748	57,748
	of which: advanced measurement approach	0	0	0	0	0	0
Art. 437(2), Art. 48 and Art. 60	**Memorandum items: Amounts below the threshold for deduction (subject to a RW of 250%)**	**521,731**	**542,242**	**472,986**	**41,739**	**43,379**	**37,839**
Art. 500	**Threshold adjustment**	**0**	**0**	**0**	**0**	**0**	**0**
	Fully	**10,758,507**	**11,232,170**	**11,874,751**	**860,681**	**908,246**	**949,980**

133. The following table exhibits the evolution in 2018 of the Pillar I requirements.

Table 9 | Capital Requirements

(thousands of euros)

	Dec-2018	Jun-2018	Dec-2017
Capital requirements	**860,681**	**900,720**	**949,980**
For credit, counterparty credit and dilution risks and free deliveries	747,150	790,659	825,814
Standardised Approach	747,150	790,659	825,814
Standardised Approach Exposure classes, excluding	747,000	790,473	825,616
Claims or contingent claims on central governments or central banks	12,561	14,378	18,328
Claims or contingent claims on regional governments or local authorities	259	573	580
Claims or contingent claims on administrative bodies and non-commercial undertakings	5,600	5,656	5,604
Claims or contingent claims on multilateral development banks	0	0	0
Claims or contingent claims on international organisations	0	0	0
Claims or contingent claims on Institutions	26,746	24,982	36,950
Claims or contingent claims on Corporates	153,648	168,852	156,154
Retail claims or contingent retail claims	84,366	89,721	82,582
Claims or contingent claims secured on real estate property	219,066	223,947	233,746
Past due items	87,091	103,264	123,572
Items belonging to regulatory high-risk categories	19,414	19,435	19,321
Covered bonds	0	32	73
Exposures on collective investment undertakings (CIU):	23,893	24,385	17,664
Other items	114,356	115,247	131,043
Securitisation positions under the Standardised Appr	149	186	199
(-) Provisions for general credit risks	0	0	0
Settlement risk	0	0	0
Capital requirements for position, foreign exchange and c	8,501	7,517	28,093
Standardised Approach	8,501	7,517	28,093
Debt instruments	1	581	11,679
Equity securities	0	1,178	1,076
Foreign exchange risks	8,499	5,739	15,338
Commodities risk	0	19	0
Capital requirements for operational risk	61,884	57,748	57,748
Basic indicator approach	0	0	0
Standardised Approach	61,884	57,748	57,748
Advanced measurement approaches	0	0	0
Capital requirements – Fixed overheads	1,408	490	486
Transitional or other capital requirements	41,739	44,306	37,839

4.3 Assessment and adequacy of own funds

134. Bearing in mind the Risk Appetite Statement, the BD aims to maintain a capital level more adequate to the evolution of the Group's business in order to ensure that it has satisfactory solvency indicators compatible with the prudential recommendations, as well as from an economic viewpoint.

135. The reduction of 1,116 million euros in risk-weighted assets, arising essentially from the variation in the loan and debt securities portfolios, resulted in an improvement of the capital ratios as at December 2018 relative to December 2017. The Total Own Funds benefited from the issuance, in December 2018, of 50 million euros of subordinated debt.

136. The following table exhibits a summary of the main capital indicators, either in phasing in or in full implementation. As mentioned previously, the effects of the new Basel III (CRD IV/CRR) regulation will be gradually introduced.

Table 10 | Capital indicators

Phasing In	Dec-2018	Sep-2018	Dec-2017
CET1 Ratio	13.54%	13.32%	13.24%
T1 Ratio	13.54%	13.35%	13.24%
Total Capital Ratio	14.07%	13.42%	13.31%
Leverage Ratio	7.77%	7.76%	7.64%
Full Implementation	**Dec-2018**	**Sep-2018**	**Dec-2017**
CET1 Ratio	11.43%	11.18%	11.64%
T1 Ratio	11.43%	11.22%	11.67%
Total Capital Ratio	11.96%	11.28%	11.88%
Leverage Ratio	6.57%	6.53%	6.79%

137. Following the annual supervisory procedure, known as the Supervisory Review and Evaluation Process (SREP), the applicable Pillar 2 requirement for the Group is 3.00%.

138. The minimum requirements, which include the minimum requirements components (Pillar 1), specific requirements arising from SREP (Pillar 2) and combined reserve requirements, are the following:

Ratios	2019 capital ratio requirements			
	Phasing In	Pillar 1	Pillar 2	Reserves
CET1	**10.125%**	4.5%	3.0%	2.625%
T1	**11.625%**	6.0%	3.0%	2.625%
Total	**13.625%**	8.0%	3.0%	2.625%

139. The Group has established an internal capital adequacy assessment process (ICAAP), which is an essential component in risk management and seeks to develop an analysis of the Group's internal capital, based on a qualitative and quantitative assessment of the risks to which the Group is exposed in its activity. The measurement of internal controls and of their effectiveness in mitigating exposure to these risks and the simulation of a series of adverse scenarios with an impact on the Group's solvency.

140. The ICAAP exercise is conducted at a consolidated level and at an individual level, when applicable, with the following main objectives:

- Be a tool to support strategic decision-making;
- Stimulate a culture of risk that fosters the participation of the entire organisation in the management of the internal capital (BD, Business Areas and Internal Control Functions);
- Assure the adequacy of the internal capital in relation to its risk profile and its risk and business strategies;
- Assure an appropriate identification, quantification, control and mitigation of the material risks to which the Group is exposed;
- Assure proper documentation of the demonstrated results, by reinforcing the integration of the risk management processes in the risk culture of the Group and in decision-making processes;
- Foresee a contingency plan to assure the adequacy of the internal capital in the event of a recession or crisis.

141. The results of the ICAAP permit investigating whether the Group's capitalisation is, in a sustainable form, adequate to the risks arising from its activity. This capital adequacy is assessed based on the comparison between the available internal capital and the economic capital requirements, taking into account the risk appetite level established by the BD.

142. In the first phase, this entails identification of the material risks which the Group's activity is subject to, based on an internal risk classification. All the risks identified as material and the risks considered in Basel Pillar I, regardless of being considered material or not, are integrated in the ICAAP.

143. In the second phase, the material risks are modelled with a view to the quantification of the respective economic capital requirements, based on an extremely adverse scenario in line with the defined risk appetite level. The risks are thus incorporated by add-on to the regulatory capital. The capital add-on values therefore include the requirements relative to other risks not considered in Pillar I (regulatory vision) and the difference between the regulatory and economic requirements, considering the risk quantification methodologies used internally.

144. Capital adequacy is assessed based on the comparison between the economic capital requirements and the available internal capital to absorb estimated losses, calculated considering the established risk appetite level.

145. The result of the capital adequacy assessment is supplemented by the values obtained through reverse stress tests and under stress test scenarios. The objective is to assess the capacity to absorb unexpected losses, which involves the identification of potential contingency plans to deal with any insufficiency of internal capital, duly aligned with other capital planning exercises, namely the Funding and Capital Plan and the Recovery Plan.

146. In light of the defined strategic plan and the developed and periodically reviewed Funding and Capital Plan, no significant changes to the materiality of the various types of risks are expected. During 2018, the ICAAP exercise demonstrated that, in light of the forecasts, the Group continues to be adequately capitalised to meet the quantified economic requirements. Additionally, measures are planned by the Funding and Capital Plan that will permit strengthening solvency levels, both through the reinforcement of own funds and by reduction of the risk-weighted assets.

4.4 Prudential reserves of own funds

147. The counter-cyclical reserve (measured as a percentage of the total amount of exposures) was maintained by the Banco de Portugal at 0% during 2018. The decision on this reserve is reviewed quarterly by the Banco de Portugal and published on its Internet site together with the underlying analysis and data.

148. The following table exhibits, in compliance with Article 440 (1)(a) of CRR, the geographical distribution of the relevant credit exposures for the calculation of the counter-cyclical reserve. The counter-cyclical reserve rate of the relevant geographies (geographies whose exposure represents more than 2% of the total risk-weighted positions) is 0%, such that the reserve rate is 0%.

Table 11 | Geographical distribution of the relevant credit exposures for the calculation of the counter-cyclical reserve.

(thousands of euros)

Relevant countries	Value of exposures for the purposes of the Standardised Approach	Sum of the long and short positions in the trading book	Value of the securitised exposures for the purposes of the Standardised Approach	Own Funds Requirements: Of which: general credit exposures	Own Funds Requirements: Of which: exposures in the trading book	Own Funds Requirements: Of which: securitised exposures	Own Funds Requirements: Total	Weighting of capital requirements	Countercyclical capital buffer rate
Portugal	19,459,444	1	1,079	688,482	0	98	688,580	92%	0.00
Angola	421,577	0	0	22,455	0	0	22,455	3%	0.00
Other Countries	1,158,197	0	1,955	36,063	0	52	36,115	5%	
TOTAL	**21,039,218**	**1**	**3,034**	**747,000**	**0**	**149**	**747,150**	**100%**	-

149. Consequently, on 31 December 2018, a counter-cyclical reserve of own funds was not set up.

150. Regarding the reserve of other systemically important institutions (O-SIIs) the Banco de Portugal defined for the Group a reserve of 0.0625% in 2018, of 0.125% in 2019, of 0.1875% in 2020 and of 0.25% in 2021.

4.5 Leverage ratio

151. In the calculation of the leverage ratio the regulatory rules in force established in CRR, updated by the applicable regulations, and the guidelines of the regulatory authorities on the subject, namely Delegated Regulation (EU) 2015/62 and in accordance with the Implementing Regulation (EU) 2016/200, both of the European Commission, are complied with.

152. The leverage ratio is defined as a percentage corresponding to the relation between the capital measure (in the numerator) and the exposure measure (in the denominator). On 31 December 2018, the leverage ratio was 7.77%, a value that significantly exceeds the minimum reference value of 3% indicated by the supervisory authorities. Compared to the previous year, there was an increase of 13 bps mainly due to the decrease in net assets (denominator), following the balance sheet reduction strategy, namely in terms of NPLs and exposure to real estate.

153. The Group chose not to disclose the information related to the leverage ratio based on the definition of the own funds measure provided for in Article 499 (1) (b) of CRR.

Table 12 | Leverage ratio

(thousands of euros)

Capital and total exposure measure	Dec-2018	Sep-2018	Dec-2017
Tier 1 capital	1,456,910	1,499,999	1,572,163
Leverage ratio total exposure measure	18,741,378	19,327,760	20,587,276
Leverage ratio			
Leverage ratio	7.77%	7.76%	7.64%
Choice on transitional arrangements and amount of derecognised fiduciary items			
Choice on transitional arrangements for the definition of the capital measure	Transitional definition		
Amount of derecognised fiduciary items in accordance with Article 429 (11)of Regulation (EU) 575/2013	0	0	0

154. The following table exhibits the breakdown of the denominator of the ratio (total exposure) and the reconciliation of the total exposure measure with the relevant information disclosed in published financial statements.

Table 13 | Breakdown of the total exposure

(thousands of euros)

CRR leverage ratio exposures	Dec-2018	Jun -2018
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including guarantees)	18,321,922	19,219,670
(Asset amounts deducted to determine Tier 1 capital)	-65,129	-83,683
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**18,256,793**	**19,135,987**
Derivative exposures		
Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	29,405	29,572
Add-on amounts for PFE associated with all derivative transactions (mark-to-market approach)	39,988	63,792
Exposure determined under the Original Exposure Method	0	0
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0	0
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0	-3,970
(Exempted CCP leg of client-cleared trade exposures)	0	0
Adjusted effective notional amount of written credit derivatives	0	0
(Adjusted effective notional offsets and add-on deductions for written creditderivatives)	0	0
Total derivative exposures	**69,393**	**89,394**
SFTs exposures		
Gross SFTs assets (with no recognition of netting), after adjusting for sales accounting transactions	849,931	1,247,671
(Netted amounts of cash payables and cash receivables of gross SFTs assets)	-849,931	-1,247,671
Counterparty credit risk exposure for SFTs assets	58,111	87,543
Derogation for SFTs: Counterparty credit risk exposure in accordance withArticles 429-B (4) and 222 of Regulation (EU) 575/2013	0	0
Agent transaction exposures	0	0
(Exempted CCP leg of client-cleared SFTs exposure)	0	0
Total securities financing transaction exposures	**58,111**	**87,543**
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	1,689,327	1,769,357
(Adjustments for conversion to credit equivalent amounts)	-1,332,245	-1,407,476
Other off-balance sheet exposures	**357,082**	**361,882**
Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) 575/2013 (on and off balance sheet)	0	
(Intragroup exposures (solo basis) exempted in accordance withArticle 429 (7) of Regulation (EU) 575/2013 (on and off balance sheet))	0	0
(Exposures exempted in accordance with Article 429 (14) of Regulation(EU) 575/2013 (on and off balance sheet))	0	0
Tier 1 capital	1,456,910	1,525,413
Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19,EU-19a and EU-19b)	18,741,378	19,674,805

Table 14 | Reconciliation of the total exposure with the the accounting financial assets

(thousands of euros)

Summary reconciliation of accounting assets and leverage ratio exposures	Amount
Total assets as per published financial statements	18,351,327
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excludedfrom the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) 575/2013)	0
Adjustments for derivative financial instruments	39,988
Adjustments for securities financing transactions (SFTs)	58,111
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	357,082
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7)of Regulation (EU) 575/2013)	0
(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14)of Regulation (EU) 575/2013)	0
Other adjustments:	-65,129
Total leverage ratio exposure	**18,741,378**

155. The provisions in Article 429 (11) of CRR do not apply to the Group.

156. Based on the gap between the current level of the Leverage Ratio which reached 7.77%, corresponding to more than double the indicative minimum of 3%, no excessive leverage is observed, and which derives from the defined risk appetite, namely with defined limits for exposure to sovereign risk (which benefit from RWs of 0%), as well as to market risk of the proprietary portfolios, including trading and banking books. Additionally, the Group has a rather low risk appetite in terms of trading (trading book), with the main aim of the exposure to derivatives being to hedge the interest rate risk of the banking book and to manage the exchange rate risk.

157. In this way, monitoring, on at least a quarterly basis, within the scope of the risk appetite framework and, on a monthly basis, by CALCO, enables regular monitoring by the management bodies and taking any corrective measures that may be necessary.

5. Indicators of global systemic importance

158. On 31 December 2018, BM was not considered a Global Systemically Important Institution (G-SII) in accordance with Article 131 of Directive 2103/36/EU, which is why the obligations of information disclosure provided for in article 441 of CRR do not apply.

6. Counterparty credit risk

159. One of the most significant risks associated with the activity of derivatives trading and repurchase operations is related to the risk of default by the counterparty before the final settlement of all the financial flows.

160. The exposure to derivative and repo instruments (sales operations with repurchase agreement, purchase operations with resale agreement and the underwriting or assigning of securities borrowing or lending transactions are considered as repos) is followed up with regards to the trading and monitoring of the proprietary positions, in terms of management and within the scope of the risk control activity and definition of the internal limits for the exposure to derivative instruments, as well as with regards to the possibility of combined settlement of operations regulated by the same contract, with the possibility of offsetting receivables and payables.

161. The contracts signed with the various counterparties to classify their repo and derivatives activity are, mostly, standard contracts: ISDA Master Agreement with Credit Support Annex (CSA) and Global Master Repurchase Agreement (GMRA).

162. The exposure to derivatives and repos is monitored on a daily basis, with emphasis on the fact that these instruments fall under the following dedicated contracts: ISDA with CSA and GMRA and, as such, are subject to the establishment or release of collateral according to the market value of the exposure of one of the counterparties in relation to the other.

163. The CSAs govern the conditions of posting of collateral between the counterparties that have contracted derivatives under an ISDA Master Agreement and constitute the most effective credit risk mitigation mechanism in over-the-counter transactions. The CSAs thus permit the implementation for OTC instruments (interest rate swaps, exchange rate swaps, exchange rate forwards, among others) of a mechanism similar to the periodic settlement of gains and losses that the clearing houses ensure for instruments traded in an organised market (such as futures, for example). The CSAs establish the frequency of the evaluations, the thresholds amounts

above which collateral calls may be requested (request for constitution or reinforcement of collateral), the minimum transfer amounts to be respected in the reinforcements or constitutions of collateral, the eligible assets for the posting of collateral (mostly in cash, although sovereign debt securities and debt securities from other issuers with an appropriate credit risk and corresponding applicable haircuts are also accepted).

164. The security repos are considered for the purposes of monitoring of risk, such as loans and advances to another institution, where the security involved is treated as collateral received (or posted).

165. The GMRAs govern the collateral posting conditions between the counterparties that have contracted operations involving the underwriting or assignment of funds, against the posting or receipt of collateral.

166. The value of the current exposure with each counterparty is the substitution value of the operation, estimated daily for the derivative operations and/or repurchase agreements.

167. For all counterparties, the current exposure to derivatives is calculated on a daily basis, based on the market value of the operations in portfolio, in order to control the exposure value allocated to derivatives.

168. Currently, any further downgrading of BM's credit rating would have no impact on the amount of guarantees provided.

169. For prudential purposes, the exposures to derivatives are calculated in accordance with the Mark-to-Market approach described in Article 274 (Part III, Title II, Chapter 6, Section 3) of CRR.

170. The following table exhibits the risk exposures and risk-weighted assets, as well as the approaches used to calculate the credit and counterparty risk exposure (excluding the CVA requirements):

Table 15 | EU CCR1 Analysis of the exposure to CCR by approach

(thousands of euros)

Dec-2018	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWA
Mark to Market		47,901	37,671			45,660	28,676
Original exposure	-				-	-	-
Standardised approach					-	-	-
Internal Model Method - IMM (for derivatives and SFTs)				-	-	-	-
Of which securities financing transactions				-	-	-	-
Of which derivatives and long settlement transactions				-	-	-	-
Of which from contractual cross-product netting				-	-	-	-
Financial collateral simple method (for SFTs)						-	-
Financial collateral comprehensive method (for SFTs)						56,482	11,296
VaR for SFTs						-	-
Total	**-**	**47,901**	**37,671**	**-**	**-**	**102,142**	**39,972**

Jun -2018	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWA
Mark to Market	0	72,134	61,728	0	0	72,134	33,410
Original exposure	-				-	-	-
Standardised approach					-	-	-
Internal Model Method - IMM (for derivatives and SFTs)				-	-	-	-
Of which securities financing transactions				-	-	-	-
Of which derivatives and long settlement transactions				-	-	-	-
Of which from contractual cross-product netting				-	-	-	-
Financial collateral simple method (for SFTs)						-	-
Financial collateral comprehensive method (for SFTs)						84,077	16,815
VaR for SFTs						-	-
Total	**-**	**72,134**	**61,728**	**-**	**-**	**156,210**	**50,225**

171. The capital requirements for CVA risk of the portfolio are determined according to the standardised approach, as set out in Article 384 of CRR, Part III, Title VI of CRR.

