Banco Montepio

Market Discipline Report

2019

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Declaration of responsibility

The present declaration of responsibility is issued by the Board of Directors (BD) of Banco Montepio with regards to the Market Discipline Report pursuant to the disclosure requirements laid down in Regulation (EU) 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 under the terms of Article 70, number 2 of the Portuguese Commercial Companies Code.

Since there was no provisions for such 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 2019.

The relevant events occurred during 2019, as well as between the end of the financial year of 2019 and the publication of the Annual Report, may be found on pages 346 to 347 of the Annual Report for 2019. Reference is made to the fact that, after the publication of the Annual Report, in June 2020 Banco Montepio issued subordinated debt amounting to 50 million euros with a maturity period of 10 years. This issuance is eligible to reinforce tier 2 own funds (Tier 2).

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 the best of its knowledge, all the information provided 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 number 2 of Article 432 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 Banco de Portugal Instruction 5/2018 (which implements in the Portuguese legal framework 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) 575/2013 of the European Parliament and of the Council of 26 June 2013 (also known as the 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, as well as detailed information on own funds, own funds requirements and the risks assumed by Banco Montepio.

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 2019.

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, being 31 December 2019.

2. Scope

6. BM is a savings bank, incorporated in the form of a public limited liability company (*Sociedade Anónima*), with 99% of its share capital subscribed by Montepio Geral – Associação Mutualista and the remaining share capital subscribed 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 mutualism 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 mutualism nature and objectives, which lend it unique features in the sectors in which it operates and in Portuguese society. Further information can be consulted 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 December 2019 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 discontinued 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, constraint 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 may limit the fund transfers.

11. Pursuant to points (d) and (e) of Article 436 of the 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 sector.

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

Name of the entity	Accounting consolidation method	Regulatory consolidation method	Activity	Head office	% Share
Caixa Económica Montepio Geral	Full	Full	Banking	Portugal	100%
Montepio Holding SGPS, S.A.	Full	Full	Holding company	Portugal	100%
Montepio Investimento, S.A.	Full	Full	Banking	Portugal	100%
Montepio Crédito, Instituição Financeira de Crédito, S.A.	Full	Full	Specialised Credits	Portugal	100%
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	Full	Full	Investment fund management	Portugal	100%
Finibanco Angola, S.A.	Full	Full	Banking	Angola	80%
Banco Montepio Geral - Cabo Verde, Sociedade Unipessoal, S.A.	Full	Full	Banking	Cape Verde	100%
Montepio - Gestão de Activos Imobiliários, A.C.E.	Equity Method	Equity Method	Management of real estate assets	Portugal	26%
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	Equity Method	Equity Method	Hotels, restaurants and similar activities	Portugal	20%
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%
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	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%
Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto	Full	Full	Real estate investment fund	Portugal	100%
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.	Full	Full	Real estate management	Portugal	100%
CESource, ACE	Equity Method	Equity Method	Management of IT resources	Portugal	18%
Pelican Mortgages No. 3	Full	Full	Credit secuitisation	Portugal	100%
Pelican Mortgages No. 4	Full	Full	Credit secuitisation	Portugal	100%
Aqua Mortgages No. 1	Full	Full	Credit secuitisation	Portugal	100%
Pelican Mortgages No. 5	Full	Full	Credit secuitisation	Portugal	100%
Pelican Mortgages No. 6	Full	Full	Credit secuitisation	Portugal	100%
Pelican Finance No. 1	Full	Full	Credit secuitisation	Portugal	100%
Aqua Finance No. 4	Full	Full	Credit secuitisation	Portugal	100%

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 its 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, in 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-taking, 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, under the business strategy and aimed at ensuring sustained growth with adequate capital and liquidity levels, is based on the following pillars of action in risk management:

    - Increase balance sheet profitability: boost the recurring component of operating income focusing on credit, but reducing exposure to non-performing loans (NPE), real estate (REO), financial holdings and participation units, and increasing the core business of retail and commercial banking.
    - Improve the risk profile of the credit portfolio: aim towards business growth with suitable risk levels, with the reference being an average internal rating of 8 for individuals and 9 for companies, as well as compliance with the macroprudential recommendation with respect to consumer credit.
    - Diversify risk: limit credit concentration by economic group and increment business in new sectors, with the consequent reduction of the weight of construction and real estate development.
    - Change the real estate financing paradigm: finance projects in which the capital risk is unequivocally taken by the investors and not by the bank; as such, Banco Montepio should not, as a principle, finance land and the own funds brought in by the borrowers should be more than 20%.
    - Optimise the use of capital: promote the granting of credit in operations with lower capital consumption, such as, for example, Governement guaranteed lines of the Mutual Guarantee Societies (*Sociedades de Garantia Mútua* (SGM)) and financing lines backed by the European Investment Fund (EIF), operations with pledge of deposits and credit granting in retail and small and medium-sized enterprises (SMEs).
    - Manage liquidity and interest rate risk, and capital adequacy, taking into account the regulatory requirements, the maximisation of profitability, the business and market environment, within the limits defined in the BM Group's risk appetite.
    - Maintain a robust reputational position among its customers, investors and the public in general, supported by the solidity of the image of a centenary institution in the banking market.

19. The high-level definition of risk management and risk appetite is supported by a series of capital metrics, quality of assets (NPL, Properties, average rating and concentration in terms of sectors,

among others), profitability and liquidity, which arise from Banco Montepio's business plan and strategy, 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/2019	Dec/2018
Common Equity Tier 1	1,273,868	1,438,503
Risk Weighted Assets	10,298,618	10,738,017
CET1 Ratio	12.37%	13.40%
T1 Ratio	12.37%	13.40%
Total Capital Ratio	13.89%	13.92%
Leverage Ratio	7.03%	7.68%
LCR Ratio	179.93%	160.50%

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 elements mentioned 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 Risk Management Function 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.

24. Throughout 2019, 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 Risk Management Function, the Risk Committee conducted a detailed analysis of the themes related to the competencies conferred on it. During this year, the Risk Committee held sixteen meetings, with members of the BD and of the various departments of BM or of the Group, attended by the Chief Risk Officer (CRO).