172. The following table shows the amount of exposure and the amount of the corresponding risk-weighted positions, at risk of transactions subject to capital requirements for CVA:

Table 16 | EU CCR2 CVA capital requirements

(thousands of euros)

	Dec-2018		Jun -2018	
	Exposure value	RWA	Exposure value	RWA
Total portfolios subject to the advanced method	0	0	0	0
VaR component (including the multiplier 3×)				
SVaR component (including the multiplier 3×)				
Total portfolios subject to the standardised approach	39,531	17,606	11,803	6,129
Based on the original exposure approach	0	0	0	0
Total subject to the CVA capital charg	**39,531**	**17,606**	**11,803**	**6,129**

173. The standardised approach to calculate the CVA requirement considers the exposure determined for the calculation of the risk-weighted positions. The RWA corresponds to the capital requirement value for CVA multiplied by 12.5, according to Article 92 (4b) of CRR.

174. As at 31 December 2018, there were no derivative operations carried out through central counterparties (CCP).

175. The following table exhibits, by risk category and weight, within the context of the exposures subject to CCR, the value of the net exposure of impairment following the application of conversion factors and risk mitigation techniques (EAD) and the RWA.

Table 17 | EU CCR3 Analysis of the RWA exposure to CCR by regulatory portfolio and risk

(thousands of euros)

	Dec-2018	0%	2%	4%	10%	20%	35%	50%	75%	100%	150%	Other	Total EAD	Without Rating
Counterparty risk EAD by asset classes and risk weights	Central Governments or Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
	Regional Governments or Local Authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
	Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-	-
	Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
	International Organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
	Institutions	-	-	-	-	5,616	-	124,706	-	10,691	-	-	141,013	-
	Corporates	-	-	-	-	-	-	-	-	2,139	-	-	2,139	-
	Retail	-	-	-	-	-	-	-	3	-	-	-	3	-
	Positions guaranteed by real estate	-	-	-	-	-	-	-	-	-	-	-	-	-
	Past due items	-	-	-	-	-	-	-	-	-	-	-	-	-
	Exposures associated with Particularly High Risks	-	-	-	-	-	-	-	-	-	-	-	-	-
	Covered Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
	Institutions and Corporates with a Short-Term Credit Assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
	Positions on Collective Investment Undertakings (CIUs):	-	-	-	-	-	-	-	-	-	-	-	-	-
	Shares	-	-	-	-	-	-	-	-	-	-	-	-	-
	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
	Securitisations	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL original exposures:		**-**	**-**	**-**	**-**	**5,616**	**-**	**124,706**	**3**	**12,830**	**-**	**-**	**143,155**	**-**
Counterparty risk RWA by asset classes and risk weights	Central Governments or Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
	Regional Governments or Local Authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
	Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-	-
	Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
	International Organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
	Institutions	-	-	-	-	1,123	-	62,353	-	10,691	-	-	74,167	-
	Corporates	-	-	-	-	-	-	-	-	2,139	-	-	2,139	-
	Retail	-	-	-	-	-	-	-	2	-	-	-	2	-
	Positions guaranteed by real estate	-	-	-	-	-	-	-	-	-	-	-	-	-
	Past due items	-	-	-	-	-	-	-	-	-	-	-	-	-
	Exposures associated with Particularly High Risks	-	-	-	-	-	-	-	-	-	-	-	-	-
	Covered Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
	Institutions and Corporates with a Short-Term Credit Assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
	Positions on Collective Investment Undertakings (CIUs):	-	-	-	-	-	-	-	-	-	-	-	-	-
	Shares	-	-	-	-	-	-	-	-	-	-	-	-	-
	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
	Securitisations	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL exposures:		**-**	**-**	**-**	**-**	**1,123**	**-**	**62,353**	**2**	**12,830**	**-**	**-**	**76,308**	**-**

176. As at 31 December 2018, there were no credit risk coverage operations through the use of credit derivatives, and thus the procedure described in Article 439(g) and (i) of CRR was not applied.

177. The following tables present the impact of the netting agreements and collateral received on the calculation of the final exposure value subject to weighting, as well as the details on the composition of the collateral given and received.

Table 18 | EU CCR5-A Impact of netting and collateral held on the exposure values

(thousands of euros)

Dec-2018	Fair value of exposure	Netting effect	Exposure after netting	Value of collateral	Net exposure
Derivatives	47,901	0	47,901	-2,241	45,660
SFTs	58,111	0	58,111	-1,629	56,482
Cross-product nettin(	0	0	0	0	0
Total	**106,012**	**0**	**106,012**	**-3,870**	**102,142**

Jun-2018	Fair value of exposure	Netting effect	Exposure after netting	Value of collateral	Net exposure
Derivatives	72,134	0	72,134	0	72,134
SFTs	87,543	0	87,543	-3,466	84,077
Cross-product nettin(	0	0	0	0	0
Total	**159,676**	**0**	**159,676**	**-3,466**	**156,210**

Table 19 | EU CCR5-B Composition of collateral for exposures to CCR

(thousands of euros)

Dec-2018	Collateral used in derivative transactions		Collateral used in SFTs	
	Fair value of collateral received	Fair value of posted collateral	Fair value of collateral received	Fair value of posted collateral
Cash	2,241	27,179	17,499	2,190
National sovereign debt	-	-	-	45,298
Other sovereign debt	-	-	-	-
Other Bonds	-	-	-	801,026
Other Collateral	-	-	-	-
Total	**2,241**	**27,179**	**17,499**	**848,514**

Under Article 5 of Instruction 5/2018 of the Banco de Portugal, we inform that the table identical to the previous table which includes information relative to the previous period is not disclosed.

7. Credit risk

7.1 Accounting policies

178. The main accounting policies used in the financial statements can be consulted in the notes to the consolidated financial statements, namely note 1 which is included in the Annual Report on pages 145 (Impairment section) and 146 (Definition of default section). [2]

179. It is important to note that the past due items presented in this document are based on the requirements relative to the definition of default used to calculate capital requirements, which takes into consideration Article 178 of CRR and which are described in note 1 of the

[2] www.bancomontepio.pt/resources/SiteMontepio/documentos/institucional/informacao-financeira/relatorio-contas-anual-banco-montepio-2018.pdf

consolidated financial statements, point c) Loans to Customers, in the 'Definition of Default' (page 146) section.

180. Regarding the definition of impaired credit, it is included in note 1 to the consolidated financial statements, point c) Loans to Customers, in the 'Impairment' section (page 145).

7.2 Portfolio structure

181. As at 31 December 2018, the net exposure value was 19,685 million euros and was broken down by the risk categories defined in Article 112 of CRR as exhibited in the table below.

182. In the distribution of exposures, relative to credit risk, by risk category, a greater concentration in the exposure classes of Positions with Collateral of Real Estate Property, Governments and Central Banks, Companies and Retail is observed, which correspond to about 80% of the net positions.

Table 20 | EU CRB-B Total amount and average amount of net exposures

(thousands of euros)

Exposure classes	Net exposure		Net exposure (average throughout the period)	
	Dec-2018	Dec-2017	Dec-2018	Dec-2017
Central Governments or Central Banks	3,076,238	3,397,981	3,049,413	2,894,667
Regional Governments or Local Authorities	16,827	37,066	27,302	34,152
Public Sector Entities	70,000	70,725	70,530	17,681
Multilateral Development Banks	0	0	0	0
International Organisations	0	0	0	0
Institutions	629,740	663,407	680,159	770,542
Corporates	2,483,136	2,655,257	2,632,522	2,716,184
Retail	2,574,435	2,643,516	2,580,623	2,756,171
Positions guaranteed by real estate	7,433,433	7,900,486	7,548,342	7,779,175
Past due items	1,112,428	1,486,434	1,281,135	1,713,602
Exposures associated with Particularly High Risks	161,786	161,010	161,622	164,882
Covered bonds	0	4,582	1,274	6,322
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0
Positions on Collective Investment Undertakings	298,663	220,797	302,914	218,792
Shares	136,842	159,380	153,435	165,322
Other items	1,689,019	1,893,377	1,651,450	1,939,662
Securitisations	3,034	4,182	3,522	4,438
TOTAL	**19,685,581**	**21,298,200**	**20,144,242**	**21,181,590**

183. Relative to the previous period, it is important to mention that the net exposure registered a decrease of 1,613 million euros (-7.57%), mainly in the exposure classes of Positions with Collateral of Real Estate Property, Past Due Items and Governments and Central Banks.

184. The following table shows the geographical distribution of the credit portfolio, according to the Territorial Units for Statistic Purposes of Level II (NUTS II) of the exposures by risk category.

Table 21 | EU CRB-C Geographical distribution of exposures

(thousands of euros)

Dec-2018	Geographic distribution of exposures (as a % of the original exposure)								
	Portugal								
Exposure classes	Alentejo	Algarve	Centre	Lisbon	North	A.R. of Madeira	A.R. of the Azores	Angola	TOTAL
Central Governments or Central Banks	0	0	0	2,892,961	0	26,673	0	156,604	2,919,634
Regional Governments or Local Authorities	16	190	93	14,371	885	4	1,269	0	16,827
Public Sector Entities	0	0	0	70,000	0	0	0	0	70,000
Multilateral Development Banks	0	0	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	0	0	0
Institutions	166	2,330	13,391	572,385	41,072	300	96	0	629,740
Corporates	39,297	92,168	224,814	1,496,375	476,162	21,572	34,356	98,393	2,384,744
Retail	106,546	119,690	602,012	628,051	1,031,170	32,853	47,569	6,546	2,567,890
Positions guaranteed by real estate	347,108	483,716	1,083,579	3,111,648	1,920,856	201,865	284,660	0	7,433,433
Past due items	42,451	30,360	156,083	575,758	276,776	15,309	10,279	5,413	1,107,015
Exposures associated with Particularly High Risks	0	0	0	161,786	0	0	0	0	161,786
Covered Bonds	0	0	0	0	0	0	0	0	0
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0	0	0
Positions on Collective Investment Undertakings (CIUs):	0	0	0	298,663	0	0	0	0	298,663
Shares	0	0	0	136,842	0	0	0	0	136,842
Other items	293	510	1,177	1,630,019	52,784	157	28	4,051	1,684,968
Securitisations	0	0	0	3,034	0	0	0	0	3,034
Total	**535,876**	**728,963**	**2,081,148**	**11,591,892**	**3,799,705**	**298,733**	**378,256**	**271,007**	**19,685,581**

Dec-2017	Geographic distribution of exposures (as a % of the original exposure)									
	Portugal									
Exposure classes	Alentejo	Algarve	Centre	Lisbon	North	A.R. of Madeira	A.R. of the Azores	Angola	Mozambique	TOTAL
Central Governments or Central Banks	0	0	0	3,142,048	0	27,057	0	219,111	9,765	3,397,981
Regional Governments or Local Authorities	13,859	246	18	16,714	4,475	6	1,747	0	0	37,066
Public Sector Entities	0	0	0	70,048	677	0	0	0	0	70,725
Multilateral Development Banks	0	0	0	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	0	0	0	0
Institutions	166	2,330	14,987	636,154	7,287	300	96	0	2,087	663,407
Corporates	30,049	59,502	264,032	1,535,040	525,785	10,038	60,840	157,898	12,074	2,655,257
Retail	111,132	115,378	609,762	636,222	1,071,896	32,675	50,805	13,470	2,175	2,643,516
Positions guaranteed by real estate	357,412	557,568	1,132,046	3,317,352	2,005,042	224,072	290,287	0	16,707	7,900,486
Past due items	57,502	50,441	211,382	718,372	393,496	22,885	16,175	14,462	1,720	1,486,434
Exposures associated with Particularly High Risks	0	0	0	161,010	0	0	0	0	0	161,010
Covered Bonds	0	0	0	4,582	0	0	0	0	0	4,582
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0	0	0	0
Positions on Collective Investment Undertakings (CIUs):	0	0	0	220,797	0	0	0	0	0	220,797
Shares	0	0	0	159,380	0	0	0	0	0	159,380
Other items	55	96	428	1,869,199	1,042	0	0	21,523	1,034	1,893,377
Securitisations	0	0	0	4,182	0	0	0	0	0	4,182
Total	**570,175**	**785,562**	**2,232,655**	**12,491,099**	**4,009,702**	**317,033**	**419,949**	**426,463**	**45,562**	**21,298,200**

185. It is important to mention, in relation to the previous year, that in Portugal there were no significant changes in the concentration of exposures, which means that the areas with the highest population density (Lisbon, North and Centre) continue to concentrate the majority of exposures (about 88%). The Group has, nonetheless, a commercial presence in most of the regions of the country.

186. Regarding the exposures of the subsidiaries of BM in African countries, there was a significant decrease, as a result of the sale of the subsidiary Banco Terra in Mozambique, as well as a reduction of the exposure in Angola, largely due to the devaluation of the Kwanza relative to the Euro, such that the conversion of the subsidiary's balance sheet to the reporting currency of the parent company was reflected in the decrease of the respective contribution.

187. The following table presents, in accordance with Article 442 (e) of CRR, the distribution of the net value of exposures by industry or counterparty type, in December 2018.

188.

Table 22 | EU CRB-D Concentration of exposures by industry or counterparty type

(thousands of euros)

Dec-2018		Secondary Sector		Tertiary Sector							
Exposure classes	Primary Sector	Construction	Other	Real Estate Activities	Wholesale and retail trading	Financial and Insurance businesses	Lodging, restaurant and similar activities	Transport and Storage	Public Sector (1)	Professional, scientific and technical activities	Other
Central Governments or Central Banks	0	0	0	0	0	0	0	0	26 673	0	0
Regional Governments or Local Authorities	0	0	0	0	0	0	0	0	14 857	0	0
Public Sector Entities	0	0	0	0	0	70 000	0	0	0	0	0
Institutions	0	0	0	0	0	159 907	0	0	0	0	0
Corporates	29 796	184 953	584 493	234 145	235 882	312 154	142 374	134 659	42 917	198 861	277 191
Retail	43 083	141 058	415 034	44 608	542 514	9 723	70 155	85 470	69 378	76 316	148 826
Positions guaranteed by real estate	21 312	136 376	120 014	365 938	153 114	39 199	212 337	88 315	105 592	44 149	90 034
Past due items	12 150	290 394	83 604	154 281	110 667	103 872	28 331	26 692	11 097	29 669	39 538
Total	**106 341**	**752 781**	**1 203 145**	**798 971**	**1 042 177**	**694 854**	**453 197**	**335 137**	**270 514**	**348 995**	**555 590**
Of which SMEs	*97 062*	*577 344*	*827 102*	*764 231*	*886 227*	*380 006*	*414 989*	*200 194*	*204 663*	*186 182*	*367 718*

(1) Public Administration and Defence; Compulsory Social Security; Human health and social support activities

Dec-2017		Secondary Sector		Tertiary Sector							
Exposure classes	Primary Sector	Construction	Other	Real Estate Activities	Wholesale and retail trading	Financial and Insurance businesses	Lodging, restaurant and similar activities	Transport and Storage	Public Sector (1)	Professional, scientific and technical activities	Other
Central Governments or Central Banks	0	0	0	0	0	0	0	0	27 057	0	13 796
Regional Governments or Local Authorities	0	0	0	0	0	0	0	0	37 066	0	0
Public Sector Entities	0	0	0	0	0	70 000	0	0	725	0	0
Institutions	0	0	0	0	0	127 648	0	0	0	0	0
Corporates	35 940	153 623	661 886	231 278	247 412	350 995	79 235	173 140	36 970	262 643	326 557
Retail	47 861	143 734	430 638	44 103	564 193	12 113	67 109	94 441	75 979	71 632	145 435
Positions guaranteed by real estate	14 225	165 768	107 702	379 195	151 108	31 193	303 566	87 418	107 665	35 142	83 427
Past due items	16 248	382 682	109 052	178 489	124 839	109 763	38 032	37 071	20 545	28 861	59 991
Total	**114 275**	**845 806**	**1 309 277**	**833 065**	**1 087 552**	**701 713**	**487 941**	**392 069**	**306 007**	**398 278**	**629 205**

189. Within the scope of the defined risk appetite, the Group has been reducing the exposure to the construction and real estate industry. In terms of different sectors, the exposure to the commerce (wholesale and retail) industry remains the most relevant, as in the previous period, exceeding one billion euros. This table does not include non-classified exposures by industry, such as for example mortgage loans for individuals.

190. In conformity with article 442 (f) of CRR, the table below breaks down the net positions by residual maturity and risk category. It is currently observed that approximately 36% of assets are long-term (remaining maturity of more than 10 years).

191. These assets, as in the previous year, in their majority, are classified under “Positions with Collateral of Real Estate Property” and consist of mortgage loans for individuals and credit for corporate investment. The part of the portfolio without a defined payment plan, corresponding approximately to 9% of the total original exposure, essentially consists of current accounts to support companies' cash flow (revolving credit).

192. The second most significant risk category with respect to exposure is the Central Governments and Central Banks category, where the positions are fully distributed by the residual maturities up to 10 years.

Table 23 | EU CRB-E Residual maturity of the exposure

(thousands of euros)

Dec-2018	Residual maturity					TOTAL
Exposure classes	RM < 1	1 year < RM < 5 years	5 years < RM < 10 years	RM > 10 years	Revolving	
Central Governments or Central Banks	1,591,878	613,287	871,073	0	0	3,076,238
Regional Governments or Local Authorities	48	13,103	2,416	1,258	1	16,827
Public Sector Entities	0	0	0	70,000	0	70,000
Multilateral Development Banks	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0
Institutions	426,214	69,405	11,181	96,559	26,382	629,740
Corporates	555,354	456,334	622,501	405,359	443,588	2,483,136
Retail	221,268	478,104	677,591	267,626	929,847	2,574,435
Positions guaranteed by real estate	54,293	258,518	1,020,071	5,879,872	220,678	7,433,433
Past due items	329,983	84,915	199,983	293,442	204,106	1,112,428
Exposures associated with Particularly High Risks	161,786	0	0	0	0	161,786
Covered Bonds	0	0	0	0	0	0
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0
Positions on Collective Investment Undertakings	298,663	0	0	0	0	298,663
Shares	136,842	0	0	0	0	136,842
Other items	1,655,567	28,380	2,664	2,408	0	1,689,019
Securitisations	0	0	0	3,034	0	3,034
Total	**5,431,897**	**2,002,046**	**3,407,479**	**7,019,557**	**1,824,602**	**19,685,581**

Dec-2017	Residual maturity					TOTAL
Exposure classes	RM < 1	1 year < RM < 5 years	5 years < RM < 10 years	RM > 10 years	Revolving	
Central Governments or Central Banks	1,970,955	482,052	915,670	25,288	4,016	3,397,981
Regional Governments or Local Authorities	279	16,415	1,244	19,120	9	37,066
Public Sector Entities	48	0	0	70,677	0	70,725
Multilateral Development Banks	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0
Institutions	540,694	7,800	10,843	85,378	18,693	663,407
Corporates	618,775	493,557	706,280	348,486	488,160	2,655,257
Retail	223,182	515,839	654,258	281,542	968,695	2,643,516
Positions guaranteed by real estate	70,268	201,477	970,068	6,423,324	235,349	7,900,486
Past due items	344,767	166,673	248,986	476,800	249,208	1,486,434
Exposures associated with Particularly High Risks	161,010	0	0	0	0	161,010
Covered Bonds	0	0	4,582	0	0	4,582
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0
Positions on Collective Investment Undertakings	220,797	0	0	0	0	220,797
Shares	159,380	0	0	0	0	159,380
Other items	1,862,069	29,016	2,188	104	0	1,893,377
Securitisations	0	0	0	4,182	0	4,182
Total	**6,172,224**	**1,912,828**	**3,514,118**	**7,734,900**	**1,964,130**	**21,298,200**

193. In December 2018, the distribution of the portfolio among the various categories and risk weights is shown in detail in the table below in terms of credit and counterparty risk.