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-taking, through formulation of proposals and recommendations to the management 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-taking, 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 accordance 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 implemented process of monitoring and reporting the approved risk limits and objectives. The RAS must be reviewed and updated at least annually, approved by the BD and supported by the manager of the Risk Management Function, 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 accordance 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 to 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 Risk Management Function must challenge the results of those procedures based on the history of risk events and their impacts. The Risk Management Function is responsible for implementing and coordinating a risk identification and assessment process, which guarantees, at least once a 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, 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 Risk Management Function 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 Risk Management Function 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 in relation to the risk profile of the entity and the market environment. The analyses conducted by the Risk Management Function 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 Risk Management Function 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 management body is responsible, under the proposal of the Risk Management Function, 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. In 2019, a one-tier governance model was enforced at Caixa Económica Montepio Geral, caixa económica bancária, S.A., hereinafter Banco Montepio, composed of a Board of Directors (which includes an Audit Committee) and a Statutory Auditor.

44. Pursuant to Article 13, number 1, point m) of the Articles of Association of Banco Montepio and Article 6 of the Regulations of the Board of Directors, the Board of Directors (BD) approved the constitution of three internal Committees composed exclusively of non-executive members: the Risk Committee (CR), the Remuneration, Appointments and Evaluations Committee (CRNA) and the Corporate Governance, Ethics and Sustainability Committee (CGSES), and delegated the current management of Banco Montepio to an Executive Committee.

45. Pursuant to Article 4 of the Regulations of the Remuneration, Appointments and Evaluations Committee (CRNA), it is responsible for matters related with Remunerations, Nominations and Assessments, in addition to those attributed by the law, by the Articles of Association of BM and by the BD.

46. With respect to Remunerations, the CRNA is responsible for ensuring that the remuneration policy and practices encourage the sustainable development of the institution. The CRNA should formulate, at least on an annual basis, informed and independent judgements on the remuneration policy and practices, with a view to the annual submission to the General Meeting of a statement on the remuneration policy of the members of the management body, forwarding to the General Meeting the reports prepared on the remuneration policy and practices, proposing to the BD the criteria to be used in the annual process of assessment and establishment of the variable component of the remuneration of the members of the Executive Committee, where the CRNA should comment on the adequacy of the proposed arrangement of supplementary retirement pensions, due to old age or disability, of the directors approved by the General Meeting, under the terms of Article 402 of the Commercial Companies Code, and verify the implementation of and compliance with the remuneration procedures adopted by the competent governing body, including verification of the independence between the remuneration of the employees who perform risk management and control functions, and the institution's results.

47. Concerning nominations, the CRNA is responsible for formulating and conveying to the Board of Directors recommendations on candidate members of the management and supervisory bodies, including the "fit & proper" process, appraising the respective profile in terms of suitability, professional qualification, independence and availability to hold the position, commenting on supervenient alterations or nominations for new duties and about nominations in terms of knowledge, skills, diversity and experience.

48. Finally, on matters of Assessment, the CRNA is responsible for proposing to the Board of Directors the approval, at the General Meeting, of the Policy of Selection and Evaluation of the Adequacy of the members of the management and supervisory bodies.

49. In 2019, the CRNA prepared a Policy of Selection and Evaluation of the Adequacy of the Members of the Management and Supervisory Body (MOAF) and Key Function Holders (TFE), with a view to ensuring that the Management and Supervisory Body and Key Function Holders have, at all times, all the requirements necessary for the performance of their duties, and that a process of assessment of this specific adequacy, in individual and collective terms, should be carried out on an annual basis.

50. This Policy was presented by the CRNA to the Board of Directors, in order to be submitted to the approval of the General Meeting held on 30 June 2020, the legal deadline established in the current context of the Covid-19 pandemic.

51. With respect to the requirement established in Decree-Law 89/2017 in relation to the Policy of diversity applied by the company to its management and supervisory bodies, this requirement is not applicable to Banco Montepio, as indicated in page 136 of the Annual Report.

52. Additional information in relation to the governance system and the corporate bodies of BM may be consulted in the "Institutional" area (www.bancomontepio.pt/modelo-governo).

3.5 Process of identification, measurement and control of each risk

Credit risk

53. 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.

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

55. 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 acquaintance with the types of risk in question (i.e. the capacity of modelling of those risks) and the liquidity of the instruments.

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

57. 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.

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

59. There are acceptance scoring models for lending to individuals in retail portfolios, namely for mortgage loans, personal loans and for credit cards. Sole proprietorships (SPs) and microenterprises are classified as retail, and, therefore, 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 well as in the assessment of new credit proposals that are, when applicable, combined with the acceptance scoring information.

60. In the field of 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 sector, or by the number of years of company activity, namely startups.

61. 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 delinquency 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.

62. Limits delegated by different decision levels, by operation amount and client global exposure, type of operation/collateral and risk rating attributed are defined. In this regard, 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 regulations. 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 Risk Management Function. The Risk Department 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.

63. 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 Risk Department. 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 early warning system is in force for indicators of increased credit risk (Early Warning Signs).

64. 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.

65. 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).

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

67. 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.

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

69. 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.

70. 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 which consider forward-looking information; and
- PD = 100% for all contracts belonging to Stage 3.

71. 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.

72. 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

73. 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. The limits currently in force were approved in 2019 by the respective management body. As a process subject to annual review, it must be reassessed during this year.

74. In this way, based on the defined limits, the Risk Department monitors the evolution of the risk profile in relation to the risk appetite, which includes the concentration risk, with the respective reporting to the Executive Committee and Risk Committee, as well as quarterly to the BD, in accordance with the Group’s Risk Management Policy.

75. 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 before the counterparty or before 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 Banco de Portugal Notice 9/2014 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 before 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 concerning 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 matrixes are defined by rating and by counterparty type. Exposure is monitored on a daily basis to ensure that the limits are respected.

  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 sector of economic activity.

  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 aggregation of NACESs 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.

- **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 geographic area.

Market risk

76. The concept of market risk reflects the possible loss that may be recorded by a given portfolio as a result of changes to 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.

77. With respect to market risk information and analysis, there is regular reporting on own portfolios of financial assets. 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. Stop Loss limits and Loss Trigger limits are also defined for the positions held for trading and available for sale (positions recorded in the accounts as at fair value through other comprehensive income).

78. 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.

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

80. The Risk Department submits specific reports on market risk exposure to the Executive Committee and Risk Committee on a monthly basis and to the BD on a quarterly basis.

Banking book interest rate risk

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

82. 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).

83. 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.

84. 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.

85. Following the Basel recommendations and Banco de Portugal Instruction 34/2018 of 26 December, 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.

86. 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.

87. 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.

88. The Risk Department submits interest rate monitoring reports to the Executive Committee, Risk Committee and BD at least on a quarterly basis.

Foreign exchange risk

89. 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.

90. 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 coverage of the exchange rate risk.

91. The Risk Department submits specific reports on exchange rate risk exposure to the Executive Committee and Risk Committee on a monthly basis and to the BD on a quarterly basis.

Liquidity risk

92. 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).