Table 24 | Credit and counterparty risk capital requirements

(thousands of euros)

Dec-2018		Risk weights 0%	10%	20%	35%	50%	75%	100%	150%	Other	Total
1. Original exposure by exposure class	Central Governments or Central Banks	2,938,140	0	0	0	0	0	157,013	0	0	3,095,153
	Regional Governments or Local Authorities	0	0	16,913	0	0	0	0	0	0	16,913
	Public Sector Entities	0	0	0	0	0	0	70,000	0	0	70,000
	Institutions	123,954	0	300,688	0	132,001	0	73,070	42	100	629,855
	Corporates	0	0	0	0	2,907	0	2,527,749	0	0	2,530,657
	Retail	0	0	0	0	0	2,596,456	0	0	0	2,596,456
	Positions guaranteed by real estate	0	0	0	5,993,581	920,526	252,385	302,373	0	0	7,468,865
	Past due items	0	0	0	0	0	0	1,648,829	344,718	0	1,993,547
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	161,786	0	161,786
	Covered Bonds	0	0	0	0	0	0	0	0	0	0
	Positions on Collective Investment Undertakings (CIU):	0	0	0	0	0	0	298,663	0	0	298,663
	Shares	0	0	0	0	0	0	136,842	0	0	136,842
	Other items	198,794	0	90,876	0	0	0	1,750,811	0	0	2,040,482
	Securitisation positions under the Standardised Approach	0	0	1,094	0	1,713	0	0	0	227	3,034
	TOTAL original exposures:	**3,260,888**	**0**	**409,571**	**5,993,581**	**1,057,148**	**2848840.5**	**6,965,351**	**506,546**	**327**	**21,042,252**
2. Exposure by exposure class (reserve base of risk weights):	Central Governments or Central Banks	2,919,225	0	0	0	0	0	157,013	0	0	3,076,238
	Regional Governments or Local Authorities	0	0	16,197	0	0	0	0	0	0	16,197
	Public Sector Entities	0	0	0	0	0	0	70,000	0	0	70,000
	Institutions	113,882	0	293,372	0	132,001	0	72,741	42	100	612,137
	Corporates	0	0	0	0	2,907	0	2,006,556	0	0	2,009,464
	Retail	0	0	0	0	0	1,782,294	0	0	0	1,782,294
	Positions guaranteed by real estate	0	0	0	5,972,790	904,863	133,072	180,590	0	0	7,191,316
	Past due items	0	0	0	0	0	0	706,700	254,625	0	961,324
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	161,786	0	161,786
	Covered Bonds	0	0	0	0	0	0	0	0	0	0
	Positions on Collective Investment Undertakings (CIUs):	0	0	0	0	0	0	298,663	0	0	298,663
	Shares	0	0	0	0	0	0	136,842	0	0	136,842
	Other items	198,794	0	75,966	0	0	0	1,414,259	0	0	1,689,019
	Securitisation positions under the Standardised Approach	0	0	1,094	0	1,713	0	0	0	227	3,034
	TOTAL exposures:	**3,231,901**	**0**	**386,629**	**5,972,790**	**1,041,485**	**1915366.2**	**5,043,364**	**416,452**	**327**	**18,008,314**
3. TOTAL risk weighted exposures (=S (2."x" risk weights))		**0**	**0**	**77,326**	**2,090,477**	**520,742**	**1,436,525**	**5,043,364**	**624,678**	**0**	**9,793,111**
Capital requirements by exposure class (2. "x" risk weights "x" 8%)	Central Governments or Central Banks	0	0	0	0	0	0	12,561	0	0	12,561
	Regional Governments or Local Authorities	0	0	259	0	0	0	0	0	0	259
	Public Sector Entities	0	0	0	0	0	0	5,600	0	0	5,600
	Institutions	0	0	4,694	0	5,280	0	5,819	5	0	15,798
	Corporates	0	0	0	0	116	0	153,531	0	0	153,648
	Retail	0	0	0	0	0	84,366	0	0	0	84,366
	Positions guaranteed by real estate	0	0	0	163,991	33,504	7,394	14,178	0	0	219,066
	Past due items	0	0	0	0	0	0	56,536	30,555	0	87,091
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	19,414	0	19,414
	Covered Bonds	0	0	0	0	0	0	0	0	0	0
	Positions on Collective Investment Undertakings (CIU):	0	0	0	0	0	0	23,893	0	0	23,893
	Shares	0	0	0	0	0	0	10,947	0	0	10,947
	Other items	0	0	1,215	0	0	0	113,141	0	0	114,356
	Securitisation positions under the Standardised Approach	0	0	18	0	69	0	0	0	63	149
	TOTAL capital requirements:	**0**	**0**	**6,186**	**163,991**	**38,969**	**91,760**	**396,207**	**49,974**	**64**	**747,150**

Banco Montepio

(thousands of euros)

	Jun-2018	Risk weights								Other	Total
		0%	10%	20%	35%	50%	75%	100%	150%		
1. Original exposure by exposure class	Central Governments or Central Banks	2,962,653	0	0	0	0	0	179,725	0	0	3,142,378
	Regional Governments or Local Authorities	0	0	37,571	0	0	0	0	0	0	37,571
	Public Sector Entities	0	0	0	0	0	0	70,705	0	0	70,705
	Multilateral Development Banks	0	0	0	0	0	0	0	0	0	0
	International Organisations	0	0	0	0	0	0	0	0	0	0
	Institutions	109,822	0	472,127	0	34,073	0	43,725	42	336	660,123
	Corporates	0	0	0	0	3,137	0	2,751,915	0	0	2,755,052
	Retail	0	0	0	0	0	2,594,612	0	0	0	2,594,612
	Positions guaranteed by real estate	0	0	0	6,134,927	906,756	247,062	297,035	0	0	7,585,780
	Past due items	0	0	0	0	0	0	983,714	331,401	0	1,315,115
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	161,961	0	161,961
	Covered Bonds	0	0	2,031	0	0	0	0	0	0	2,031
	Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0	0	0	0
	Positions on Collective Investment Undertakings (CIU):	0	0	0	0	0	0	304,806	0	0	304,806
	Shares	0	0	0	0	0	0	158,381	0	0	158,381
	Other items	164,145	0	79,696	0	0	0	1,424,647	0	0	1,668,489
	Securitisation positions under the Standardised Approach	0	0	1,159	0	2,460	0	0	0	246	3,866
	TOTAL original exposures:	**3,236,620**	**0**	**592,584**	**6,134,927**	**946,426**	**2,841,674**	**6,214,654**	**493,404**	**582**	**20,460,872**
2. Exposure by exposure class (reserve base of risk weights):	Central Governments or Central Banks	2,957,553	0	0	0	0	0	179,725	0	0	3,137,278
	Regional Governments or Local Authorities	0	0	35,829	0	0	0	0	0	0	35,829
	Public Sector Entities	0	0	0	0	0	0	70,705	0	0	70,705
	Multilateral Development Banks	0	0	0	0	0	0	0	0	0	0
	International Organisations	0	0	0	0	0	0	0	0	0	0
	Institutions	99,748	0	462,977	0	34,073	0	43,463	42	336	640,638
	Corporates	0	0	0	0	3,137	0	2,194,976	0	0	2,198,113
	Retail	0	0	0	0	0	1,798,872	0	0	0	1,798,872
	Positions guaranteed by real estate	0	0	0	6,133,399	902,005	130,304	187,514	0	0	7,353,223
	Past due items	0	0	0	0	0	0	901,224	259,716	0	1,160,940
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	161,961	0	161,961
	Covered Bonds	0	0	2,031	0	0	0	0	0	0	2,031
	Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0	0	0	0
	Positions on Collective Investment Undertakings (CIU):	0	0	0	0	0	0	304,806	0	0	304,806
	Shares	0	0	0	0	0	0	158,381	0	0	158,381
	Other items	164,145	0	79,696	0	0	0	1,424,647	0	0	1,668,489
	Securitisation positions under the Standardised Approach	0	0	1,159	0	2,460	0	0	0	246	3,866
	TOTAL exposures:	**3,221,447**	**0**	**581,692**	**6,133,399**	**941,675**	**1,929,177**	**5,465,443**	**421,719**	**582**	**18,695,133**
3. TOTAL risk weighted exposures (=S (2."x" risk weights))		**0**	**0**	**116,338**	**2,146,690**	**470,837**	**1,446,882**	**5,465,443**	**632,579**	**0**	**10,278,770**
Capital requirements by exposure class (2. "x" risk weights "x" 8%)	Central Governments or Central Banks	0	0	0	0	0	0	14,378	0	0	14,378
	Regional Governments or Local Authorities	0	0	573	0	0	0	0	0	0	573
	Public Sector Entities	0	0	0	0	0	0	5,656	0	0	5,656
	Multilateral Development Banks	0	0	0	0	0	0	0	0	0	0
	International Organisations	0	0	0	0	0	0	0	0	0	0
	Institutions	0	0	7,408	0	1,363	0	3,477	5	1	12,253
	Corporates	0	0	0	0	125	0	168,751	0	0	168,876
	Retail	0	0	0	0	0	89,755	0	0	0	89,755
	Positions guaranteed by real estate	0	0	0	168,244	33,437	7,401	14,865	0	0	223,947
	Past due items	0	0	0	0	0	0	72,098	31,166	0	103,264
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	19,435	0	19,435
	Covered Bonds	0	0	32	0	0	0	0	0	0	32
	Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0	0	0	0
	Positions on Collective Investment Undertakings (CIU):	0	0	0	0	0	0	24,385	0	0	24,385
	Shares	0	0	0	0	0	0	12,670	0	0	12,670
	Other items	0	0	1,275	0	0	0	113,972	0	0	115,247
	Securitisation positions under the Standardised Approach	0	0	19	0	98	0	0	0	69	186
	TOTAL capital requirements:	**0**	**0**	**9,307**	**168,244**	**35,024**	**97,156**	**430,252**	**50,606**	**70**	**790,659**

194. In conformity with Article 442 (g) and (h), institutions must publish information relative to exposures by risk category (broken down into default and non-default exposures), industry of activity, geographical area and credit risk adjustments in 2018.

Table 25 | EU CR1-A Credit quality of exposures by risk category

(thousands of euros)

Dec-2018	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
Exposure classes	Defaulted exposures	Non-defaulted exposures					
Central Governments or Central Banks	0	3,095,153	18,915	0	0	-643	3,076,238
Regional Governments or Local Authorities	0	16,913	86	0	0	13	16,827
Public Sector Entities	0	70,000	0	0	0	-9	70,000
Multilateral Development Banks	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	0
Institutions	0	629,855	115	0	0	105	629,740
Corporates	0	2,530,657	47,520	0	0	25,264	2,483,136
of which: SMEs	*0*	*1,426,860*	*36,187*	*0*	*0*	*22,804*	*1,390,674*
Retail	0	2,596,441	22,020	0	0	1,960	2,574,421
of which: SMEs	*0*	*1,820,265*	*17,291*	*0*	*0*	*1,067*	*1,802,974*
Positions guaranteed by real estate	0	7,468,865	35,433	0	0	19,449	7,433,433
of which: SMEs	*0*	*1,727,197*	*15,125*	*0*	*0*	*5,448*	*1,712,071*
Past due items	1,993,547	0	881,119	0	0	-132,846	1,112,428
Exposures associated with Particularly High Risks	0	161,786	0	0	0	0	161,786
Covered Bonds	0	0	0	0	0	0	0
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0
Positions on Collective Investment Undertakings (CIU):	0	298,663	0	0	0	0	298,663
Shares	0	136,842	0	0	0	0	136,842
Other items	0	2,040,454	351,463	0	0	-19,838	1,688,991
Securitisations	0	3,034	0	0	0	0	3,034
TOTAL	**1,993,547**	**19,048,662**	**1,356,670**	**0**	**0**	**-106,545**	**19,685,539**
of which: Loans	*2,358,813*	*12,645,622*	*1,036,385*	*0*	*0*	*-140,235*	*13,968,050*
of which: Debt securities	*0*	*1,660,823*	*0*	*0*	*0*	*0*	*1,660,823*
of which: Off-balance sheet exposur	*116,696*	*382,771*	*13,338*	*0*	*0*	*1,496*	*486,129*

Jun-2018	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
Exposure classes	Defaulted exposures	Non-defaulted exposures					
Central Governments or Central Banks	0	3,158,894	16,516	0	0	-3,042	3,142,378
Regional Governments or Local Authorities	0	37,755	183	0	0	110	37,571
Public Sector Entities	0	70,705	0	0	0	-9	70,705
Multilateral Development Banks	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	0
Institutions	0	660,193	70	0	0	59	660,123
Corporates	0	2,794,415	39,363	0	0	17,107	2,755,052
of which: SMEs	*0*	*1,639,900*	*29,320*	*0*	*0*	*15,937*	*1,610,581*
Retail	0	2,634,917	40,305	0	0	20,245	2,594,612
of which: SMEs	*0*	*1,863,834*	*26,516*	*0*	*0*	*10,292*	*1,837,318*
Positions guaranteed by real estate	0	7,666,358	80,578	0	0	64,594	7,585,780
of which: SMEs	*0*	*1,741,546*	*23,877*	*0*	*0*	*14,200*	*1,717,669*
Past due items	2,290,357	0	975,241	0	0	-38,724	1,315,115
Exposures associated with Particularly High Risks	0	161,961	0	0	0	0	161,961
Covered Bonds	0	2,031	0	0	0	0	2,031
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0
Positions on Collective Investment Undertakings (CIU):	0	304,806	0	0	0	0	304,806
Shares	0	158,381	0	0	0	0	158,381
Other items	0	2,045,783	377,294	0	0	5,994	1,668,489
Securitisations	0	3,866	0	0	0	0	3,866
TOTAL	**2,290,357**	**19,700,066**	**1,529,550**	**0**	**0**	**66,335**	**20,460,872**
of which: Loans	*2,201,933*	*12,966,326*	*1,121,573*	*0*	*0*	*62,058*	*14,046,686*
of which: Debt securities	*0*	*0*	*0*	*0*	*0*	*0*	*0*
of which: Off-balance sheet exposur	*88,424*	*363,644*	*14,687*	*0*	*0*	*1,579*	*437,381*

195. The following table presents the breakdown of exposures by relevant geographical area:

Table 26 | EU CR1-C Credit quality of exposures by geographical area:

(thousands of euros)

Dec-2018 Exposure classes	Gross carrying values of Defaulted exposures	Gross carrying values of Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
Portugal	1,935,752	17,524,728	1,325,375	0	0	-72,377	18,135,105
Spain	199	246,821	182	0	0	154	246,838
Italy	3	229,808	0	0	0	0	229,810
Angola	46,562	375,015	26,518	0	0	-33,178	395,059
Other	11,032	672,290	4,595	0	0	-1,144	678,728
TOTAL	**1,993,547**	**19,048,662**	**1,356,671**	**0**	**0**	**-106,545**	**19,685,539**

Jun-2018 Exposure classes	Gross carrying values of Defaulted exposures	Gross carrying values of Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-	Credit risk adjustment charges of	Net values
Portugal	2,223,507	18,147,419	1,494,094	0	0	96,342	18,876,832
Spain	298	249,457	244	0	0	216	249,512
Italy	0	446,401	0	0	0	0	446,400
Angola	50,252	340,677	27,023	0	0	-32,673	363,905
Other	16,300	516,112	8,189	0	0	2,450	524,223
TOTAL	**2,290,357**	**19,700,066**	**1,529,550**	**0**	**0**	**66,335**	**20,460,872**

196. The following table presents the breakdown of exposures by industry (only applies to the corporate segment):

Table 27 | EU CR1-B Credit quality of exposures by industry

(thousands of euros)

Dec-2018 Sectors	Gross carrying values of Defaulted exposures	Gross carrying values of Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
Agriculture,forestry andfishing	14,413	79,040	3,555	0	0	-1,019	89,898
Mining and quarrying	729	16,402	561	0	0	-1,301	16,570
Manufacturing	140,841	996,766	73,549	0	0	-6,024	1,064,058
Electricity, gas,steam and airconditioningsupply	1,757	53,837	938	0	0	360	54,656
Collection, purification and distribution of water	3,893	84,390	1,665	0	0	-369	86,618
Construction	547,799	477,424	271,396	0	0	-31,180	753,827
Wholesale and retail trading; repair of motor vehicles and motorcycles	193,266	944,180	92,670	0	0	-21,815	1,044,776
Transport and storage	61,168	366,135	37,432	0	0	-27,476	*389,871*
Hotels, restaurants and similar activities	38,158	429,070	13,804	0	0	-2,604	453,424
Information and communication activities	14,437	95,083	6,430	0	0	-383	*103,089*
Financial and insurance activities	134,859	612,410	50,505	0	0	-25,347	696,764
Real estate activities	267,843	651,081	117,497	0	0	-2,825	*801,427*
Professional, scientific and technical activities	42,664	322,640	15,226	0	0	-8,532	350,078
Administrative and support service activities	14,047	117,963	8,794	0	0	-1,842	123,217
Public Administration and Defence; Compulsory Social Security	0	44,153	91	0	0	-15	44,062
Education	6,880	61,828	3,189	0	0	-361	65,520
Human health and social work activities	14,954	216,856	4,963	0	0	-3,981	226,848
Arts, entertainment, sports and recreation activities	25,015	80,899	17,934	0	0	3,350	87,980
Other service activities	10,189	70,339	4,020	0	0	-458	76,508
Activities of international organisations and other extra-territorial institutions	0	6	0	0	0	0	6
Other activities	19,314	19,314	19,314	0	0	19,314	19,314
TOTAL	**1,552,229**	**5,739,816**	**743,534**	**0**	**0**	**-112,510**	**6,548,512**

Jun-2018	Gross carrying values of						
Sectors	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
Agriculture,forestry andfishing	16,149	85,293	4,753	0	0	179	96,688
Mining	6,372	13,494	2,012	0	0	150	17,854
Manufacturing	162,422	1,043,886	90,708	0	0	11,134	1,115,600
Electricity, gas,steam and airconditioningsupply	1,678	80,453	585	0	0	8	81,546
(Collection, purification and distribution of water)	4,671	78,786	2,274	0	0	240	81,183
Construction	615,148	493,650	292,460	0	0	-10,117	816,338
Wholesale and retail trading; repair of motor vehicles and motorcycles	231,470	990,449	123,795	0	0	9,310	1,098,124
Transport and storage	66,746	379,629	36,555	0	0	-28,353	*409,819*
Hotels, restaurants and similar activities	50,573	439,982	19,628	0	0	3,220	470,926
Information and communication activities	18,347	86,170	6,977	0	0	163	*97,540*
Financial and insurance activities	125,975	646,565	40,951	0	0	-34,900	731,589
Real estate activities	297,231	687,678	126,438	0	0	6,116	*858,471*
Professional, scientific and technical activities	46,309	366,418	20,572	0	0	-3,187	392,156
Administrative and support service activities	17,299	118,930	10,778	0	0	142	125,450
Public Administration and Defence; Compulsory Social Security	4	65,666	239	0	0	133	65,431
Education	8,847	65,723	4,181	0	0	632	70,389
Human health and social work activities	16,532	209,915	6,696	0	0	-2,248	219,751
Arts, entertainment, sports and recreation activities	23,775	66,285	16,854	0	0	2,269	73,206
Other service activities	10,974	74,776	5,111	0	0	633	80,639
Activities of international organisations and other extra-territorial institutions	0	10	0	0	0	0	10
Other activities	23,607	23,607	23,607	0	0	23,607	23,607
TOTAL	**1,744,129**	**6,017,364**	**835,175**	**0**	**0**	**-20,869**	**6,926,318**

7.3 Past due and impaired loans

197. The distribution of the past due exposures and respective impairment provisions by industry of activity of the credit to companies segment reflects the concentration of the activity in the Construction, Real Estate, Financial and Insurance Activities and Business segments.