93. Liquidity risk is assessed using defined regulatory indicators, as well as other internal metrics for which there are established internal limits. This control is strengthened with the regular conduct of stress tests, aimed at characterising the risk profile and ensuring that the Group complies with its obligations under normal business conditions, but also in a scenario of any stress or liquidity crisis.

94. The objective of controlling the liquidity levels is to maintain a satisfactory level of disposable assets so as to meet financial needs in the short, medium and 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.

95. 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 unencumbered securities portfolio are added to the ascertained values, thus determining the accumulated liquidity gap for many time horizons.

96. 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.

97. Limits are defined for various indicators of liquidity risk, which are monitored through monthly reports that are submitted by the Risk Department to the Executive Committee and the Risk Committee. In addition, the liquidity risk is reported on a quarterly basis by the Risk Department to the BD.

Real estate risk

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

99. 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 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.

100. Monthly reports are prepared by the Strategy, Planning and Control Department and submitted to the CALCO which present 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

101. 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.

102. The BM Group has approval from the Banco de Portugal to use the standardised 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.

103. 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.

104. 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.

105. 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.

106. 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.

107. 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 could cause the interruption of the activity, and also taking into account the defined Recovery Time Objective (RTO).

Pension Fund risk

108. 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 fund.

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

110. Considering the investment policy provisions of the Banco Montepio's 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.

111. The Risk Department 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 Banco Montepio's Pension Fund are also monitored.

112. In addition to verifying compliance with the investment policy and the legal and prudential limits, the fund manager (Futuro - Sociedade Gestora de Fundos de Pensões, S.A.) decided to strengthen control and monitoring through the use of several 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

113. Other risks - reputation risk, strategy and business risk - 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. In this regard, it is important to note the monitoring undertaken by the CALCO, namely the control of deviations in relation to the approved strategic plan and budget. The Risk Department 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

114. For the purpose of reducing credit risk, the risk mitigation elements associated with each operation are considered. Specifically, 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.

115. 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.

116. For 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 Banco Montepio, fully independent in relation to the commercial area.

117. 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 appraiser.

118. 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 that of the former.

119. 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.

120. 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.

121. 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

122. The Group's own funds are established in accordance with the applicable regulatorystandards, namely Directive 2013/36/EU (Capital Requirements Directive IV or CRD IV), the CRR and Banco de Portugal Notice 10/2017. 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 the CRR is also deducted, as well as the deferred tax assets associated with tax losses. With regards to financial investments in financial sector 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. For financial investments in financial institutions, any deduction is made proportionally on the respective capital levels that are held. Within the scope of the implementation of the requirements defined in the CRR a transition plan was defined which permitted the gradual recognition of the most significant impacts of these new regulations. 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 2019 it will be of 50%. With the revision of Regulation (EU) 575/2013, on 27 June 2019, the applicable amount of insufficient coverage for non-performing exposures where the exposure was originated after 26 April 2019 shall henceforth be deducted.

- Tier 1 (T1) capital: Includes capital equivalent instruments, whose conditions comply with the requirements defined in Article 52 of the CRR and that have obtained approval from 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 this capital.

- Tier 2 (T2) capital: includes quasi-equity instruments, whose conditions comply with the requirements defined in Article 63 of the CRR and that have been approved by 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 this capital.

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

124. 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 credit valuation adjustment (CVA) requirement is also ascertained.

125. 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 2019, Banco Montepio prudentially recognises only 15% of the impact related to the adoption of IFRS 9.

126. As mentioned above, in 2019, the effects of the new Basel III regulations regarding deferred tax assets, which do not depend on future profitability (as long as they are on the balance sheet as at 31 December 2013), 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 regulations, without considering transition plans, is known as full implementation. The phasing-in process is currently in force, and it is on this basis that it is checked whether a certain entity has an amount of equity that is not less than the respective own fund requirements, thus confirming the adequacy of its capital. This relationship is reflected in the different capital ratios, namely the CET1 ratio, T1 ratio and total capital ratio (reflecting the respective capital level as a percentage of the amount corresponding to 12.5 times own funds requirements).

127. 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 sheet4

(thousands of euros)

	dec19	dec18
(+) Equity		
Capital	2 420 000	2 420 000
Other equity instruments	6 323	6 323
Own securities	0	0
Revaluation reserves	809	-18 710
Other reserves and retained earnings	-1 008 378	-919 841
Of which associated with the actuarial deviation of the pension fund	-300 878	-223 047
Of which initial recognition IFRS 9 (net credit impairment DTA)	-104 904	-104 904
Net income for the period	21 684	13 583
Minority interests	11 550	15 551
Total Equity	**1 451 988**	**1 516 906**
Other equity instruments not eligible for CET1	-6 323	-6 323
Minority interests not eligible for CET1	-6 952	-8 953
Adjustments associated to the transition plan applied to the IFRS 9 impacts	89 168	99 659
Other regulatory adjustments	-254 014	-162 786
of which: Intangible assets	*-34 785*	*0*
of which: Deferred tax assets	*-216 803*	*-121 110*
Common Equity Tier 1 (CET1) capital	**1 273 868**	**1 438 503**
Minority interests eligible for T1	252	382
Tier 1 (T1) capital :	**1 274 120**	**1 438 886**
Subordinated Liabilities (recorded as equity)	6 323	6 323
Subordinated Liabilities (recorded as liabilities)	150 000	50 000
Other regulatory adjustments	0	
Of which: prudential amortisation of subordinated liabilities	*0*	
Tier 2 (T2) capital	**156 323**	**56 323**
Total Capital (T1+T2)	**1 430 443**	**1 495 209**

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

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

Table 5 | Full terms and conditions own funds instruments

130. The full terms and conditions of own funds can be consulted at the following electronic addresses:

ISIN	Address
PTCMGVOM0025	https://web3.cmvm.pt/sdi/emitentes/docs/FIT71513.pdf
PTCMGUOM0026	https://web3.cmvm.pt/sdi/emitentes/docs/FIT70669.pdf
PTFNI1OM0011	https://web3.cmvm.pt/sdi2004/emitentes/docs/fsd16107.pdf

Table 6 | Main characteristics of own funds instruments

Characteristics of Own Funds Instruments(1)	Shares	MONTEPIO EMTN 35 SUB 2018/2028	FINIBANCO VALOR INVEST 2010	MONTEPIO EMTN 36 SUB 2019/2029
Issuer	CEMG	CEMG	CEMG	CEMG
Unique identifier (for example, CUSIP, ISIN or Bloomberg identifier for private placement	PTCMH0AM0027	PTCMGUOM0026	PTFNI1OM0011	PTCMGVOM0025
Governing law(s) of the instrument	Portuguese	Portuguese	Portuguese	Portuguese
Regulatory treatment				
Transitional CRR rules	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
Post-transitional CRR rules	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
Eligible at solo / group / solo and group	Solo and group	Solo and group	Solo and group	Solo and group
Instrument type	Ordinary shares	Subordinated debt	Subordinated debt	Subordinated debt
Amount recognised in regulatory capital (in millions of euros)	2,420.0	50.0	6.3	100.0
Nominal amount issued of the instrument (in millions of euros)	2,420.0	50.0	15.0	100.0
Issuance price	1	100%	100%	
Redemption price		Repayment at par	Repayment at par	Repayment at par
Accounting classification	Share Capital	Other subordinated liabilities	Other equity instruments	Other subordinated liabilities
Date of Issuance	9/14/2017	27/Dec/2018	02/Feb/2010	03/Apr/2019
Perpetual / Dated		Dated	Perpetual	Dated
Maturity Date		27/Dec/2028	No maturity	03/Apr/2029
Issuer call subject to prior supervisory approval		Yes	Yes	Yes
Optional call date / contingent call dates and redemption amount		27/Dec/2023	02/Feb/2015	03/Apr/2024
Subsequent call dates		N.A.	At any moment after 02/Feb/2010, subject to 30 days' notice	N.A.
Dividend / Coupon		Fixed	Fixed + Variable / Minimum limit	Fixed
Coupon rate / Related index if applicable		8% until 27/Dec/2023 Mid Swap Rate + 7.77% after 27/Dec/2023	7% until 2/Feb/2012 Euribor6M+2.75%, with a minimum of 5% after 2/Aug/2012	10.50% until 03/Apr/2024 Mid Swap Rate + 10.514% after 03/Apr/2024
Existence of a dividend stopper	No	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of maturity)	Fully	Mandatory	Fully	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully	Mandatory	Fully	Mandatory
Existence of step up or other incentive to redeem		no	No	no
Non-cumulative or cumulative		N.A.	Cumulative	N.A.
Convertible or non-convertible		Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	N.A.	N.A.	N.A.	N.A.
If convertible, fully or partially	N.A.	N.A.	N.A.	N.A.
If convertible, conversion rate	N.A.	N.A.	N.A.	N.A.
If convertible, mandatory or optional conversion	N.A.	N.A.	N.A.	N.A.
If convertible, specify instrument type convertible into	N.A.	N.A.	N.A.	N.A.
If convertible, specify issuer of instrument it converts into	N.A.	N.A.	N.A.	N.A.
Write-down features	N.A.	N.A.	N.A.	N.A.
If write-down, write-down trigger(s)	N.A.	N.A.	N.A.	N.A.
If write-down, full or partial	N.A.	N.A.	N.A.	N.A.
If write-down, permanent or temporary	N.A.	N.A.	N.A.	N.A.
If temporary write-down, description of write-up mechanism	N.A.	N.A.	N.A.	N.A.
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)		Senior Creditors	Subordinated Creditors	Senior Creditors
Non-compliant transitioned features		No	No	No
If yes, specify non-compliant features		N.A.		N.A.

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

(2) Characteristics reflect the changes made to the Meetings of Bondholders carried out in May/15.

131. Pursuant to points d) and e) of Article 437 of the 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 facilitate the understanding of this the information, it will be broken down into three parts in the following tables.

Table 7 | 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
Capital instruments and the 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	-617,309	26 (1) (c)
Accumulated other comprehensive income (and other reserves)	-390,259	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)	4,598	84, 479, 480
Independently reviewed interim profits, net of any foreseeable charge or dividend	21,684	26 (2)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,438,714**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments	123,496	34, 105
Intangible assets (net of related tax liability)	-34,785	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.	-171,666	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.	-146	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)	-81,743	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) (j)
Total regulatory adjustments to common equity tier 1 (CET1)	**-164,845**	
Common equity tier 1 (CET1) capital	**1,273,868**	

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	252	85, 86, 480
of which: instruments issued by subsidiaries subject to phase out		486 (3)
Additional tier 1 (AT1) capital before regulatory adjustments	**252**	
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	**252**	
Tier 1 capital (T1 = CET1 + AT1)	**1,274,120**	
Tier 2 (T2) capital : instruments and provisions		
Capital instruments and the related share premium accounts	156,323	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	**156,323**	
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	**156,323**	
Total Capital (TC = T1 + T2)	**1,430,443**	

Banco Montepio

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	85,876	
of which: direct and indirect holdings by an institution of its own CET1 instruments	0	
of which: deferred taxes which depend on future profitability	0	
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	**10,298,618**	
Prudential capital ratios and reserves		
Common Equity Tier 1 capital	12.37%	92 (2) (a), 465
Level 1	12.37%	92 (2) (b), 465
Total capital	13.89%	92 (2) (c)
Institution specific buffer requirement	8.95%	DRFP 128, 129, 130
of which: capital conservation buffer requirement	2.50%	
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	0.12%	DRFP 131
Common Equity Tier 1 (CET1) available to meet buffers	3.42%	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)	131,900	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-based approach (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) and (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)

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

133. Since the Group decided to recognise the impacts of IFRS9 in phases, pursuant to Article 473-A of the CRR, 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, related with the uniform disclosure of the transitional regime to reduce the impact of the introduction of IFRS 9 on own funds, is shown below.

Table 8 | Uniform disclosure of the transitional regime to reduce the impact of IFRS 9

	AVAILABLE OWN FUNDS (AMOUNTS)	31/Dec/2019	30/Sep/2019	30/Jun/2019	31/Mar/2019
1	Common equity tier 1 (CET1) capital	1,273,868	1,387,726	1,429,488	1,436,279
2	Common equity tier 1 (CET1) capital if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	1,153,442	1,268,079	1,307,571	1,312,773
3	Tier 1 capital	1,274,120	1,388,076	1,429,806	1,436,646
4	Tier 1 capital if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	1,153,693	1,268,430	1,307,889	1,313,140
5	Total capital	1,430,443	1,544,399	1,586,129	1,592,969
6	Total capital if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	1,310,016	1,424,753	1,464,212	1,469,463
	RISK-WEIGHTED ASSETS (AMOUNTS)				
7	Total risk-weighted assets	10,298,618	10,333,089	10,427,833	10,697,633
8	Total risk-weighted assets if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	10,212,742	10,231,182	10,337,260	10,594,561
	CAPITAL RATIOS				
9	Common equity tier 1 capital (as a percentage of the amount of the exposures)	12.4%	13.4%	13.7%	13.4%
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	11.3%	12.4%	12.6%	12.4%
11	Tier 1 capital (as a percentage of the amount of the exposures)	12.4%	13.4%	13.7%	13.4%
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	11.3%	12.4%	12.7%	12.4%
13	Total capital (as a percentage of the amount of the exposures)	13.9%	14.9%	15.2%	14.9%
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	12.8%	13.9%	14.2%	13.9%
	LEVERAGE RATIO				
15	Total leverage ratio exposure	18,119,657	19,222,070	19,137,388	18,652,594
16	Leverage ratio	7.0%	7.2%	7.5%	7.7%
17	Leverage ratio if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	6.4%	6.6%	6.8%	7.0%

4.2 Capital requirements

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

135. In 2019, 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).

136. In 2019, 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 accordance with the requirements foreseen for each of the mentioned calculation approaches, as indicated in CRD IV and the CRR.