198. In terms of geographical distribution of the exposures with past due loans, as in the previous year, a bigger concentration in the areas of Greater Lisbon and Northern Portugal is observed, reflecting the geographical structure of the total portfolio.

199. In conformity with Article 442 (g) and (i) of CRR and with respect to the exposures subject to impairment and the credit quality of exposures (tables above), the following table shows the breakdown of the past due exposures, notwithstanding their non-performing classification

200. In December 2018, approximately 45% of past due exposures were equal to or older than 1 year.

Table 28 | EU CR1-D Ageing of past due exposures

(thousands of euros)

Dec-2018	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	496,730	51,154	22,900	119,900	121,937	1,033,458
Debt securities	0	0	0	33,000	0	0
Total	**496,730**	**51,154**	**22,900**	**152,900**	**121,937**	**1,033,458**

Jun-18	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	574,809	59,296	31,245	73,371	90,463	1,300,419
Debt securities	0	0	0	0	0	38,699
Total	**574,809**	**59,296**	**31,245**	**73,371**	**90,463**	**1,339,118**

201. The following table exhibits the non-performing exposures and deferred exposures by type of instrument (debt securities, loans/advances and off-balance sheet exposures).

Table 29 | EU CR1-E Non-performing exposures and deferred exposures

(thousands of euros)

	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fairvalue adjustments due to credit risk				Collaterals and financialguarantees received	
				of which non-performing exposures				Performing exposures		Non-performing exposures			
	Total	Of which performing but past due > 30 days and <= 90 days	of which *performing forborne*	Total	of which defaulted	Of which impaired	of which *forborne*	Total	of which *forborne*	Total	of which forborne	Non-performing exposures	of which forborne exposures
Debt securities	2,051,091	0	0	33,000	33,000	33,000	0	6,109	0	3,082	0	0	0
Loans and advances	14,319,629	58,075	103,166	1,846,079	1,754,452	1,843,262	838,423	76,752	4,188	862,253	383,036	675,440	401,457
Off-balance sheet exposures	1,667,025	2,207	2,650	187,924	170,377	187,924	32,744	3,133	7	11,304	165	0	0
Total	**18,037,745**	**60,282**	**105,816**	**2,067,003**	**1,957,829**	**2,064,186**	**871,166**	**85,994**	**4,195**	**876,638**	**383,200**	**675,440**	**401,457**

Under Article 5 of Instruction 5/2018 of the Banco de Portugal, we inform that the table identical to the previous table which includes information relative to the previous period is not disclosed.

202. It is important to mention that the gross value of these exposures came to approximately 18 billion euros, of which about 2,067 million euros (11.5%) corresponded to non-performing exposures.

203. In addition, the previous table was prepared taking into account the financial statements of the Group, to which IFRS 5 is applied, thus excluding the exposure relative to Finibanco Angola.

204. The following tables present the default or impaired (stage 3) exposures and the respective variations in 2018:

Table 30 | EU CR2-A Variations in adjustments for specific and general credit risk

(thousands of euros)

Dec-2018	Accumulated credit risk adjustments (impairment)
Opening balance - June 2018	**975,241**
Increases due to amounts set aside forestimated loan losses during the period	19,096
Decreases due to amounts reversed forestimated loan losses during the period	-155,247
Decreases due to amounts taken againstaccumulated credit risk adjustments	
Transfers between credit risk adjustments	56,004
Impact of exchange rate differences	
Business combinations, includingacquisitions and disposals of subsidiaries	
Other adjustments	-13,974
Closing balance - December 2018	**881,119**
Recoveries on credit risk adjustmentsrecorded directly to the statement of profitor loss	
Specific credit risk adjustments directlyrecorded to the statement of profit or loss	

Jun-2018	Accumulated credit risk adjustments (impairment)
Opening balance - December 2017	**1,090,991**
Increases due to amounts set aside forestimated loan losses during the period	25,455
Decreases due to amounts reversed forestimated loan losses during the period	-17,190
Decreases due to amounts taken againstaccumulated credit risk adjustments	
Transfers between credit risk adjustments	14,794
Impact of exchange rate differences	
Business combinations, includingacquisitions and disposals of subsidiaries	
Other adjustments	-138,809
Closing balance - June 2018	**975,241**
Recoveries on credit risk adjustmentsrecorded directly to the statement of profitor loss	
Specific credit risk adjustments directlyrecorded to the statement of profit or loss	

Table 31 | EU CR2-B Variations in non-performing loans and debt securities.

(thousands of euros)

Gross carrying value ofdefaulted exposures	Dec-2018	Jun-2018
Opening balance [(1)]	**2,500,399**	**2,290,357**
Loans and debt securities that have defaulted or impaired sincethe last reporting period	113,431	153,291
Returned to non-defaulted status	-98,840	-88,973
Amounts written off	-166,993	-68,517
Other changes	-57,640	-292,594
Closing balance [(2)]	**2,290,357**	**1,993,563**

(1) For Dec-2018 corresponds to 30-06-2018; For Jun-2018 corresponds to 31-12-2017
(2) For Dec-2018 corresponds to 31-12-2018; For Jun-2018 corresponds to 30-06-2018

7.4 Concentration risk

205. As mentioned, the Group is currently pursuing a strategy of diversification of its activity, in order to reduce the weight of the exposure to the construction and real estate industry. The impact of the concentration risk on the capital requirements is ascertained through an approach based on the calculation of the sectoral and individual concentration rates (CR), according to Instruction No. 5/2011 of the Banco de Portugal.

206. The calculation of the individual CR[3] is based on the 100 greatest exposures in portfolio, aggregated by client/economic group. The weight of these exposures in December 2018 corresponded to approximately 19.6% of the credit portfolio.

207. With regards to the sectoral CR[4], it is calculated from the classification of economic activities (NACE) associated with the counterparties in the portfolio.

Table 32 | Concentration rates

	Credit Portfolio	
	Dec-18	Dec-17
Individual CR	0.37	0.35
Sectoral CR	8.86	8.94

208. It is important to note that this increase of the Individual CR is explained by the effect of the denominator, and not by the increase of the largest exposures in absolute value, taking into account that there was a reduction in credit exposure of more than 1.1 billion euros relative to the previous year. This shows that the gross value of the exposure of the 100 largest counterparty exposures registered a significant reduction.

209. The reduction of the sectoral CR in 2018 reflects the ongoing business diversification strategy that has been implemented in the credit portfolio.

7.5 Use of ECAIs

210. The calculation of the credit and counterparty capital requirements is determined according to the Standardised Approach whose requirements are defined in CRR and in CRD IV. Depending on the nature of the counterparty, the portfolio positions are distributed among the various risk categories and ratings provided by Moody's, S&P and Fitch Ratings, which are used for attributing the respective risk weights.

211. This procedure is applied through all risk categories and the allocation is carried out in accordance with what was provided in the previously mentioned diplomas, as follows:

- When there are simultaneously different ratings provided simultaneously by recognised agencies, the second highest rating of the two lowest ratings is applied;
- In the case of similar bonds and securities, priority is given to the rating of the issue or, where there is no such rating, the issuer's rating is used;

[3] Individual Concentration Rate = $\Sigma x^2 / (\Sigma x^* \Sigma y) * 100$, in which x represents the value of the total exposure to each counterparty/economic group belonging to the 100 biggest counterparties of the Institution, and Σy corresponds to the total portfolio exposure.

[4] Sectoral Concentration Rate = $\Sigma x^2 / (\Sigma x)^2 * 100$, in which x represents all the exposures to each industry of economic activity.

- Ratings, where they exist, are used consistently for all exposures at default in all classes.

212. Based on the calculated external rating, a credit quality grade is assigned in accordance with Implementing Regulation (EU) 634/2018. For exposures to Sovereigns, Public Industry Entities, Corporates, Institutions and Collective Investment Bodies (Funds), the risk weight is determined based on credit quality assessments provided by the External Credit Assessment Institutions (ECAIs) which are considered eligible.

213. Taking into account the guarantees and collateral associated with the exposures, CRR provides for the application of risk mitigation techniques for reclassification (personal protection) and/or mitigation (property protection) of exposures. Exposures are subject to a weight according to their final risk category (after a possible reclassification) defined in Chapter 4, Title II, Part III of CRR.

214. The value of the risk-weighted positions is ascertained on the basis of the adjusted exposure of value corrections and provisions, and following the application of the adjustments related to the credit risk mitigation techniques, namely the application of conversion factors to off-balance sheet items and exercising the property and personal credit protection.

8. Credit risk mitigation techniques

215. For the purpose of the reduction of the credit risk of the positions held, both the personal protection collaterals with a substitution effect on the exposure and the financial collaterals enabling a direct reduction of the position value are considered. Likewise, the mortgage collaterals are also relevant as mitigation of the risk with an impact on the capital requirement weight.

216. In the table below, the collaterals referred to therein correspond to the collaterals complying with the eligibility criteria as effective guarantees as provided for in the prudential regulatory rules, namely regarding the requirements defined in CRR, and do not correspond to all collaterals received.

Table 33 | Concentration analysis – Personal and property credit protection

(thousands of euros)

	Net exposure		Personal credit protection – Guarantees		Funded credit protection – comprehensive financial collateral approach. – Eligible (financial) collaterals	
	Dec-18	Dec-17	Dec-18	Dec-17	Dec-18	Dec-17
Total exposures	**19,685,539**	**21,298,200**	**133,339**	**308,951**	**224,430**	**248,365**
Central Governments or Central Banks	3,076,238	3,397,981	0	0	0	0
Regional Governments or Local Authorities	16,827	37,066	0	0	0	0
Public Sector Entities	70,000	70,725	0	0	0	48
Institutions	629,740	663,407	0	0	1,629	3,405
Corporates	2,483,094	2,655,257	19,459	91,698	57,952	69,095
Retail	2,574,435	2,643,516	106,508	206,789	143,005	151,828
Positions guaranteed by real estate	7,433,433	7,900,486	4,927	2,685	17,427	17,478
Past due items	1,112,428	1,486,434	2,445	7,779	4,417	6,512
Exposures associated with Particularly High Risks	161,786	161,010	0	0	0	0
Covered Bonds	0	4,582	0	0	0	0
Positions on Collective Investment Undertakings (CIU):	298,663	220,797	0	0	0	0
Shares	136,842	159,380	0	0	0	0
Other items	1,689,019	1,893,377	0	0	0	0
Securitisation positions under the Standardised Approach	3,034	4,182	0	0	0	0

217. The direct reduction encompasses the credit operations collateralised by financial collaterals, namely, term deposits, gold, bonds and shares included in a main index listed on a recognised exchange, as stipulated in Section 4, Chapter 4, Title II of Part III of CRR.

218. With regards to mortgage collateral, the assessment of the assets is carried out by independent appraisers, and the management of the assessments and inspections is centralised in a unit of the Institution's structure, independent from the commercial department. The reassessment of the assets is carried out according to the requirements defined in Article 208 of CRR, by applying the property variation rates or by carrying out assessments on-site, by an appraiser. With regards to financial collateral, its value is updated according to the relevant market information.

219. The following table, following the risk mitigation techniques, exhibits the breakdown of the gross book value of the exposures, according to the type of risk coverage and type of instrument (collateral, financial guarantees and credit derivatives), even though these techniques are recognised as eligible in Part III, Title II, Chapter 4 of CRR. It is important to mention that the guarantees/bails provided by private customers and self-employed entrepeneurs are also not considered within this framework.

Table 34 | EU CR3 CRM Techniques – Overview

(thousands of euros)

Dec-18	Exposures unsecured –Carrying amount	Exposures secured –Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	5,955,554	8,184,340	8,051,006	133,334	0
Total debt securities	1,682,095	3,038	0	3,038	0
Total exposures	**7,637,649**	**8,187,378**	**8,051,006**	**136,373**	**0**
Of which defaulted	*763,791*	*571,605*	*569,160*	*2,445*	*0*

220. The total amount of securities includes 114 million euros corresponding to the securities portfolio of Finibanco Angola (securities with B- rating). This subsidiary is subject to IFRS 5 and, consequently, these positions are recorded, in accounting terms, in discontinuing operations.

221. In December 2018, no positions covered by credit derivatives were held.

222. The table below presents, according to the standardised approach, the impact of the mitigation techniques considered eligible by risk category of the exposures before and after application of the conversion factors (CCF) and risk mitigation techniques (RMT), as well as RWA density (in %).

Table 35 | EU CR4 Standardised approach – Credit exposures and CRM effects

(thousands of euros)

Dec-18	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
Central Governments or Central Banks	3,076,238	0	3,207,128	5	157,013	4.90%
Regional Governments or Local Authorities	16,181	646	16,181	16	3,239	20.00%
Public Sector Entities	70,000	0	70,000	0	70,000	100.00%
Multilateral Development Banks	0	0	0	0	0	
International Organisations	0	0	0	0	0	
Institutions	452,739	131,242	451,111	115,267	170,940	30.18%
Corporates	2,010,951	470,047	1,938,111	49,756	1,918,458	96.51%
Retail	1,896,153	678,279	1,652,387	23,396	1,054,571	62.93%
Secured by mortgages on immovable property	7,204,048	229,384	7,181,897	4,492	2,738,326	38.10%
Exposures in default	944,810	167,618	940,594	20,730	1,088,637	113.24%
Exposures associated with particularly high risk	161,786	0	161,786	0	242,679	150.00%
Covered Bonds	0	0	0	0	0	
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	
Collective investment undertakings (CIUs)	298,663	0	298,663	0	298,663	100.00%
Equity exposures	136,842	0	136,842	0	136,842	100.00%
Other items	1,689,019	0	1,689,019	0	1,429,452	84.63%
Total	**17,957,430**	**1,677,216**	**17,743,716**	**213,663**	**9,308,820**	

Notes: *The breakdown of the exposure classes and all the quantitative information is in accordance with COREP C07.001*
This table contains credit risk exposures (does not include Derivatives; Securitisations)

Under Article 5 of Instruction 5/2018 of the Banco de Portugal, we inform that the table identical to the previous table which includes information relative to the previous period is not disclosed.

223. The net effect of inflows and outflows is especially relevant in the risk category of Central Governments or Central Banks, which comes to approximately 130 million euros. Regarding financial collateral, about 90% of the credit risk mitigation effect is allocated to the Companies and Retail risk categories.

224. The following table breaks down, according to the standardised approach, by weight and risk category the amount of exposures net of impairment, following application of the credit conversion factors (CCF) (applicable to the off-balance sheet items) and after risk mitigation techniques.

Table 36 | EU CR5 Standardised approach – Breakdown of the exposure

(thousands of euros)

Dec-2018	Risk weights									Total
Exposure classes	0%	###	20%	35%	50%	75%	100%	150%	Other	
Central Governments or Central Banks	2,919,225	0	0	0	0	0	157,013	0	0	3,076,238
Regional Governments or Local Authorities	0	0	16,197	0	0	0	0	0	0	16,197
Public Sector Entities	0	0	0	0	0	0	70,000	0	0	70,000
Multilateral Development Banks	0	0	0	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	0	0	0	0
Institutions	113,882	0	287,756	0	102,548	0	62,050	42	100	566,378
Corporates	0	0	0	0	2,907	0	2,004,417	0	0	2,007,325
Retail	0	0	0	0	0	1,782,291	0	0	0	1,782,291
Positions guaranteed by real estate	0	0	0	5,972,790	904,863	133,072	180,590	0	0	7,191,316
Past due items	0	0	0	0	0	0	706,700	254,625	0	961,324
Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	161,786	0	161,786
Covered Bonds	0	0	0	0	0	0	0	0	0	0
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0	0	0	0
Positions on Collective Investment Undertakings	0	0	0	0	0	0	298,663	0	0	298,663
Shares	0	0	0	0	0	0	136,842	0	0	136,842
Other items	198,794	0	75,966	0	0	0	1,414,259	0	0	1,689,019
Securitisations	0	0	0	0	0	0	0	0	0	0
Total	**3,231,901**	**0**	**379,919**	**5,972,790**	**1,010,319**	**1,915,363**	**5,030,534**	**416,452**	**100**	**17,957,379**
Jun-2018	**Risk weights**									**Total**
Exposure classes	**0%**	**###**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Other**	
Central Governments or Central Banks	2,962,653	0	0	0	0	0	179,725	0	0	3,142,378
Regional Governments or Local Authorities	0	0	37,571	0	0	0	0	0	0	37,571
Public Sector Entities	0	0	0	0	0	0	70,705	0	0	70,705
Multilateral Development Banks	0	0	0	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	0	0	0	0
Institutions	109,822	0	472,127	0	34,073	0	43,725	42	336	660,123
Corporates	0	0	0	0	3,137	0	2,751,915	0	0	2,755,052
Retail	0	0	0	0	0	2,594,612	0	0	0	2,594,612
Positions guaranteed by real estate	0	0	0	6,134,927	906,756	247,062	297,035	0	0	7,585,780
Past due items	0	0	0	0	0	0	983,714	331,401	0	1,315,115
Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	161,961	0	161,961
Covered Bonds	0	0	2,031	0	0	0	0	0	0	2,031
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0	0	0	0
Positions on Collective Investment Undertakings	0	0	0	0	0	0	304,806	0	0	304,806
Shares	0	0	0	0	0	0	158,381	0	0	158,381
Other items	164,145	0	79,696	0	0	0	1,424,647	0	0	1,668,489
Securitisations	0	0	1,159	0	2,460	0	0	0	246	3,866
Total	**3,236,620**	**0**	**592,584**	**6,134,927**	**946,426**	**2,841,674**	**6,214,654**	**493,404**	**582**	**20,460,872**

Notes: *This table contains credit risk exposures (does not include Derivative positions; Securitisations)*

225. In December 2018, about 33% of the exposure was classified in the credit risk weight of 35%. This weight is applicable to the exposures guaranteed by residential real estate, which indicates the significant weight of mortgage loans.