137. The following table exhibits, according to points c) to f) of Article 438 of the CRR, with the exception of point d) which applies to the Internal Ratings-Based (IRB) Approach, the distribution of the capital requirements among the various types of risk, including, among others, the requirements relative to deferred taxes and credit valuation adjustment. Credit and counterparty risk are the most significant, corresponding to about 87% of capital requirements.

138. In December 2019, the value of risk-weighted assets (RWA) came to 10,298 million euros, which represents a decrease of about 4.25% year-on-year, essentially explained by the observed 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 (close to 78%).

Table 9 | EU OV1 Overview of the risk-weighted assets

(thousands of euros)

		RWAs			Capital Requirements		
		Dec-19	Sep-19	Dec-18	Dec-19	Sep-19	Dec-18
Credit Risk (excluding CCR)		**8,898,237**	**8,827,554**	**9,237,968**	**711,859**	**706,204**	**739,037**
Art. 438 (c)(d)	of which: standardised approach	8,898,237	8,827,554	9,237,968	711,859	706,204	739,037
	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**	**88,386**	**129,706**	**93,909**	**7,071**	**10,377**	**7,513**
Art. 438 (c)(d)	Of which: mark to market (MtM)	71,108	100,836	76,303	5,689	8,067	6,104
	Of which: original exposure approach	0	0	0	0	0	0
	of which: standardised approach	0	0	0	0	0	0
	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	17,278	28,870	17,606	1,382	2,310	1,408
Art. 438 (e)	**Settlement Risk**	**0**	**0**	**0**	**0**	**0**	**0**
Art. 449 (o)(i)	**Banking book securitisation exposures (net of cap)**	**1,541**	**1,641**	**1,869**	**123**	**131**	**149**
	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	1,541	1,641	1,869	123	131	149
Art. 438 (e)	**Market Risk**	**97,643**	**115,754**	**106,257**	**7,811**	**9,260**	**8,501**
	of which: standardised approach	97,643	115,754	106,257	7,811	9,260	8,501
	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**	**761,205**	**773,548**	**773,548**	**60,896**	**61,884**	**61,884**
	of which: basic indicator approach	0	0	0	0	0	0
	of which: standardised approach	761,205	773,548	773,548	60,896	61,884	61,884
	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%)**	**451,607**	**484,886**	**524,467**	**36,129**	**38,791**	**41,957**
Art. 500	**Threshold adjustment**	**0**	**0**	**0**	**0**	**0**	**0**
	Fully	**10,298,618**	**10,333,089**	**10,738,017**	**823,889**	**826,647**	**859,041**

139. The following table exhibits the evolution in 2019 of the Pillar I requirements.

Table 10 | Capital Requirements

(thousands of euros)

	Dec-2019	Jun-2019	Dec-2018
Capital requirements	**823,889**	**834,227**	**859,041**
For credit, counterparty credit and dilution risks and free deliveries	717,671	721,498	745,291
Standardised Approach	717,671	721,498	745,291
Standardised Approach Exposure classes, excluding s	717,548	721,354	745,142
Claims or contingent claims on central governments or central banks	11,791	11,411	12,561
Claims or contingent claims on regional governments or local authorities	797	234	258
Claims or contingent claims on administrative bodies and non-commercial undertakings	5,600	5,656	5,600
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	29,810	27,652	26,746
Claims or contingent claims on Corporates	152,267	138,045	154,006
Retail claims or contingent retail claims	83,629	85,078	83,480
Claims or contingent claims secured on real estate property	194,518	214,668	218,983
Past due items	69,928	89,998	85,841
Items belonging to regulatory high-risk categories	55,103	13,351	19,414
Covered bonds	102	101	0
Exposures on collective investment undertakings (CIU):	20,743	23,807	23,893
Other items	93,260	111,351	114,360
Securitisation positions under the Standardised Appro	123	145	149
(-) Provisions for general credit risks	0	0	0
Settlement risk	0	0	0
Capital requirements for position, foreign exchange and c	7,811	9,720	8,501
Standardised Approach	7,811	9,720	8,501
Debt instruments	466	619	1
Equity securities	236	556	0
Foreign exchange risks	7,109	8,544	8,499
Commodities risk	0	0	0
Capital requirements for operational risk	60,896	61,884	61,884
Basic indicator approach	0	0	0
Standardised Approach	60,896	61,884	61,884
Advanced measurement approaches	0	0	0
Capital requirements – Fixed overheads	1,382	2,107	1,408
Transitional or other capital requirements	36,129	39,018	41,957

4.3 Assessment and adequacy of own funds

140. 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 point of view.

141. The decline of the capital ratios in December 2019 in relation to December 2018 was caused by the reduction of own funds, in particular the increased deduction associated to deferred taxes, and the increased actuarial deviation. In the opposite direction, reference is made to the issuance of subordinated debt eligible for tier 2 capital. This effect in terms of own funds was partially offset by the reduction of approximately 440 million euros of risk-weighted assets, essentially arising from variations in the credit portfolio and debt securities portfolio.

142. The following table presents a summary of the main capital indicators, both phasing-in and in full implementation. As mentioned above, the effects of the new Basel III regulations (CRD IV/CRR) will be gradually implemented.

Table 11 | Capital indicators

Phasing In	Dec-2019	Sep-2019	Jun-2019	Dec-2018
CET1 Ratio	12.37%	13.43%	13.71%	13.40%
T1 Ratio	12.37%	13.43%	13.71%	13.40%
Total Capital Ratio	13.89%	14.95%	15.21%	13.92%
Leverage Ratio	7.03%	7.22%	7.47%	7.68%
Full Implementation	**Dec-2019**	**Sep-2019**	**Jun-2019**	**Dec-2018**
CET1 Ratio	11.24%	11.81%	11.87%	15.98%
T1 Ratio	11.24%	11.79%	11.87%	11.17%
Total Capital Ratio	12.77%	13.32%	13.39%	11.70%
Leverage Ratio	6.38%	6.26%	6.47%	6.41%

143. Following the annual supervisory procedure, known as the Supervisory Review and Evaluation Process (SREP), the applicable Pillar 2 requirement for the Group is 3.25%.

144. The minimum requirements, which include the components of minimum requirements (Pillar 1), specific requirements arising from SREP (Pillar 2) and combined reserve requirements, were as follows:

Ratios	2019 capital ratio requirements			
	Phasing In	Pillar 1	Pillar 2	Reserves
CET1	**8.953%**	4.50%	1.83%	2.625%
T1	**11.063%**	6.00%	2.44%	2.625%
Fully	**13.875%**	8.00%	3.25%	2.625%

145. 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 internal controls admeasurement and their effectiveness in mitigating exposure to these risks, as so the simulation of adverse scenarios with impacts on the Group's solvency.

146. 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-taking;
- 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 disclosed results, by reinforcing the integration of the risk management processes in the risk culture of the Group and in decision-taking processes;

- Foresee a contingency plan to assure the adequacy of the internal capital in the event of a recession or crisis.

147. The results of the ICAAP enable investigating whether the Group's capitalisation is, in a sustainable form, adequate to the risks derived 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.

148. 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.

149. At a second stage, 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.

150. 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.

151. 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.

152. In light of the defined strategic plan that is reviewed periodically, no significant changes are foreseen in the materiality of the different types of risk. Additionally, the Funding and Capital Plan foresees measures that will enable strengthening the Group's solvency levels following a regulatory and solvency perspective.

4.4 Prudential reserves of own funds

153. The countercyclical reserve (measured as a percentage of the total amount of exposures) was maintained by the Banco de Portugal at 0% during 2019. 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.

154. The following table exhibits, in compliance with Article 440, number 1, point a) of the CRR, the geographical distribution of the relevant credit exposures for the calculation of the countercyclical reserve. The countercyclical 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 12 | Geographical distribution of the relevant credit exposures for the calculation of the countercyclical reserve.

(thousands of euros)

Relevant countries	Value of exposures for effects of the Standardised Approach	Sum of the long and short positions in the trading book	Value of the securitised exposures for effects of the Standardised Approach	Capital Requirements				Weighting of capital requirements	Countercyclical capital buffer rate
				Of which: general credit exposures	Of which: exposures in the trading book	Of which: securitised exposures	Fully		
Portugal	17,848,381	8,773	757	651,951	458	79	652,488	91%	0.00
Italy	510,326	8,778	0	3,954	409	0	4,363	1%	0.00
Other Countries	1,829,051	11,271	1,660	61,641	974	44	62,659	9%	
TOTAL	**20,187,758**	**28,821**	**2,417**	**717,546**	**1,841**	**123**	**719,511**	**100%**	**-**

155. Consequently, on 31 December 2019, a countercyclical reserve of own funds was not set up.

156. Regarding the reserve of other systemically important institutions (O-SIIs), Banco de Portugal defined for the Group a reserve of 0.125% in 2019, 0.1875% in 2020, 0.1875% in 2021 and 0.25% in 2022.

4.5 Leverage ratio

157. In the calculation of the leverage ratio the regulatory rules in force established in the 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.

158. 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).

159. On 31 December 2019, the leverage ratio was 7.03%, a value that significantly exceeds the minimum reference value of 3% indicated by the supervisory authorities. Compared to the previous year, there was a decline of 65 bps mainly due to the decrease in tier 1 capital, mitigated by the decrease of net assets (denominator), following the balance sheet reduction strategy, namely in terms of NPLs and real estate exposure.

160. 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 point b) of number 1 of Article 499 of the CRR.

Table 13 | Leverage ratio

(thousands of euros)

Capital and total exposure measure	Dec-19	Sep-19	Dec-18
Tier 1 capital	1,274,120	1,388,076	1,438,886
Leverage ratio total exposure measure	18,119,657	19,222,070	18,724,321
Leverage ratio			
Leverage ratio	7.03%	7.22%	7.68%
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

161. 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 14 | Breakdown of the total exposure

(thousands of euros)

CRR leverage ratio exposures	dec-2019	sep-2019
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFT and fiduciary assets, but including guarantees)	17,706,099	18,667,416
(Asset amounts deducted to determine Tier 1 capital)	-164,845	-90,772
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**17,541,253**	**18,576,643**
Derivative exposures		
Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	34,044	45,129
Add-on amounts for PFE associated with all derivative transactions (mark-to-market approach)	32,053	48,678
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	0
(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 credit derivatives)	0	0
Total derivative exposures	**66,097**	**93,807**
SFT exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	109,693	755,044
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-109,693	-755,044
Counterparty credit risk exposure for SFT assets	2,210	31,360
Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429-B (4) and 222 of Regulation (EU) 575/2013	0	0
Agent transaction exposures	0	0
(Exempted CCP leg of client-cleared SFT exposure)	0	0
Total securities financing transaction exposures	**2,210**	**31,360**
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	1,675,474	1,706,790
(Adjustments for conversion to credit equivalent amounts)	-1,165,377	-1,186,531
Other off-balance sheet exposures	**510,097**	**520,259**
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 with Article 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	1,274,120	1,388,076
Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	18,119,657	19,222,070
Breakdown of on-balance sheet exposures (excluding derivatives, SFTs)		
Total on-balance sheet exposures (excluding derivatives, SFTs), of which:	**17,708,309**	**18,698,776**
Exposures in the trading book	0	0
Exposures in the banking book, of which:	**17,708,309**	**18,698,776**
Covered bonds	12,733	8,324
Exposures treated as sovereign	3,321,639	3,925,563
Exposures to regional governments, multilateral development banks, international organisations and special purpose entities not treated as sovereign	119,821	104,079
Institutions	520,530	455,447
Secured by mortgages on real estate property	6,544,900	6,964,508
Exposures in the retail book	1,835,415	1,848,311
Corporates	2,046,619	1,889,314
Exposures in default	738,130	836,771
Other exposures (e.g. shares, securitisations and other assets not related to credit obligations)	2,568,522	2,666,461

Table 15 | Reconciliation of the total exposure with the accounting financial assets

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Summary reconciliation of accounting assets and leverage ratio exposures	Dec-19
Total assets as per published financial statements	17,740,142
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 excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) 575/2013)	0
Adjustments for derivative financial instruments	32,053
Adjustments for securities financing transactions (SFTs)	2,210
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	510,097
(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	-164,845
Total leverage ratio exposure	**18,119,657**

162. The provisions in Article 429, number 11 of the CRR are not applicable to the Group.

163. Based on the gap between the current level of the Leverage Ratio which reached 7.03%, corresponding to more than double the indicative minimum of 3%, no excessive leverage is observed, that is derived from the defined risk appetite, namely with defined limits for exposure to sovereign risk and market risk of the proprietary portfolios, including trading and banking books.