226. The second most significant credit risk weight is that of 100%, which corresponds to 28% of the exposure. This weight is essentially applicable to exposures to Companies and Other Items (mostly properties and tangible fixed assets).

227. It is also worth mentioning that about 18% of the exposure is reflected in the credit risk weight of 0%. This weight is essentially associated with positions on Central Governments or Central Banks, as well as assets with reference to cash and equivalents (Other Items risk category).

9. Wrong way risk

228. In its specific component, the 'wrong way risk' or risk of unfavourable correlation corresponds to the type of risk that occurs when the net exposure of collateral is adversely correlated with the credit quality of that same counterparty. This risk occurs, for example, when credit is granted to a specific company, in which the collateral received for risk mitigation corresponds to securities issued by that same company (shares or bonds).

229. Taking into account the policies in terms of granting and exposure to credit risk and the type of collateral accepted, the risk of unfavourable correlation is negligible. With regards to the credit portfolio, the accepted property collateral corresponds mainly to property and financial collaterals, which are mostly composed of term deposits, and the securities given as collateral to cover credit risk represent a reduced weight.

230. In terms of counterparty credit risk management, CSA contracts signed with the counterparties, as well as the GMRA, in the case of repos, only foresee the delivery of collateral in the form of funds deposited in BM.

231. Additionally, in the case of repos and reverse repos operations, there are no operations whose underlying asset corresponds to issues or assets issued by the counterparty.

10. Securitisation operations

232. The Group's securitisation operations have been used mainly as a funding tool. The first three securitisations (Pelican Mortgages 1, 2 and 3) were public and placed through a syndicate, with the remaining performing credit securitisations having been retained by the institution with the aim of being used as collateral in secured funding operations. As at 31 December 2018, the Group took on the role of originator institution in traditional credit securitisation operations, namely in the following operations: Pelican Mortgages No. 3, Pelican Mortgages No. 4, Pelican Mortgages No. 5, Pelican Mortgages No. 6, Aqua Mortgage 1 and Pelican Finance No. 1.

233. As originator, the Group runs the risk of not receiving the funds due for the sale of the credits to the Financial Vehicle Corporation, whether at the beginning or in successive revolvings. Another risk results from the possible request, by the investor, to buyback positions due to breach of contract by the originator. Given the current securitisations in which the Group acts as originator, the previously identified risks are residual, with no operations being contracted to cover those risks.

234. Within the scope of the interest rate risk management policy for securitisation operations in which the Group acts as originator, the coverage of the risk is ensured from a balance sheet perspective, since the credits underlying the securitised positions remained recognised on the balance sheet. In relation to credit risk, coverage and personal credit protection operations aimed at reducing the risk of the securitisation positions retained are not used.

235. As an investor in securitisation operations, the Group incurs the following risks:

- Credit risk arising from possible issuer default or from the adverse variation in assets driven by the deterioration of the credit quality of the issuer or of the collateral of the operation;
- Market risk arising from adverse variations in asset prices or in the interest rate;
- Liquidity risk arising from the impossibility of disposing of assets if necessary;
- “Pre-payment” risk associated with any early repayments which differ from projected repayments, resulting in a repayment structure that differs from that which was outlined.
- Legal risks arising from changes to and incorrect analyses of the legal framework applicable to these positions.

236. The credit and market risks of the securitisation positions held as an investor are monitored according to the procedures established for the management of credit and market risk, respectively. For further information on the management procedures of these risks, consult the Credit Risk and Market Risk sections of chapter 3.4 of this document.

237. None of the other securitisation operations complies with the requirements set out in Article 243 of CRR relative to the derecognition, the exposures are treated, from both an accounting and prudential basis, as if the credits were held by the institution (and those credits had not been sold), taking into account that the institution retained the equity piece, being subject to the main risks and benefits. As a result, capital requirements for the securitisation positions held in the form of notes are not calculated, but rather relative to the underlying credit portfolios.

238. Regarding the securitisations in which the Group acted as an investor, the method of calculation of the risk weighted positions is the one defined in Section 3, chapter 5, Title II of Part III of CRR, stipulated for the Standardised Approach. For determining the credit quality degree associated with each securitisation position, the respective external ratings of the rating agencies Fitch Ratings and Moody's were taken into consideration.

239. The main accounting policies used in the financial statements relative to securitisation operations can be consulted in the notes to the consolidated financial statements, namely note 1 (pages 141 and 142) and 53 (pages 255-259) which are included in the Annual Report for 2018.

240. The following tables indicate the traditional securitisation positions, both in relation to own operations and as an investor. The tables do not present significant variations relative to the previous reporting period. There are no positions held in synthetic securitisations.

Table 37 | Securitisation operations

(thousands of euros)

Originator Institution: BM (100%)		Sponsor Institutions: Sagres STC, SA				Rating								
Pelican Mortgage 3	Class	Securitised assets (nominal)	Amount in debt (nominal)	Interest retained (nominal)	Legal maturity	Fitch	Moody's	S&P	DBRS	Step-up clause (date)	Spread	Implicit support situations	Past due principal	Impairment
XS0293657416	Class A	717,375	187,053	125,711	set/54	BBB	A2	BBB-	n.a.	Mar/2016	0.20%	no	477	1,775
XS0293657689	Class B	14,250	4,829	4,829	set/54	BBB	Ba1	BB-	n.a.	Mar/2016	0.30%			
XS0293657846	Class C	12,000	4,067	4,067	set/54	BB+	B2	B	n.a.	Mar/2016	0.36%			
XS0293657929	Class D	6,375	2,161	2,161	set/54	BB	Caa1	B-	n.a.	Mar/2016	0.68%			
XS0293658067	Class E	8,250	0	0	set/54	n.a.	n.a.	n.a.	n.a.	-	-			
XS0293658141	Class F	4,125	4,125	4,125	set/54	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			

Originator Institution: BM (100%)		Sponsor Institutions: Sagres STC, SA				Rating								
Pelican Mortgage 4	Class	Securitised assets (in millions of euros)	Amount in debt (in millions of euros)	Interest retained (nominal)	Legal maturity	Fitch	Moody's	S&P	DBRS	Step-up clause (date)	Spread	Implicit support situations	Past due principal	Impairments
XS0365137990	Class A	832,000	438,087	438,087	set/56	A+	n.a.	n.a.	A (h)	Jun/2017	0.30%	no	700	1,136
XS0365138295	Class B	55,500	38,781	38,781	set/56	A+	n.a.	n.a.	n.a.	Jun/2017	0.45%			
XS0365138964	Class C	60,000	41,925	41,925	set/56	BBB	n.a.	n.a.	n.a.	Jun/2017	0.60%			
XS0365139004	Class D	25,000	17,469	17,469	set/56	B+	n.a.	n.a.	n.a.	Jun/2017	0.90%			
XS0365139699	Class E	27,500	19,216	19,216	set/56	B	n.a.	n.a.	n.a.	Jun/2017	1.25%			
XS0365139939	Class F	28,600	28,600	28,600	set/56	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			

Originator Institution: BM (100%)		Sponsor Institutions: Sagres STC, SA				Rating								
Pelican Mortgage 5	Class	Securitised assets (in millions of euros)	Amount in debt (in millions of euros)	Interest retained (nominal)	Legal maturity	Fitch	Moody's	S&P	DBRS	Step-up clause (date)	Spread	Implicit support situations	Past due principal	Impairments
XS0419743033	Class A	750,000	383,337	383,337	dez/61	A+	n.a.	n.a.	AA (h)	Jun/2018	0.30%	no	809	4,716
XS0419743389	Class B	195,000	134,259	134,259	dez/61	A-	n.a.	n.a.	n.a.	Jun/2018	0.50%			
XS0419743462	Class C	27,500	18,934	18,934	dez/61	BBB	n.a.	n.a.	n.a.	Jun/2018	0.90%			
XS0419743546	Class D	27,500	18,934	18,934	dez/61	n.a.	n.a.	n.a.	n.a.	Jun/2018	1.25%			
XS0419743629	Class E	4,500	0	0	dez/61	n.a.	n.a.	n.a.	n.a.	Jun/2018	1.50%			
XS0419743975	Class F	23,000	23,000	23,000	dez/61	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			

Originator Institution: BM (100%)		Sponsor Institutions: Sagres STC, SA				Rating								
Pelican Mortgage 6	Class	Securitised assets (in millions of euros)	Amount in debt (in millions of euros)	Interest retained (nominal)	Legal maturity	Fitch	Moody's	S&P	DBRS	Step-up clause (date)	Spread	Implicit support situations	Past due principal	Impairments
PTSSCQOM0006	Class A	750,000	429,752	429,752	dez/63	A+	n.a.	A	AA (h)	-	0.30%	no	2,839	22,512
PTSSCROM0005	Class B	250,000	250,000	250,000	dez/63	n.a.	n.a.	n.a.	n.a.	-	0.50%			
PTSSCSOM0004	Class C	1,800	0	0	dez/63	n.a.	n.a.	n.a.	n.a.	-	1.50%			
PTSSCTOM0003	Class D	65,000	65,000	65,000	dez/63	n.a.	n.a.	n.a.	n.a.	-	n.a.			
PTSSCUOM0000	Class S	40,200	40,200	40,200	dez/63	n.a.	n.a.	n.a.	n.a.	-	n.a.			

Originator Institution: BM (100%)		Sponsor Institutions: Tagus STC, SA				Rating								
Aqua Mortgage 1	Class	Securitised assets (in millions of euros)	Amount in debt (in millions of euros)	Interest retained (nominal)	Legal maturity	Fitch	Moody's	S&P	DBRS	Step-up clause (date)	Spread	Implicit support situations	Past due principal	Impairments
XS0400981279	Class A	203,176	75,111	75,111	dez/63	n.a.	n.a.	A+	AA (h)	-	0.15%	no	1,970	6,898
XS0400982087	Class B	29,824	23,724	23,724	dez/63	n.a.	n.a.	n.a.	n.a.	-	0.40%			
XS0400983051	Class C	3,500	3,500	3,500	dez/63	n.a.	n.a.	n.a.	n.a.	-	n.a.			

Originator Institution: BM (60%)/MC (40%)		Sponsor Institutions: Tagus STC, SA				Rating								
Pelican Finance 1	Class	Securitised assets (in millions of euros)	Amount in debt (in millions of euros)	Interest retained (nominal)	Legal maturity	Fitch	Moody's	S&P	DBRS	Step-up clause (date)	Spread	Implicit support situations	Past due principal	Impairments
PTTGUYOM0015	Class A	202,900	116,042	116,042	dez/28	A	n.a.	n.a.	A	-	3% (fixed	no	5,464	6,414
PTTGUZOM0014	Class B	91,100	70,961	70,961	dez/28	n.a.	n.a.	n.a.	n.a.	-	4% (fixed			
PTTGU1OM0011	Class C	14,700	14,700	14,700	dez/28	n.a.	n.a.	n.a.	n.a.	-	n.a.			

Table 38 | Credit risk - Securitisation operations: Standardised approach

(thousands of euros)

Traditional Securitisation	Fully adjusted exposure value	Amounts deducted from own funds (-)	Risk-weighted exposure amount Dec-18	Risk-weighted exposure amount Dec-17
	2	3	9	10
B=Investor : total exposures	3,034	0	1,869	2,487
B1 – Asset items	3,034	0	1,869	2,487
Securitisations	3,034	0	1,869	2,487
Re-securitisations	0	0	0	0
B2 – Off-balance sheet items and derivatives	0	0	0	0
C=Sponsor : total exposures	0	0	0	0
C1 – Balance sheet items	0	0	0	0
C2 – Off-balance sheet items and derivatives	0	0	0	0

Table 39 | Credit risk - Securitisation operations: Summary of activities

thousands of euros)

Traditional Securitisation	Amount of securitised exposures securitised/to be securitised		Risk-weighted exposure amount		Gains/Losses recognised in sales	
	Dec-18	Dec-17	Dec-18	Dec-17	Dec-18	Dec-17
Traditional securitisation (total)	2,478,966	3,678,653	0	0	0	0
Asset items	2,478,966	3,678,653	0	0	0	0
Securitisations	2,478,966	3,678,653	998,224	1,680,307	0	0
Re-securitisations	0	0	0	0	0	0
Off-balance sheet items and derivatives	0	0	0	0	0	0
Synthetic securitisation (total)	0	0	0	0	0	0
On-balance sheet items	0	0	0	0	0	0
Securitisations	0	0	0	0	0	0
Re-securitisations	0	0	0	0	0	0
Off-balance sheet items and derivatives	0	0	0	0	0	0

241. For further information relative to securitisation operations, please refer to note 53 (pages 255-259) of the notes attached to the financial statements of the 2018 Annual Report.

11. Position, credit, counterparty and settlement risks on the trading book

242. The trading book is composed of the positions held with the purpose of obtaining short-term gains, be it from sales or reassessment. The capital requirements relative to this portfolio are calculated based on the standardised approach, according to Title IV, Part III of CRR. The positions that are considered as part of the trading book in prudential terms and, as such, subject to the calculation of capital requirements for market risk, are formalised in a regulation of the Institution.

243. Internal models to calculate capital requirements are not used, such that in accordance with the standardised approach applicable to market risk, the financial products in portfolio are broken down into two asset categories: debt instruments (including derivatives on debt instruments and comparable instruments) and capital securities (including derivatives on equity

requirements and comparable instruments). In turn, the capital requirements for market risk are broken down into specific risk or exposure and general risk

244. The capital requirement for each category of assets is calculated according to the needs of coverage of specific risk and general risk for each one of the categories of assets. This way, according to the standardised approach, the following methodologies are applied to each exposure category:

Debt instruments

- General risk: corresponds to the risk of loss caused by unfavourable variations in the interest rate. For the calculation of the capital requirements for the general risk, the method used is the one based on maturity, according to Subsection 2, Section 2, Chapter 2, Title IV of Part III of CRR.
- Specific risk: corresponds to the risk of loss due to factors associated with the issuer. The capital requirements for these risks are based on the application of the methodology described in Subsection 1, Section 2, Chapter 2, Title IV of Part III of CRR, which results in the weighting of assets according to the industry and credit quality of the issuer.

Equity

- General risk: corresponds to the risk of loss caused by unfavourable variations in the equities market. For the calculation of the capital requirements for the general risk, the method used is the one provided for in Section 3, Chapter 2, Title IV of Part III of CRR.
- Specific risk: corresponds to the risk of loss due to factors associated with the issuer. For the calculation of the capital requirements for the specific risk, the method used is the one provided for in Section 3, Chapter 2, Title IV of Part III of CRR.
- For the calculation of the capital requirements for positions on CIUs, the method used is the one provided for in Section 6, Chapter 2, Title IV of Part III of CRR.

Table 40 | Capital requirements - Trading book

(thousands of euros)

Trading book risks	Requirements Own funds Dec-18	Requirements Own funds Dec-17
Total trading book risk (1 + 2)	**1,409**	**14,285**
Position risk	1	12,755
Standardised Approach for the trading book	1	12,755
Debt instruments		
Specific risk	0	9,679
General risk	1	1,130
Equity securities		
Specific risk	0	538
General risk	0	538
Collective investment undertakings (CIU)	0	871
Counterparty credit risk	1,408	1,530
Bonds	0	0
Derivative instruments	1,408	1,530
Other	0	0

245. In quantitative terms, the use of the above-mentioned methods lead to the ascertaining of an amount of capital requirements of 1.4 million euros for the trading book risks. The decrease in 2018 observed in terms of the capital requirements was essentially due to the sale of the senior note of the securitisation operation resulting from the sale of non-performing loans undertaken in 2017.

12. Exchange rate and commodity risks in the banking and trading books

246. The method used by the institution to calculate the minimum capital requirements for the exchange and commodity risks is the method provided for in chapters 3 and 4, Title IV of Part III of CRR.

247. For the calculation of the capital requirements for the exchange risk, the method used is the one prescribed in Chapter 3, Title IV of Part III of CRR. This method provides for the application of a weight of 8% (or 4% in the case of strictly correlated foreign currencies) to the sum of the liquid position in foreign currencies, in case this sum exceeds 2% of the total own funds.

248. With regards to the commodity risk, the calculation of the capital requirements is ascertained according to the Maturity Ladder Approach prescribed in chapter 4, Title IV of Part III of CRR.

249. The Group's exchange risk requirements result essentially from the positions arising from the consolidation of the international subsidiaries, namely Finibanco Angola, and also of assets denominated in Brazilian reais.

Table 41 | Capital requirements – Exchange and commodity risks

(thousands of euros)

CAPITAL REQUIREMENTS - FOREIGN EXCHANGE AND COMMODITIES RISKS			
	Foreign Exchange and Commodities Risk	Dec-18	Dec-17
1. Foreign Exchange Risk (=1.1.+1.2.)		**8,499**	**15,338**
1.1.	Standardised Approach	8,499	15,338
1.2.	Internal Models Approach		
2. Commodities Risk (=∑(2.1. to 2.2.))		**0**	0
2.1.	Standardised Approach (=∑(2.1.1. to 2.1.4.))	**0**	0
	2.1.1. Maturity Ladder Approach or Simplified Approach		
	2.1.2. Exchange-traded commodity futures and options		
	2.1.3. OTC-traded commodity futures and options		
	2.1.4. Other		
2.2.	Internal Models Approach		
3. Settlement Risk		**0**	**0**

250. The following table presents the RWAs and the capital requirements for market risk by the standardised approach

Table 42 | EU MR1 Market risk on the standardised approach

(thousands of euros)

	RWAs			Capital Requirements		
	Dec-18	Jun-18	Dec-17	Dec-18	Jun-18	Dec-17
Outright products						
Interest rate risk (general and specific)	8	3,471	135,103	1	278	10,808
Equity risk (general and specific)	5	18,512	24,334	0	1,481	1,947
Foreign exchange risk	106,244	71,740	191,723	8,499	5,739	15,338
Commodities risk	0	243	0	0	19	0
Options						
Simplified approach						
Delta-plus method						
Scenario approach						
Securitisations (specific risk)						
Total	**106,257**	**93,966**	**351,160**	**8,501**	**7,517**	**28,093**

251. With regards to the market risk requirements, the decrease observed relative to the previous year is essentially due to the sale of the senior note of the securitisation operation derived from the sale of non-performing loans undertaken in 2017, which was recorded under financial assets held for trading. In terms of foreign exchange risk, there was also a decrease in the foreign exchange requirement with emphasis on the elimination of the exchange position in Meticais as a result of the sale of Banco Terra.

252. With regards to the valuation of the financial instruments of the trading book, as well as of the banking book, the notes attached to the financial statements of the Annual Report for 2018, notes 23 and 24 on pages 189 to 194 in particular, must be consulted.

13. Equity exposures in the banking book

253. Equity exposures can be classified in terms of objectives as belonging to the (i) trading book (those whose aim is to obtain a short-term profit from changes in their value and which can be short or long); (ii) banking book (those whose aim is to also obtain profit from changes in the

value of the shares, but where the institution holds a more stable position over time); (iii) portfolio of holdings in associates (those in which the company does not have control of the company).

254. The recording of losses in equity exposures is carried out according to the portfolios in which those exposures are classified. The gains or losses in shares belonging to the trading book are promptly recognised in profit or loss.

255. The changes in value observed in shares classified at fair value through other comprehensive income are recorded under revaluation reserves, affecting equity. The instruments classified at fair value through other comprehensive income, according to IFRS 9, are not subject to impairment with the respective accumulated potential gains or losses (in revaluation reserves) being transferred to Retained Earnings on derecognition. Dividends received are recognised in profit or loss.

256. With regards to unlisted shares the fair value is estimated based on the use of the valuation methods: DCF (discounted cash flow) method or multiples method or adjusted book value method according to the characteristic of those shares. Where it is not possible to obtain a market value for the share or a reliable fair value using the methods identified previously, the equity instruments will be recognised at historical cost and subject to impairment tests.

Table 43 | Equity exposures in the banking book

(thousands of euros)

	Listed shares		Unlisted shares		Total	
	Dec/2018	Dec/2017	Dec/2018	Dec/2017	Dec/2018	Dec/2017
Acquisition cost	65,300	76,804	80,461	91,086	145,761	167,889
Fair value	47,310	78,045	85,246	89,118	132,556	167,162
Market price	47,310	78,045			47,310	78,045
Gains or losses arising from sales and settlements in the period:					-630	1,024
Total unrealised gains or losses:					-13,204	13,095
Total latent revaluation gains or losses					**0**	**-2,131**

257. Further details on the portfolio of shares can be consulted in the notes attached to the financial statements of the Annual Report for 2018, in particular note 23 (page 189), note 24 (page 193 and 194) and note 25 (page 195 and 196).

14. Operational risk

258. Operational risk consists in the risk of losses resulting from defects or failures of the internal processes, human resource systems or external factors.

259. The Group calculates the minimum capital requirements for coverage of the operational risk by using the standardised approach as per authorisation granted by the Banco de Portugal, in force since 30 June 2010.

260. The calculation of the capital requirements for coverage of the operational risk corresponds to the average of the last three years of the positive annual relevant indicator in the various lines of business, multiplied by the respective weights. In 2018, the standardised approach was fully implemented in Group entities.

261. The criteria of attribution by segments of activity follow the provisions contained in Part III, Title III, Chapter III of CRR. The following table provides the relationship between the Activity Segments and the Activities List

Table 44 | Activities segment and activities list

Activity segment	List of Activities
Corporate Finance	- Steady take over of financial instruments and/or placing of financial instruments for Steady take over. - Corporate consulting regarding share structures, industrial strategy and related questions, as well as merging related services and acquisition of companies;
Negotiation and sales	- Dealing on own account; - Monetary markets intermediation; - Receiving and giving orders related to one or more instruments. - Orders carried out according to client's demands;
Payment and settlement	- Issuing and management of Payment options. - Payment transactions
Commercial Banking Retail Banking	- Booking deposits and other reimbursable funds; - Loans; - Leasing; - Guarantee concession and undertaking commitments.
Agency services	- Custody and management of financial instruments according to client's demands, namely custody and related services such as treasury management and security deposits.
Retail brokerage	- Receiving and giving orders related to one or more financial instruments. - Orders carried out according to client's demands.
Asset Management	- Management of OICV M.

262. The following table presents, according to the standardised method, the calculation of the capital requirements allocated to operational risk in the last three years. The increase observed in capital requirements for operational risk is essentially explained by the increase in average net interest income in the last three years.

Table 45 | Capital requirements for operational risk

(thousands of euros)

Approach	Relevant indicator			Capital requirements (Consolidated)
	2016	2017	2018	
Total	458,175	503,478	467,907	61,884
1. Sum of activities subject to the Basic Indicator Approach	0	0	0	0
2. Sum of activities subject to the standardised approach	458,175	503,478	467,907	61,884
2.1. Corporate finance	4,720	3,738	1,578	
2.2. Trading and sales	-95,699	-17,622	-7,921	
2.3. Retail brokerage	-2,610	-2,767	-358	
2.4. Commercial banking	241,904	124,162	190,491	
2.5. Retail banking	281,282	359,246	278,675	
2.6. Payment and settlement	26,649	34,660	3,943	
2.7. Agency services	1,929	2,062	1,499	
2.8. Asset management	0	0	0	

15. Banking book interest rate risk

263. The potential loss in the positions of a bank arising from the adverse variation of prices in the market is known as market risk. The interest rates are one of the main risk factors in the activity of a bank. The interest rate risk occurs not only in the trading book but also in the banking book.

264. The interest rate risk assessment arising from banking book operations is carried out by analysing risk sensibility.

265. Following the Basel recommendations and Instruction No. 34/2018 of 26 December of the Banco de Portugal, the Group calculates its exposure to the exchange rate risk based on the methodology of the Bank of International Settlements (BIS), classifying all the assets, liabilities and off-balance sheet items, which do not belong to the trading book, by repricing levels. Principal and interest cash flows are distributed over time bands of maturities based on prepayment rates and early withdrawals gauged by the historical analysis of this behaviour.

266. Interest rate risk management is conducted with the aim of optimising both net interest income and the economic value of the balance sheet. This risk is monitored on at least a quarterly basis. However, this management is conducted by always taking account of the defined limits in terms of risk appetite.

267. These limits are used in the sensitivity analysis of net interest income and the economic value of different stress scenarios:

Parallel shock up: Parallel 200 bps increase in the interest rate curve.

Parallel shock down: Parallel 200 bps decrease in the interest rate curve.

Short rates up: 250 bps increase of the minimum point on the interest rate spot curve, with the increase dropping to zero at the maximum point (25 years).

Short rates down: 250bp decrease of the minimum point on the interest rate spot curve, with the decrease dropping to zero at the maximum point (25 years).

Steepener shock: Decrease in short-term interest rates and increase in long-term interest rates.

Flattener shock: Increase in short-term interest rates and decrease in long-term interest rates.

268. The following table summarises the results of the impact of simulated shocks on net interest income and on economic value. Disaggregated values by currency are not presented since the EUR currency represents approximately 99% of the position.

Table 46 | Interest Rate Risk

(thousands of euros)

Scenario (Ref. 2018)	1-year impact on net interest income	Impact on economic value
Parallel shock up	73,044	-36,746
Parallel shock dowı	-73,044	36,746
Short rates up	87,954	5,655
Short rates down	-87,954	-5,655
Steepener shock	-55,964	-7,089
Flattener shock	69,559	6,799

269. With regards to further information on interest rate risk, note 55 on Risk Management, in the chapter on Interest Rate Risk of the Banking Book, in the notes attached to the financial statements on pages 289 to 291, can be consulted.

16. Liquidity risk

270. The assessment of the liquidity risk is carried out by using defined regulatory indicators, as well as other internal metrics for which internal limits are also defined. This control is strengthened with the carrying out of stress tests on a weekly basis, with the purpose of characterising the risk profile and ensuring that the Group complies with its obligations in a scenario of liquidity crisis, and with the calculation of the prudential ratio of LCR on a monthly basis. Liquidity risk management includes processes to identify relevant risk factors, as well the establishment of action plans and procedures that permit risks to be controlled and monitored.

271. The aim of the liquidity risk management strategy is to provide the bank, at all times, with sufficient levels of liquidity to meet its liabilities without placing at risk the funding structure and the equilibrium of the bank's balance sheet structure. This strategy is also regulated by the internal limits of appetite risk.

272. The aim of liquidity risk management is to maintain a sufficient buffer of liquidity and guarantee compliance with the various regulatory requirements relative to liquidity risk, ensuring that treasury needs are met and the maintenance of a portfolio of liquid assets. Within this scope of liquidity management and control, prudential information, namely information on LCR, is prepared for the supervisory authority on a regular basis, The following table presents information relative to the average quarterly value of LCR and its main components, according to the EBA (EBA/GL/2017/01) guidelines.

Table 47 | Average liquidity ratio (LCR)

(thousands of euros)

	Total non-weighted value (average)				Total weighted value (average)			
Quarter ending on:	31/Mar/2018	30/Jun/2018	30/Sep/2018	31/Dec/2018	31/Mar/2018	30/Jun/2018	30/Sep/2018	31/Dec/2018
Number of points used to calculate averages:	3	3	3	3	3	3	3	3
High Quality Liquid Assets								
Total high quality liquid assets (HQLA)					**2,101,730**	**2,200,553**	**2,436,440**	**2,294,734**
Cash outflows								
Retail deposits and deposits from small business customers, of which:	**4,123,430**	**4,157,202**	**4,335,587**	**4,259,304**	**261,328**	**261,460**	**271,675**	**265,293**
Stable deposits	3,111,624	3,155,143	3,297,448	3,267,142	155,581	157,757	164,872	163,357
Less stable deposits	1,011,806	1,002,059	1,038,139	992,162	105,747	103,703	106,802	101,936
Unsecured wholesale funding	**2,547,088**	**2,600,878**	**2,490,474**	**2,498,812**	**1,214,089**	**1,248,913**	**1,155,192**	**1,210,059**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	526,246	495,182	534,645	484,880	131,561	123,796	133,661	121,220
Non-operational deposits (allcounterparties)	1,939,037	2,045,838	1,955,829	1,992,133	1,000,722	1,065,259	1,021,531	1,067,040
Unsecured debt	81,805	59,858	0	21,799	81,805	59,858	0	21,799
Secured wholesale funding					**0**	**0**	**1,472**	**20,330**
Additional requirements	**1,831,296**	**1,894,102**	**1,887,950**	**1,835,998**	**165,506**	**168,416**	**167,816**	**157,574**
Outflows related to derivativeexposures and other collateralrequirements	18,748	18,748	18,748	18,748	18,748	18,748	18,748	18,748
Outflows related to loss of funding ondebt products	0	0	0	0	0	0	0	0
Credit and liquidity facilities	1,812,548	1,875,354	1,869,202	1,817,250	146,758	149,668	149,068	138,826
Other contractual funding obligations	**24,196**	**43,162**	**40,747**	**43,649**	**0**	**18,967**	**16,551**	**19,453**
Other contingent funding obligations	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total cash outflows					**1,640,924**	**1,697,756**	**1,612,705**	**1,672,709**
Cash inflows					**0**	**0**	**0**	**0**
Secured lending (e.g. reverse repos)	0	0	0	0	0	0	0	0
Inflows from fully performing exposures	229,265	217,833	226,615	215,300	154,513	135,537	135,942	126,808
Other cash inflows	25,387	67,238	31,864	37,589	25,387	67,238	31,864	37,589
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transferrestrictions or which are denominated in non-convertible currencies)					0	0	0	0
(Inflows from a relatedspecialised credit institution)					0	0	0	0
Total cash inflows	**254,652**	**285,072**	**258,479**	**252,889**	**179,900**	**202,775**	**167,806**	**164,398**
Fully exempt inflows	0	0	0	0	0	0	0	0
Inflows subject to 90% cap	0	0	0	0	0	0	0	0
Inflows subject to 75% cap	254,652	285,072	258,479	252,889	179,900	202,775	167,806	164,398
					Total adjusted value			
Liquidity Buffer					**2,101,730**	**2,200,553**	**2,436,440**	**2,294,734**
Total Net Cash Outflows					**1,461,024**	**1,494,980**	**1,444,899**	**1,508,311**
Liquidity Coverage Ratio (LCR) as %					**144%**	**147%**	**169%**	**152%**

273. The LCR ratio relates the stock of unencumbered high-quality liquid assets with the short-term net fund requirements, and seeks to ensure that the bank holds sufficient (free and unencumbered) assets to deal with situations of stress, in terms of liquidity, for a minimum period of at least 30 days.

274. The minimum ratio of 100% required on a prudential basis implies that the high-quality liquid assets (after being subject to the regulatory haircuts) must exceed the value of the net cash outflows in the 30 subsequent days (estimated net outflows based on regulatory weights).

275. In 2018, the funding structure was based mostly on customer deposits. Liquidity inflows were mainly due to receipts arising from repayment or settlement of credit operations.

276. In 2018 the Group registered comfortable levels of liquidity, with a liquidity buffer that allows it to meet its responsibilities towards customers and commercial partners, even in a scenario of general stress such as the one considered by the Liquidity Coverage Ratio (LCR).

17. Encumbered and unencumbered assets

277. Within the scope of Instruction No. 28/2014 of the Banco de Portugal, focusing on the guidelines of the EBA concerning the disclosure of encumbered and unencumbered assets

(EBA/GL/2014/3), and taking into consideration the recommendation issued by the European Systemic Risk Board, the information, referring to 31 December 2018, concerning the assets and collaterals is presented below:

Table 48 | Encumbered assets

(thousands of euros)

Encumbered assets	Book value	Fair value
Portuguese public debt securities;		
Financing from the European Investment Bank (EIB)	453,791	0
Sale operations with repurchase agreement	100,527	0
Commitments to the Deposit Guarantee Fund	27,637	0
Total Portuguese public debt	**581,956**	**0**
Credit operations		
Collateralised financing from the European Central Bank (ECB)	1,840,574	1,840,574
Collateralised bonds by mortgage loan	1,705,212	1,705,212
Collateralised bonds by credit to the Public Administrative Sector	0	0
Securitisation operations	1,322,107	1,322,107
Total credit operations	**3,201,281**	**3,201,281**
Other assets		
Derivatives		
Credit Support Annex (CSA)	27,179	27,179
Stock exchange margins	0	0
Other collateral	0	0
Collateral in cash (DCSA)	0	0
Collateral in favour of EIB	0	0
Other	186,082	735,169
Total other assets	**213,262**	**762,348**
Total value of encumbered assets	**3,996,499**	**3,963,629**

Encumbered assets	Balance sheet value	Fair value
Capital instruments	597,063	1,007,687
Debt Instruments	1,273,863	1,447,186
Credit	8,685,029	8,685,029
Other assets	3,798,874	3,798,874
Total value of unencumbered assets	**14,354,829**	**14,938,776**

Table 49 | Fair value of assets received

(thousands of Euro)

Collateral received	Fair value of collateral received	
	encumbered	free
Debt instruments	46,398	0
Reports (purchase with resale agreement)		
Public debt	0	0
Financial undertakings	46,398	0
Non-financial undertakings	0	0
Total debt securities	**46,398**	**0**
Other assets (derivatives(		
Total value of encumbered collateral recei	**46,398**	**0**

Table 50 | Liabilities associated with encumbered assets and received collaterals

(thousands of euros)

Sources of encumbrance	Associated and contingent liabilities	Assets and collateral received
Financial Liabilities		
Derivatives	13,496	27,179
Deposits	2,595,657	3,988,081
Financing from the European Central Bank	1,395,320	1,886,972
Financing from the European Investment Bank (EIB)	350,406	453,791
Sale operations with repurchase agreement	849,931	1,647,317
Other deposits		
Securities issued		
Collateralised bonds by mortgage loan		
Collateralised bonds by credit to the Public Sector		
Securitisation operations		
Total Financial Liabilities	**2,609,154**	**4,015,260**
Other sources of encumbrance		
Commitment to the Deposit Guarantee Fund		
Commitment to the Investor Compensation Scheme	22,768	27,637
European Central Bank Liquidity Facility		
Total other sources of encumbrance	**22,768**	**27,637**
Total value of sources of encumbrance	**2,631,921**	**4,042,897**

278. The encumbered assets are, by and large, related to financing operations, namely of the ECB, repo operations, through the issuance of mortgage bonds and securitisation programmes. The types of assets used as collateral of the financing operations previously referred to are divided into client credit portfolios, which support securitisation programmes and mortgage bonds issuances programmes, be it those placed outside the Group and those destined to strengthen the collateral pool with the ECB, and Portuguese, Italian and Spanish sovereign debt portfolios, which collateralise repo operations in the monetary market.

279. Further information can be consulted in note 55 on Risk Management, in the notes attached to the financial statements on pages 293 to 295.

18. Remunerations Policy

280. With regards to information concerning the remuneration policy and practices applicable to the staff categories, the professional activities of whom have a significant impact on the respective risk profile, the following information is provided:

i) Details of the powers for establishing the remuneration of the corporate bodies, members of the executive committee or chief executive officer and directors of the company.

As a result of the alterations made to the governance model of BM, brought about by the statutory amendment approved by the General Meeting on 16 March 2018, new members of the corporate bodies were elected and set up under the new Articles of Association. In view of the above mentioned statutory amendment, the previous members of the governing bodies ceased functions, namely of the Remuneration Committee, whose duties involved presenting to the General Meeting a proposed update of the remuneration policy of the members of the bodies of BM, where appropriate , and the obligation to submit for approval to the General Meeting a declaration on the remuneration policy of the members of the management and supervisory bodies. In addition, this Committee must be represented at the General Meeting by at least one of its members. This Remuneration Committee met three times in 2018.

Since the Remuneration Committee, as referred to in Article 399(1) of the Commercial Companies Code, was not elected in the mentioned General Meeting, the General Meeting, under the terms of the law, was responsible for defining the remuneration of the members of the governing bodies for the 2018-2021 mandate, on 23 April 2018.

On 30 October 2018, new Articles of Association were approved, of which article 16 provides that the remuneration of the members of the governing bodies and of the statutory auditor are defined by the Remuneration Committee established in Article 11 (c) of the Articles of Association and which corresponds to the committee set out in Article 399 of the Commercial Companies Code, through the preparation of the decisions by the Remuneration, Appointments and Assessments Committee, an internal committee of the BD provided for in Article 19 of the Articles of Association, according to the Remuneration Policy that has been approved by the General Meeting.

The Remuneration, Appointments and Assessments Committee was appointed by deliberation of the BD on 7 February 2019, but the Remuneration Committee of the General Meeting foreseen in Article 11 (c) of the Articles of Association of BM, which corresponds to the committee established in Article 399 of the Commercial Companies Code, has not been appointed.