164. 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.

165. 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.

166. As noted above, BM's leverage ratio does not show signs of excessive leverage. However, as this is one of the key performance indicators monitored on a monthly basis under the Recovery Plan, it has a defined warning level and activation. Consequently, in a scenario of deterioration of this indicator, the processes defined under the Recovery Plan would be activated for the purpose of strengthening this indicator.

5. Indicators of global systemic importance

167. On 31 December 2019, 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 the CRR are not applicable.

6. Counterparty credit risk

168. 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.

169. 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.

170. 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).

171. 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.

172. 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).

173. 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).

174. 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.

175. 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.

176. For all counterparties, the current exposure to derivatives is calculated on a daily basis taking into consideration the market value of the operations in the portfolio, in order to monitor the exposure value allocated to derivatives.

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

178. 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 the CRR.

179. 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 credit valuation adjustment):

Table 16 | EU CCR1 Analysis of the exposure to CCR by approach

(thousands of euros)

Dec-2019	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to Market		45,738	31,670			45,738	23,566
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)						2,210	1,105
VaR for SFTs						-	-
Fully	**-**	**45,738**	**31,670**			**47,949**	**24,672**

Jun-2019	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to Market		43,948	41,986			41,707	20,097
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)						30,802	6,160
VaR for SFTs						-	-
Fully	**-**	**43,948**	**41,986**	**-**	**-**	**72,509**	**26,258**

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

181. 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 17 | EU CCR2 CVA capital requirements

(thousands of euros)

	Dec-19		Jun-2019	
	Exposure value	RWAs	Exposure value	RWAs
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	40,033	17,278	59,804	26,333
Based on the original exposure approach	0	0	0	0
Total subject to the CVA capital char	**40,033**	**17,278**	**59,804**	**26,333**

182. 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, point 4 b) of the CRR.

183. As at 31 December 2019, there were no derivative operations carried out through central counterparties (CCP).

184. 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 18 | EU CCR3 Analysis of the RWA exposure to CCR by regulatory portfolio and risk

(thousands of euros)

	Dec-2019	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	-	-	-	-	1,892	-	136,356	-	17	-	-	138,264	-
	Corporates	-	-	-	-	-	-	-	-	2,536	-	-	2,536	-
	Retail	-	-	-	-	-	-	-	21	-	-	-	21	-
	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 (CIU):	-	-	-	-	-	-	-	-	-	-	-	-	-
	Shares	-	-	-	-	-	-	-	-	-	-	-	-	-
	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
	Securitisations	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL original exposures:		**-**	**-**	**-**	**-**	**1,892**	**-**	**136,356**	**21**	**2,553**	**-**	**-**	**140,821**	**-**
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	-	-	-	-	378	-	68,178	-	17	-	-	68,573	-
	Corporates	-	-	-	-	-	-	-	-	2,536	-	-	2,536	-
	Retail	-	-	-	-	-	-	-	16	-	-	-	16	-
	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 (CIU):	-	-	-	-	-	-	-	-	-	-	-	-	-
	Shares	-	-	-	-	-	-	-	-	-	-	-	-	-
	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
	Securitisations	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL exposures:		**-**	**-**	**-**	**-**	**378**	**-**	**68,178**	**16**	**2,553**	**-**	**-**	**71,125**	**-**

	Jun-2019	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	-	-	-	-	11,537	-	124,324	-	245	-	-	136,106	-
	Corporates	-	-	-	-	-	-	-	-	2,921	-	-	2,921	-
	Retail	-	-	-	-	-	-	-	5	-	-	-	5	-
	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 (CIU):	-	-	-	-	-	-	-	-	-	-	-	-	-
	Shares	-	-	-	-	-	-	-	-	-	-	-	-	-
	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
	Securitisations	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL original exposures:		**-**	**-**	**-**	**-**	**11,537**	**-**	**124,324**	**5**	**3,166**	**-**	**-**	**139,031**	**-**
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	-	-	-	-	2,307	-	62,162	-	245	-	-	64,715	-
	Corporates	-	-	-	-	-	-	-	-	2,921	-	-	2,921	-
	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 (CIU):	-	-	-	-	-	-	-	-	-	-	-	-	-
	Shares	-	-	-	-	-	-	-	-	-	-	-	-	-
	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
	Securitisations	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL exposures:		**-**	**-**	**-**	**-**	**2,307**	**-**	**62,162**	**3**	**3,166**	**-**	**-**	**67,639**	**-**

185. As at 31 December 2019, there were no credit risk coverage operations through the use of credit derivatives; therefore, the procedure described in points g) and I) of Article 439 of the CRR is not applicable.

186. 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 19 | EU CCR5-A Impact of netting and collateral held on the exposure values

(thousands of euros)

Dec-2019	Fair value of exposure	Netting effect	Exposure after netting	Value of collateral	Net exposure
Derivatives	45,738	0	45,738	0	45,738
SFTs	2,210	0	2,210	0	2,210
Cross-product nettinç	0	0	0	0	0
Fully	**47,949**	**0**	**47,949**	**0**	**47,949**

Jun-2019	Fair value of exposure	Netting effect	Exposure after netting	Value of collateral	Net exposure
Derivatives	43,948	0	43,948	-2,241	41,707
SFTs	33,580	0	33,580	-2,778	30,802
Cross-product nettinç	0	0	0	0	0
Fully	**77,528**	**0**	**77,528**	**-5,019**	**72,509**

Table 20 | EU CCR5-B Composition of collateral for exposures to the CCR

(thousands of euros)

Dec-2019	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	0	29,109	0	0
National sovereign debt	-	-	0	52,819
Other sovereign debt	-	-	-	-
Other Bonds	-	-	53,085	0
Other Collateral	-	-	-	-
Fully	**0**	**29,109**	**53,085**	**52,819**

Under Article 5 of Banco de Portugal Instruction 5/2018, 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

187. 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[1] on pages 166 (Impairment section) and 169 (Definition of default section).

188. It is important to note that the past due items presented in this document are based on the requirements related with the definition of default used to calculate capital requirements, which takes into consideration Article 178 of the CRR and which are described in Note 1 of the consolidated financial statements, point c) Loans to Customers, in the 'Definition of Default' (page 169).