The Remuneration, Appointments and Assessments Committee thus annually submits to the General Meeting a statement on the remuneration policy of the members of the management body, under the terms of Article 2 (1) of Law No. 28/2009 of 19 June, also being responsible, under the provisions of Article 115-C(4) of the General Framework of Credit Institutions and Financial Companies, for submitting the remuneration policy for the members of the management and supervisory bodies to the General Meeting for approval.

ii) Composition of the remuneration committee:

The Remuneration, Appointments and Assessments Committee is composed of three members, which includes a Chairman, appointed by the BD from among its non-executive members or from among the Audit Committee, the majority of which, including the Chairman, must have an independent status, In addition, over the course of 2018, no natural or legal person was contracted to support the Remuneration Committee.

iii) Knowledge and experience of the members of the remuneration committee on matters of remuneration:

The members of the Remuneration, Appointments and Assessments Committee, as a whole, have professional qualifications acquired through academic qualifications, professional experience or specialised training suited to the exercise of their functions.

iv) Description of the remuneration policy of the management and supervisory bodies referred to in Article 2 of Law No. 28/2009, of 19 June:

The General Meeting appraised and unanimously approved the Statement of the Remuneration, Appointments and Assessments Committee on the Remuneration Policy of the Members of the management and supervisory bodies relative to 2018, a document that is available on the BM website, in the Institutional area, Deliberations of the General Meeting.

External consultancy services were not used to determine the remuneration policy.

v) Information on how remuneration is structured so as to permit the alignment of the interests of the members of the management body with the long-term interests of the institution, and how it is based on the assessment of performance and discourages excessive risk taking:

The remuneration policy is structured taking into consideration the activity, risk appetite, structure and dimension of the Institution, as well as the nature of duties and market practices.

Remuneration consists of the following components:

i) A fixed component paid on a monthly basis;
ii. A variable component, whose attribution is not guaranteed and whose payment is subject to a partial deferral.

The definition of these two remuneration components is based on objective and transparent criteria, consistent and compatible with the chain of responsibilities and competence of the remunerated employees, taking into account the sectoral and national remuneration standards.

In addition to the two identified components, remuneration in the form of daily allowances, in the event of travel, can be assigned to the Members of the Executive Committee, paid under conditions identical to those for staff members.

With regards to the payment of a variable remuneration to executive board members, the Institution has adopted a more restrictive policy, setting a cap on the variable remuneration dependent on the result of the individual performance appraisal and on the Institution's performance, thus preventing excessive risk taking behaviour.

Members of the BD did not receive any variable remuneration.

Additional information may be found in the Remuneration Policy of the Members of the Management and Supervisory Body of Caixa Económica Montepio Geral, caixa económica bancária, S.A., Points 2.2, 6.2.15 and 6.2.16 and in the Remuneration Policy of the Relevant Employees, Points 4 and 5 of Section VI (see address of the institutional website in point xvi).

vi) Reference, where applicable, to the existence of a variable remuneration component and information on any impact of the performance appraisal on this component:

The remuneration structure of the executive board members has, in addition to a fixed component, a possible variable component based on specific measurable criteria and predetermined assumptions.

This variable component may only be assigned in financial years in which no losses are posted and shall be dependent on a multi-annual assessment of the performance of each member, which must be approved by the General Meeting following a proposal of the Remuneration, Appointments and Assessments Committee.

During 2018, the attribution of a variable remuneration to the executive board members was not deliberated.

vii) Deferral of the payment of the variable component of remuneration, mentioning the period of deferral:

When the General Meeting decides to assign a variable remuneration amount to members of the Executive Board of Directors, 40% of that remuneration shall be deferred for a period of three years as of the date of the decision to assign said remuneration.

viii) Criteria underlying the attribution of variable remuneration in shares as well as on the holding, by the executive board members, of those shares, on any conclusion of contracts relative to those shares, namely, hedge or risk transfer contracts, the respective limit, and their relation to the value of the annual total remuneration:

Not applicable.

ix) Criteria underlying the attribution of variable remuneration in options and indication of the deferral period and price for exercise of the option:

At least 50% of the variable remuneration, deferred and not deferred, is paid in conformity with the General Framework of Credit Institutions and Financial Companies, via instruments issued by BM, with a residual minimum amortisation period of five years, and which are Additional Tier 1 or Tier 2 instruments, in accordance with Articles 52 and 63, respectively, both of CRR.

The mentioned instruments become unavailable during the three year period after their attribution and their holders are not able to enter into risk management contracts that safeguards them against any alterations to the economic value of those instruments.

The conclusion of such contracts determines the loss of the right to receive all of the variable remunerations that have been deferred.

If any other instruments are issued, the identification and management of potential conflicts of interest, which can be generated by the payment of those instruments as part of the variable remuneration, will be ensured. In this regard, procedures will be adopted to ensure compliance with the requirements applicable to the management of privileged information and to ensure that measures that may have a short-term impact on the price of those instruments are not adopted.

The instruments referred to will only be issued if they contribute towards the alignment of the variable remuneration with the performance and risks of BM. In that case, the remaining remuneration will be paid in cash.

With regards to points vi) to ix), additional information may be found in the Remuneration Policy of the Members of the Management and Supervisory Body of Caixa Económica

Montepio Geral, caixa económica bancária, S.A., Points 2.2, 6.2 and 7 and in the Remuneration Policy of the Relevant Employees, Section VI, VII and VIII (see address of the institutional website in point xvi).

x) Main parameters and grounds of any system of annual bonuses and any other non-cash benefits:

Under the terms of Article 16 of the Articles of Association, the Members of the Audit Committee, the Non-executive Members of the BD who are not part of the Audit Committee and the Members of the Executive Committee are entitled to the following benefits:

a) A retirement pension, assigned in accordance with the Retirement Plans of the Executive Board members, as approved by the General Meeting;

b) Compensation for any damage derived from work accidents and professional diseases similar to the compensation available for employees;

c) A health insurance policy with a coverage similar to the one provided for employees, if they do not have direct access to this protection.

xi) Main characteristics of the supplementary pension or early retirement schemes for board members and date when said schemes were approved at the general meeting, on an individual basis:

Under the terms of Clause 4 of the Management Contract, the members of the BD benefit from a supplementary retirement pension, if they exercised their duties for more than one year and until the end of their mandate, with the exception of a situation of disability, a pension supplement that will be assigned in the event of disability or when the retirement age in force for employees of the institution is reached.

This pension supplement will be calculated based on a percentage of 4% or 5%, for each full year's exercise of the position, depending on whether the position was held for up to 5 or more years, of their base salary earned as a member of the BD, on the date of recognition of the situation of disability or on the date on which the pension supplement was requested, being updated according to the variations of that salary.

xii) Amounts paid, for any reason, by other companies in a controlling or group relationship or which are subject to common control:

The members of the Audit Committee and the non-executive members of the BD who are not members of the Audit Committee, who accumulate non-executive positions in governing bodies of entities included in the consolidation perimeter, or in which the latter owns a qualifying stake, can earn, in those entities, an amount of not more than 20% of the monthly fixed base remuneration earned at BM.

In the case of non-executive members of the BD, who are not members of the Audit Committee, who were appointed for the exercise of executive functions in entities of the Group, their total remuneration cannot exceed the lowest remuneration of the members of the Executive Committee of BM.

xiii) Remuneration paid in the form of participation in profit and/or payment of bonuses and the reasons for the concession of such bonuses and/or participation in profit:

During 2018, the attribution of a variable remuneration to the executive board members was not approved.

xiv) Information on compensation paid or owed to former executive board members relative to their termination of office during the financial year can be consulted in the notes to the consolidated financial statements, namely in note 11, included in the Annual Report.

xv) Quantitative information relative to the group of employees that includes the senior managers that perform duties that can have an impact on the risk profile of the Institution, officers in control functions and other employees which, in remuneration terms, are equivalent to senior managers:

Table 51 | Remuneration of identified people

(thousands of Euro)

Collective remuneration	Non-executive directors	Executive directors	Investment Banking	Commercial Banking	Asset Management	Corporate functions	Independent control functions	Remainder of Identified People	Total Identified People
No. of beneficiaries	13	13	-	5	-	-	4	14	-
Senior staff									
Control functions									
Fixed remuneration 2018									
In cash	1,140,919	1,525,731	-	653,769	-	-	373,128	1,486,266	-
In shares or related instruments									
In other instruments									
Variable Remuneration 2018									
In cash									
In shares or related instruments									
In other instruments									
Deferred variable remuneration outstanding									
Attributed									
Not attributed									
Deferred payments made in 2018									
In cash									
In shares or related instruments									
In other instruments									
Explicit adjustment of exposure for performance applied in the year for the payments accumulated in previous years									
Number of beneficiaries of compensation due to dismissal	5	7							
Compensation due to dismissal	455,000	1,148,409							
Average period of stay									
Maximum amount of this type of payments made to a single person	185,000	285,000							
Number of beneficiaries of contributions to discretionary pension benefits									
Total amount of contributions to discretionary pension benefits in the year									

Table 52 | Number of people with a remuneration in excess of 1 million euros or equivalent.

Number of people with remuneration ≥1 M€	Number of beneficiaries
from 1 million euros to 1.5 million euros	0
from 1.5 million euros to 2 million euros	0
from 2 million euros to 2.5 million euros	0
from 2.5 million euros to 3 million euros	0
from 3 million euros to 3.5 million euros	0

xvi) The Remuneration Policy of the Members of the Management and Supervisory Body of Caixa Económica Montepio Geral, caixa económica bancária, S.A. and the Remuneration Policy of the Relevant Employees, quoted in this Chapter, can be consulted on the following page of the Institutional website: https://www.bancomontepio.pt/politicas-regulamentos.

Table 53 | Mapping tables

Tables corresponding to models of the EBA/GL/2016/11 Guidelines			
Table	**Model**	**Description**	**Section**
Table 8	Model 4 - EU OV1	General view of the risk-weighted assets (RWAs)	Chapter 4.2. Capital requirements
Table 15	Model 25 - EU CCR1	Analysis of exposure to CCR by method	Chapter 6. Counterparty credit risk
Table 16	Model 26 - EU CCR2	Capital requirement for CVA risk	
Table 17	Model 28 - EU CCR3	Analysis of exposure to CCR by portfolio and regulatory risk	
Table 18	Model 31 - EU CCR5-A	Impact of netting and collateral held on the exposure values	
Table 19	Model 32 - EU CCR5-B	Composition of collateral for exposures to CCR	
Table 20	Model 7 - EU CRB-B	Total and average net amount of exposures	Chapter 7.2. Portfolio structure
Table 21	Model 8 - EU CRB-B	Geographical breakdown of exposures	
Table 22	Model 9 - EU CRB-D	Concentration of exposures by industry or counterparty type	
Table 23	Model 10 - EU CRB-E	Residual maturity.of exposures	
Table 25	Model 11 - EU CR1-A	Credit quality of exposures by risk class:	
Table 26	Model 13 - EU CR1-C	Credit quality of exposures by geography:	
Table 27	Model 12 - EU CR1-B	Credit quality of exposures by industry or counterparty type	
Table 28	Model 14 - EU CR1-D	Ageing of past due exposures	Chapter 7.3. Past due and impaired loans
Table 29	Model 15 - EU CR1-E	Non-performing and forborne exposures	
Table 30	Model 16 - EU CR2-A	Changes in the stock of general and specific credit risk adjustments	
Table 31	Model 17 - EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	
Table 34	Model 18 - EU CR3	CRM Techniques – Overview	Chapter 8. Credit risk mitigation techniques
Table 35	Model 19 - EU CR4	Standardised Approach – Credit risk exposure and CRM effects	
Table 36	Model 20 - EU CR5	Standardised Approach – Breakdown of the exposure	
Table 42	Model 34 - EU MR1	Market risk under the standardised approach	Chapter 12. Foreign exchange and commodity risks in the banking and trading books

List of the remaining quantitative tables including the LCR reporting model according to the EBA/GL/2017/01 guidelines, Implementing Regulation (EU) 2016/200 relative to Leverage Ratios, Implementing Regulation (EU) 1423/2013 of the Commission and EBA/GL/2018/01 with reference to the disclosure of IFRS9 impacts.

Table	Description	Section
Table 1	Entities of the consolidation perimeter of the CEMG Group	Chapter 2. Scope
Table 2	Capital ratios and summary of their main components	Chapter 3.2. Declaration on the overall risk profile and its relation with the business strategy
Table 3	Reconciliation of own funds and balance sheet	Chapter 4.1. Own funds and capital ratios
Table 4	Full terms and conditions of own funds instruments	
Table 5	Main characteristics of own funds instruments	
Table 6	Main items of own funds	
Table 7	Uniform disclosure of the transitional regime to reduce the impact of IFRS 9	
Table 9	Capital requirements	Chapter 4.2. Capital requirements
Table 10	Capital indicators	Chapter 4.3. Assessment and adequacy of own funds
Table 11	Geographical distribution of the relevant credit exposures to calculate the counter-cyclical reserve	Chapter 4.4. Prudential reserves of own funds
Table 12	Leverage ratio	Chapter 4.5. Leverage ratio
Table 13	Breakdown of the total exposure	
Table 14	Reconciliation of the total exposure with the the accounting financial assets	
Table 24	Credit and counterparty risk capital requirements	Chapter 7.2. Portfolio structure
Table 32	Concentration rate	Chapter 7.4. Concentration risk
Table 33	Concentration analysis – Personal and property credit protection	Chapter 8. Credit risk mitigation techniques
Table 37	Securitisation operations	Chapter 10. Securitisation operations
Table 38	Credit risk - Securitisation operations: standardised approach	
Table 39	Credit risk – Securitisation operations: summary of activities	
Table 40	Capital requirements - Trading book	Chapter 11. Position, credit, counterparty and settlement risks of the trading book
Table 41	Capital requirements – Foreign exchange and commodities risks	Chapter 12. Foreign exchange and commodity risks in the banking and trading books
Table 43	Exposures to banking book shares	Chapter 13. Exposures to banking book shares
Table 44	Activity segments and activities list	Chapter 14. Operational risk
Table 45	Capital requirements for operational risk	
Table 46	Interest rate risk	Chapter 15. Banking book interest rate risk
Table 47	Average liquidity ratio (LCR)	Chapter 16. Liquidity risk
Table 48	Encumbered assets	Chapter 17. Encumbered and unencumbered assets
Table 49	Fair value of collateral received	
Table 50	Liabilities associated with encumbered assets and collateral received	
Table 51	Remuneration of Identified People	Chapter 18. Remuneration policy
Table 52	Number of people with a remuneration in excess of 1 million euros or equivalent.	Chapter 18. Remuneration policy

Banco Montepio

Table 54 | Mapping CRR articles

<table>
<tr><th>Article/ Description</th><th>Reference No. Report</th></tr>
<tr><td colspan="2">Article 435 Risk management objectives and policies</td></tr>
<tr><td colspan="2">1. Institutions shall disclose their risk management objectives and policies for each separate category of risk, including the risks referred to in this Title. These disclosures shall include:</td></tr>
<tr><td>(a) The strategies and processes to manage those risks;</td><td rowspan="2">Chapter 3.3 and 3.5</td></tr>
<tr><td>(b) The structure and organisation of the relevant risk management unit, including information on its authority and status, or other adequate provisions;</td></tr>
<tr><td>(c) The scope and nature of risk reporting and measurement systems;</td><td>Chapter 3.5</td></tr>
<tr><td>(d) The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants;</td><td>Chapter 3.6</td></tr>
<tr><td>(e) A declaration approved by the management body on the adequacy of the risk management arrangements of the relevant institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy;</td><td>Chapter 3.1</td></tr>
<tr><td>(f) A concise risk statement approved by the management body succinctly describing the relevant institution's overall risk profile associated with the business strategy. That statement shall include key ratios and figures providing external stakeholders a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body.</td><td>Chapter 3.2</td></tr>
<tr><td colspan="2">2. Institutions shall disclose the following information regarding governance arrangements, including regular updates on at least an annual basis:</td></tr>
<tr><td>(a) The number of directorships held by members of the management body;</td><td rowspan="3">Chapter 3.4</td></tr>
<tr><td>(b) The recruitment policy for the selection of members of the management body and their actual knowledge, skills and technical expertise;</td></tr>
<tr><td>(c) The policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which those objectives and targets have been achieved;</td></tr>
<tr><td>(d) Whether or not the institution has set up a separate risk committee and the number of times the risk committee has met;</td><td>Chapter 3.3</td></tr>
<tr><td>(e) The description of the information flow on risk to the management body.</td><td>Chapter 3.5</td></tr>
<tr><td colspan="2">Article 436 Scope of application</td></tr>
<tr><td colspan="2">The institutions shall disclose the following information regarding the scope of application of the provisions of this regulation, in accordance with Directive 2013/36/EU:</td></tr>
<tr><td>(a) The name of the institution to which the requirements of this regulation apply:</td><td>Chapter 1</td></tr>
<tr><td>(b) The specification of the differences in the consolidation scope for accounting and prudential purposes, including a brief description of the entities that fall within each scope, indicating whether:
i) those entities are fully consolidated,
ii) those entities are proportionally consolidated,
iii) the holdings in those legal entities are deducted from own funds,
iv) those entities are neither consolidated nor deducted;</td><td rowspan="4">Chapter 2</td></tr>
<tr><td>(c) Any current or expected, or practical or legal, material impediment to the prompt transfer of own funds or to the repayment of liabilities between the parent undertaking and its subsidiaries;</td></tr>
<tr><td>(d) The aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation, and the name or names of those subsidiaries;</td></tr>
<tr><td>(e) where applicable, the circumstances under which use is made of the derogation referred to in article 7 or the individual consolidation method laid down in article 9.</td></tr>
<tr><td colspan="2">Article 437 Own Funds</td></tr>
<tr><td colspan="2">1. The institutions shall disclose the following information regarding their own funds:</td></tr>
<tr><td>(a) A full reconciliation between Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and the filters and deductions applied to own funds of the institution pursuant to articles 32 to 35, 36, 56, 66 and 79, and the balance sheet in the audited financial statements of the institution;</td><td rowspan="2">Chapter 4.1</td></tr>
<tr><td>(b) A description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;</td></tr>
</table>

Article/ Description	Reference No. Report
(c) The full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;	
(d) A separate disclosure of the nature and amounts of the following: i) each prudential filter applied pursuant to articles 32 to 352, ii) each deduction made pursuant to articles 35, 56 and 66, iii) items not deducted in accordance with articles 47, 48, 56, 66 and 79;	
(e) A description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	
(f) A comprehensive explanation of the basis on which capital ratios are calculated where those capital ratios are calculated by using elements of own funds determined on a basis other than the basis laid down in this regulation.	
Article 438 Own funds requirements	
Institutions shall disclose the following information regarding their compliance with the requirements set out in article 92 of this regulation and in article 73 of Directive 2013/36/EU:	
(a) A summary of the method used by the institution to assess the adequacy of their internal capital to support current and future activities;	Chapter 4.3
(b) Upon request from the relevant competent authority, the result of the institution's internal capital adequacy assessment process, including the composition of the additional common equity Tier 1 own funds requirements based on the supervisory review process as referred to in Article 104(1)(a) of Directive 2013/36/EU.	
(c) Regarding those institutions that calculate the risk-weighted exposure amounts under Title II, Part III, Chapter 2, 8% of the risk-weighted exposure amounts for each of the specified risk categories referred to in article 112;	Chapter 4.2
(d) Regarding those institutions that calculate the risk-weighted exposure amounts under Title II, Part III, Chapter 3, 8% of the risk-weighted exposure amounts for each of the specified risk categories referred to in article 147; In the case of the retail exposure class, this requirement applies to each of he risk categories which correspond to the different correlations established in article 154(1) to (4). In the case of the equity exposure class, this requirement applies to: i) Each of the methods set out in article 155, ii) Exchange-traded exposures, private equity exposures, included in included in sufficiently diversified portfolios, as well as other exposures, iii) Exposures subject to supervisory transition regarding capital requirements, iv) Exposures subject to grandfathering provisions regarding capital requirements;	N.A. (IRB approach)
(e) Capital requirements calculated in accordance with Article 92(3) b) and c);	Chapter 4.2
(f) Capital requirements calculated in accordance with Part III, Title III, Chapters 2,3 and 4 and disclosed separately.	
The institutions that calculate risk weighted exposure amounts under Article 153(5) or Article 55(2) disclose the exposures allocated to eacg category of Table 1 of Article 153 or to each risk weight as referred to in Article 155(2).	N.A. (IRB approach)
Article 439 Exposures to counterparty credit risk	
Institutions shall disclose the following information regarding their exposure to counterparty credit risk as referred to Part III, Title III, Chapter 6:	
(a) A description of the methodology used to assign internal capital and set limits to exposures to counterparty credit risk;	Chapter 6
(b) A description of policies aimed at securing collateral and establishing credit reserves;	
(c) A description of policies related to Wrong-Way risks;	Chapter 9
(d) A description of the impact of the amount of collateral the institution would have to provide if its credit rating was downgraded.	Chapter 6
(e) The gross positive amount of contracts calculated in terms of fair value, netting benefits, netted current credit exposure, collateral held and net derivatives' credit exposure. This net credit exposure consists in credit exposure relative to derivative transactions, considering both the benefits from legally enforceable netting agreements and collateral arrangements;	

Article/ Description	Reference No. Report
(f) Measures for the amount of exposure under the methods defined in Part III, Title III, Chapter 6, sections 3 to 6, depending on the applicable method;	
(g) The notional value of credit derivative hedges, and the distribution of current credit exposure by types of exposure;	
The notional amounts of credit derivative transactions. Credit derivative transactions shall be broken down into credit derivatives used for the institution's own credit portfolio and credit derivatives used for intermediation purposes, including the distribution of credit derivative products, and the break down of the credit protections bought and sold by groups of credit derivative products.	
The estimate of α, where the institution has received the permission of the competent authorities to estimate this value.	
Article 438 Prudential reserves of own funds	
1. Institutions shall disclose the following information in relation to their compliance with the requirement for a countercyclical capital buffer as referred to in Title VII, Chapter 4 of Directive 2013/36/EU;	
(a) The geographical distribution of its relevant credit exposures for the calculation of their countercyclical capital buffer	Chapter 4.4
(b) The amount of their countercyclical capital buffer.	
Article 441 Indicators of global systemic importance	
1. Institutions identified as Global Systemically Important Institutions (G-SIIs) in accordance with Article 131 of Directive 2013/36/EU shall disclose, on an annual basis, the values of the indicators used to determine their score in accordance with the identification methodology referred to in that article.	Chapter 5
Article 442 Adjustments for credit risk	
Institutions shall disclose the following information regarding their exposures to credit risk and dilution risk:	
(a) The definitions that they use for accounting purposes of “past due” and “impaired”;	Chapter 7.1
(b) A description of the approaches and methods adopted for determining specific and general credit risk adjustments;	Chapter 3.5
(c) The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes;	Chapter 7.2
(d) the geographical distribution of exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;	
(e) The distribution of exposures by industry or counterparty type, broken down by exposure classes, including the specification of the SME exposure, and further detailed if appropriate;	
(f) The residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;	
(g) By significant industry or counterparty type, the amount of : i) impaired exposures and past due exposures, shown separately, ii) adjustments for specific and general credit risk, iii) requirements of the adjustments for specific and general credit risk during the reporting period;	
(h) The amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas, including, if practical, the adjustment amounts for specific and general credit risk related to each geographical area;	
(i) The reconciliation of changes in the adjustments for specific and general credit risk relative to impaired exposures, shown separately. The information includes the following: i) a description of the type of adjustments for specific and general credit risk, ii) the opening balances, iii) the amounts set aside to meet the adjustments for credit risk during the reporting period, iv) The amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of	

Article/ Description	Reference No. Report
subsidiaries, and transfers between adjustments for credit risk, v) The closing balances;	
The adjustments for specific credit risk and the recoveries recorded directly to the income statement shall be disclosed separately.	
Article 444 Use of ECAIs	
The institutions that calculate the risk-weighted exposure amounts in accordance with Part III, Title II, Chapter 2, shall disclose the following information for each of the exposure classes set out in Article 112;	
(a) The names of the nominated ECAIs and export credit agencies (ECAs) and the reasons for any changes in those nominations;	Chapter 7.5
(b) The exposure classes for which each ECAI or ECA is used;	
(c) A description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book.	
(d) The association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part III, Title II, Chapter 2, taking into account that this information does not require disclosure if the institution respects the standard association published by the EBA;	
(e) The exposure values and the exposure values after credit risk mitigation associated with each credit quality step as set out in Part III, Title II, Chapter 2, as well as the exposure values deducted from own funds.	Chapter 7.2
Article 445 Exposure to market risk	
The institutions that calculate their own funds requirements in accordance with Article 92(2) b) and c), shall disclose those requirements relative to each risk as referred to in those provisions separately. In addition, the capital requirement for specific interest rate risk of securitisation positions shall be disclosed separately.	Chapter 12
Article 446 Operational risk	
Institutions shall disclose the methods of analysis of the capital requirements relative to the operational risk that are applicable to them; a description of the methodology established in Article 301(2), when used by the institution, including an analysis of the relevant internal and external factors considered in the method of assessment of the institution and, in the case of partial use, the scope and coverage of the different methodologies used.	Chapter 14
Article 477 Exposures to shares not included in the trading book	
Institutions shall disclose the following information relative to exposures to shares not included in the trading book:	
(A) The differentiation of the exposures by objective, including the obtainment of gains and strategic reasons, and an overall description of the accounting techniques and assessment methodologies used, including the key assumptions and practices that affect the assessments, such as any significant changes to these practices;	Chapter 13
(b) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value;	
(c) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;	
(d) The cumulative realised gains or losses arising from sales and liquidations in the period;	
(e) The total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds. .	
Article 448 Exposures to interest rate risk on positions not held in the trading book	
Institutions shall disclose the following information on their exposures to interest rate risk for the positions not held in the trading book.	
(a) The nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk;	Chapter 15
(b) The variation in earnings, economic value or other relevant measure used by the management to assess the effect of upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.	
Article 449 Risk associated with securitisation positions	

Article/ Description	Reference No. Report
Institutions calculating risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 5 or own funds requirements in accordance with Articles 337 or 338 shall disclose the following information, where applicable, separately for the elements of their trading and non-trading books:	
(a) A description of the institution's objectives in relation to securitisation activity;	Chapter 10
(b) The nature of other risks including liquidity risk inherent in securitised assets;	
(c) The type of risks in terms of seniority of underlying securitisation positions and in terms of assets underlying these latter securitisation positions assumed and retained with re-securitisation activity;	
(d) The different roles played by the institution in the securitisation process;	
(e) An indication of the extent of the institution's involvement in each of the roles as referred to in sub-paragraph d);	
(f) A description of the processes instituted to monitor changes in the credit and market risk of the securitisation positions, including the way in which the behaviour of the underlying impacts affects the securitisation positions and a description of how these processes differ with respect to the re-securitisation positions;	
(g) A description of the institution's policy governing the use of hedging and unfunded protection to mitigate the risks of retained securitisation and re-securitisation positions, including identification of material hedge counterparties by relevant type of exposure;	
(h) The approaches to calculating risk weighted exposure amounts that the institution follows for its securitisation activities, including the types of securitisation exposures to which each approach applies;	
i) The types of SSPEs that the institution, as sponsor, uses to securitise third-party exposures including whether and in what form and to what extent the institution has exposures to these SSPEs, separately for on and off-balance sheet exposure, as well as a list of the entities that the institution manages or advises and that invest in the securitisation positions securitised by the institution and in SSPEs sponsored by the institution.	N.A.
(j) A summary of the institution's accounting policies on securitisation activities	Chapter 10
(k) The names of the ECAIs used for securitisations and the types of exposure for which each agency is used;	
(l) where applicable, a description of the Internal Assessment Approach as set out in Part III, Title II, Chapter V, Section 3, including the Annex IX, Part 4 including the structure of the internal assessment process and relation between internal assessment and external ratings, the use of internal assessment other than for IAA capital purposes, the control mechanisms for the internal assessment process including discussion of independence, accountability, and internal assessment process review; the exposure types to which the internal assessment process is applied and the stress factors used for determining credit enhancement levels, by exposure type;	N.A.
(m) An explanation of significant changes to any of the quantitative disclosures in sub-paragraphs (n) to (q) since the last reporting period;	Chapter 10
(N) Separately for the trading and the non-trading book, the following information broken down by exposure type: (i) the total amount of outstanding exposures securitised by the institution, separately for traditional and synthetic securitisations and securitisations for which the credit institution acts only as sponsor, (ii) the aggregate amount of on-balance sheet securitisation exposures retained or purchases and off-balance sheet securitisation exposures, (iii) the aggregate amount of assets awaiting securitisation, (iv) for securitised instruments subject to the early amortisation treatment, the aggregate drawn exposures attributed to the seller's and investors' interests respectively, the aggregate capital requirements incurred by the institution against the seller's shares and the aggregate capital requirements incurred by the institution against the investors- shares of drawn balances and undrawn lines, (v) the amount of securitisation exposures that are deducted from own funds or risk-weighted at 1,250%, (vi) a summary of the current year's securitisation activity, namely the amount of exposures securitised and recognised gain or loss on sales;	
(o) Separately for the trading and non-trading book, the following information: (i) the aggregate amount of securitisation exposures retained or purchased and the associated capital requirements, broken down	

Article/ Description	Reference No. Report
between securitisation and re-securitisation exposures and further broken down into a meaningful number of risk-weight or capital requirement bands, for each capital requirements approach used, (ii) the aggregate amount of re-securitisation exposures retained or purchased, broken down according to the exposure before and after hedging/insurance and the exposure to financial guarantors, broken down according to guarantor credit worthiness categories or guarantor name;	
(p) For the non-trrading book and regarding exposures securitised by the institution, the amount of impaired/past due exposures and the losses recognised by the institution during the current period, both broken down by exposure type;	
(q) For the trading book, the total outstanding residual exposures securitised by the institution and subject to a capital requirement for market risk, broken down into traditional/synthetic and by exposure type;	N.A.
(r) if the institution provided support in accordance with Article 248(1) and the impact on capital, as applicable.	N.A.
Article 450 Remuneration policy	
1. institutions shall disclose at least the following information regarding their remuneration policy and practices for those categories of staff whose professional activities have a material impact on institutions' risk profile:	
(a) Information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, where applicable, information about the mandate and composition of a remuneration committee, the names of the external consultants whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;	Chapter 18
(b) Information about link between pay of the staff and their performance;	
(c) The most important design characteristics of the remuneration system, namely information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;	
(d) The ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU;	
(e) Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based	N.A.
(f) The main parameters and rationale for any system of annual bonuses and any other non-cash benefits;	Chapter 18
(g) Aggregate quantitative information on remuneration, broken down by business area;	
(h) Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following: (i) the amounts of remuneration awarded for the financial year, split into fixed and variable remuneration, and the number of beneficiaries; (ii) the amounts and forms of awarded variable remuneration, split into cash, shares, share-linked instruments and other forms of remuneration, (iii) the amounts of deferred remuneration to be paid, split between vested and non-vested rights, (iv) the amount of deferred remuneration due to vest in the financial year, paid out and that is reduced through performance adjustments, (v) new recruitment allowances and severance pay paid during the financial year, and the number of beneficiaries of those payments, (vi) amount of severance pay awarded during the financial year, the number of beneficiaries and highest payment that has been awarded to a single person;	
(i) The number of individuals that have been remunerated EUR 1 million or more per financial year, with the remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500000 and with the remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;	
(j) Upon demand from the relevant Member State or competent authority, the total remuneration for each member of the management body or senior management.	N.A.
2. For institutions that are significant in terms of their size, internal organisation and the nature, scope and complexity of their activities, the quantitative information as referred to in	

Banco Montepio

Article/ Description	Reference No. Report
this Article shall also be made available to the public, with regards to the hierarchical level of the members of the management body of the institution.	
Institutions shall comply with the requirements set out in this Article in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities and without prejudice to Directive 95/46/EC.	
Article 451 Leverage	
Institutions shall disclose the following information regarding their leverage ratio as calculated ion accordance with Article 429 and their management of excessive leverage risk:	
(a) The leverage ratio and how the institutions apply Article 499(2) and (3):	Chapter 4.5
(b) The breakdown of the total exposure measure, as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements;	
(c) Where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11);	
(d) A description of the processes used to manage the risk of excessive leverage;	
(e) A description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.	
Article 452 Use of the IRB Approach to credit risk	
Institutions calculating the risk-weighted exposure amounts under the Internal Ratings Based (IRB) Approach to credit risk shall disclose the following information:	
(a) The competent authority's permission of the approach or approved transition;	
(b) An explanation and review of the following: (i) the structure of the internal rating systems and the relation between internal and external ratings, (ii) the use of internal estimates for other purposes than calculating risk-weighted exposure amounts in accordance with Part III, Title II, Chapter 3; (iii) the process for managing and recognising credit risk mitigation; (iv) the mechanisms of control of the rating systems, namely a description of the independence, responsibility and review of those systems;	N.A. (IRB approach)
(c) A description of the internal rating process.	
(d) The exposure values for each of the risk categories specified in Article 147; Exposures to central governments, central banks, institutions and companies regarding which institutions use own estimates of LGDs or conversion factors for the calculation of risk-weighted exposure amounts shall be disclosed separately from exposures for which the institutions do not use such estimates.	
(e) For each of the exposure classes - central governments, central banks, institutions, corporate and equity - and across a sufficient number of obligor grades (including default), to allow for a meaningful differentiation of credit risk.	
(f) For the retail exposure class and for each of the categories as defined under point (c)(iv), either the disclosures outlined under (e) above (if applicable, on a pooled basis), or an analysis of exposures (outstanding loans and undrawn authorised amounts) against a number of EL grades to allow for a meaningful differentiation of credit risk (if applicable, on a pooled basis);	
(g) The adjustments for specific credit risks recorded in the previous period for each exposure class (for retail, for each of the categories as defined under point (c)(iv) and how they differ from past experience;	
(h) A description of the factors that had an influence on the losses registered in the preceding period (for example, the institution may have experienced higher than average default rates, or higher than average LGDs and conversion factors);	
(i) The institution's estimates against actual outcomes over a longer period.	
(j) For all the exposure classes as referred to in Article 147 and for each exposure category to which each of the various correlations refers to as set out in Article 154(1) to (4).	
For the purposes of point (c), the description shall include the types of exposure included in the exposure class, the definitions, methods and data for estimation and validation of PD and, if applicable, LGD and conversion factors, including assumptions employed in the derivation of these variables, and the descriptions of material deviations from the definition of default as set out in Article 178, including the main segments affected by such deviations.	

Article/ Description	Reference No. Report
Article 453 Use of risk mitigation techniques	
The credit institutions applying credit risk mitigation techniques shall disclose the following information:	
(a) The policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting;	Chapter 8
(b) The policies and processes for collateral valuation and management;	
(c) A description of the main types of collaterals taken by the credit institution;	
(d) The main types of guarantor and credit derivative counterparty and their creditworthiness;	
(e) Information about market or credit risk concentrations within the credit mitigation taken;	
(f) For credit institutions calculating risk- weighted exposure amounts in accordance with the Standard Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on-or off-balance sheet netting) that is covered - after the application of volatility adjustments - by eligible financial collateral and other eligible collateral;	
(g) For credit institutions calculating risk- weighted exposure amounts in accordance with the Standard Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches as referred to in Article 155.	N.A.
Article 454 Use of the Advanced Measurement Approaches regarding operational risk	
The credit institutions using the Advanced Measurement Approaches set out in Articles 321 to 324 for the calculation of their own funds requirements for operational risk shall disclose a description of the use insurance and other risk transfer mechanisms for the purposes of mitigating this risk.	N.A.
Article 455 Use of Internal Market Risk Models	
Institutions that calculate their own funds requirements in accordance with article 363 shall disclose the following information:	
(a) For each sub-portfolio covered:	N.A.
(b) The scope of authorisation granted by the competent authority;	
(c) A description of the extent and methodologies for compliance with the requirements of Articles 104 and 105.	
(d) The highest, the lowest and the average of the following values.	
(e) The capital requirement elements, as specified in Article 364.	
(f) The weighted average liquidity horizon for each sub-portfolio covered by the internal models for additional risk default and migration models and for correlation trading portfolio risk;	
(g) a comparison of the daily end-of-day value-at-risk measures to the oneday changes of the portfolio's value by the end of the subsequent business day together with an analysis of any important overshooting during the reporting period.	

List of most often mentioned abbreviations and technical terms in the document

ALMM – Additional Liquidity Monitoring Metrics

ECB - European Central Bank

BM - Banco Montepio

BD - Board of Directors

EBD - Executive Board of Directors

CALCO - Capital, Assets and Liabilities Committee

CCF - Credit Conversion Factors

CCP - Central Counterparty

CCR - Counterparty Credit Risk

CET1 - Common Equity Tier 1

CVA - Credit Valuation Adjustment

CRD IV - Directive 36/2013 of the European Parliament and the European Council

CRM – Credit Risk Mitigation

CRR - Regulation 575/2013 of the European Parliament and the European Council

CSA - Credit Support Annex

RID - Risk Department

EAD – Exposure at Default

EBA - European Banking Authority

ECAI – External Credit Assessment Institution

EU – European Union

RMF – Risk Management Function

GMRA - Global Master Repurchase Agreement

CI - Concentration Index

ICAAP – Internal Capital Adequacy Assessment Process

ILAAP – Internal Liquidity Adequacy Assessment Process

IFRS - International Financial Reporting Standard

IRB – Internal Rating Based

ISDA – International Swaps Derivatives Association

LCR – Liquidity Coverage Ratio

NSFR – Net Stable Funding Ratio

CIU – Collective Investment Undertaking

T1 - Capital Tier 1

T2 - Capital Tier 2

REPO – Repurchase Agreement

RAF – Risk Appetite Framework

RAS - Risk Appetite Statement

RWA – Risk-Weighted Assets

SREP – Supervisory Review and Evaluation Process

VaR – Value at Risk