189. The definition of impaired credit is stated in Note 1 to the consolidated financial statements, point c) Loans to Customers, in the 'Impairment' section (page 168).

[1] https://www.bancomontepio.pt/resources/SiteMontepio/documentos/en_GB/banco-montepio-annual-report-2019.pdf

7.2 Portfolio structure

190. As at 31 December 2019, the net exposure value was 19,033 million euros and was broken down by the risk categories defined in Article 112 of the CRR as shown in the table below.

191. In the distribution of exposures, related with 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 79% of the net positions.

Table 21 | 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-2019	Dec-2018	Dec-2019	Dec-2018
Central Governments or Central Banks	3,322,582	3,076,134	3,582,671	3,049,387
Regional Governments or Local Authorities	50,807	16,729	29,163	27,277
Public Sector Entities	70,000	70,000	70,529	70,530
Multilateral Development Banks	0	0	0	0
International Organisations	0	0	0	0
Institutions	759,436	629,761	689,928	680,164
Corporates	2,458,836	2,487,139	2,355,920	2,633,523
Retail	2,484,916	2,557,081	2,509,627	2,576,284
Positions guaranteed by real estate	6,679,649	7,432,907	7,129,540	7,548,210
Past due items	848,082	1,097,131	988,378	1,277,311
Exposures associated with Particularly High Risks	548,578	161,786	230,010	161,622
Covered bonds	12,733	0	9,054	1,274
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0
Positions on Collective Investment Undertakings	259,289	298,663	285,395	302,914
Shares	140,264	136,842	139,409	153,435
Other items	1,395,520	1,689,065	1,592,635	1,651,461
Securitisations	2,417	3,034	2,702	3,522
TOTAL	**19,033,110**	**19,656,271**	**19,614,960**	**20,136,915**

192. In relation to the previous period, it is important to mention that the net exposure decreased by 623 million euros (-3.17%), primarily in the risk categories of Positions with Collateral of Real Estate Property, Past Due Items and Governments and Central Banks.

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

Table 22 | EU CRB-C Geographical distribution of exposures

(thousands of euros)

Dec-2019	Geographic distribution of exposures (as a % of the original exposure)								
Exposure classes	Portugal							Angola	TOTAL
	Alentejo	Algarve	Centre	Lisbon	North	A.R. of Madeira	A.R. of the Azores		
Central Governments or Central Banks	0	0	2	3,170,372	960	25,830	0	125,418	3,322,582
Regional Governments or Local Authorities	16	134	1,070	47,220	224	2	2,142	0	50,807
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	161	2,330	17,572	702,803	30,407	323	96	5,744	759,436
Corporates	35,978	104,955	200,660	1,580,372	439,698	22,174	37,476	37,524	2,458,836
Retail	110,920	114,045	596,024	577,884	1,002,307	33,611	45,621	4,504	2,484,916
Positions guaranteed by real estate	319,754	423,943	1,033,195	2,632,061	1,814,667	187,372	268,657	0	6,679,649
Past due items	27,895	21,999	121,089	461,660	183,189	11,984	15,586	4,680	848,082
Exposures associated with Particularly High Risks	10,035	27,993	26,620	382,804	81,600	4,867	284	14,375	548,578
Covered Bonds	0	0	0	12,733	0	0	0	0	12,733
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0	0	0
Positions on Collective Investment Undertakings (CIU):	0	0	0	259,289	0	0	0	0	259,289
Shares	0	0	0	140,264	0	0	0	0	140,264
Other items	246	668	1,686	1,330,346	58,140	227	35	4,170	1,395,520
Securitisations	0	0	0	2,417	0	0	0	0	2,417
Fully	**505,006**	**696,067**	**1,997,918**	**11,370,226**	**3,611,193**	**286,390**	**369,897**	**196,414**	**19,033,110**

Dec-2018	Geographic distribution of exposures (as a % of the original exposure)								
Exposure classes	Portugal							Angola	TOTAL
	Alentejo	Algarve	Centre	Lisbon	North	A.R. of Madeira	A.R. of the Azores		
Central Governments or Central Banks	0	0	0	2,892,961	0	26,569	0	156,604	3,076,134
Regional Governments or Local Authorities	16	190	93	14,354	805	4	1,268	0	16,729
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	572,361	41,072	300	96	0	629,716
Corporates	39,243	92,101	224,622	1,501,496	475,440	21,532	34,356	98,393	2,487,183
Retail	105,654	119,093	598,001	623,220	1,024,548	32,709	47,310	6,546	2,557,081
Positions guaranteed by real estate	347,123	483,704	1,083,733	3,110,917	1,920,694	201,905	284,831	0	7,432,907
Past due items	41,901	29,493	151,672	577,447	265,378	15,241	10,586	5,413	1,097,131
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 (CIU):	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	287	519	1,180	1,630,036	52,806	157	28	4,051	1,689,065
Securitisations	0	0	0	3,034	0	0	0	0	3,034
Fully	**534,390**	**727,431**	**2,072,691**	**11,593,116**	**3,780,743**	**298,417**	**378,475**	**271,007**	**19,656,271**

194. It is important to note that, in relation to the previous year, 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 the exposures (about 78%). The Group has, nonetheless, a commercial presence in most of the regions of the country.

195. The exposures of the BM subsidiaries in African countries recorded a slight decrease in Angola, largely due to the fluctuation of the Kwanza in relation to the Euro; hence, the conversion of the subsidiary's balance sheet to the reporting currency of the parent company reflected the reduction of the respective contribution.

196. The following table presents, in accordance with Article 442, point e) of the CRR, the distribution of the net value of exposures by sector or counterparty type, in December 2019.

Table 23 | EU CRB-D Concentration of exposures by sector or counterparty type

Dec-2019		Secondary Sector		Tertiary Sector								
Exposure classes	Primary Sector	Construction	Other	Professional, Activities	Wholesale and retail trading	Professional, Insurance businesses	Lodging, restaurant and similar activities	Transport and Storage	Public Sector (1)	Professional, scientific and technical activities	Other	Total
Central Governments or Central Banks	0	0	0	0	0	0	0	0	35,476	0	0	35,476
Regional Governments or Local Authorities	0	0	0	0	0	0	0	0	13,062	0	0	13,062
Public Sector Entities	0	0	0	0	0	70,000	0	0	0	0	0	70,000
Institutions	0	0	0	0	0	231,983	0	0	0	0	0	231,983
Corporates	28,383	163,222	579,574	182,281	192,309	278,377	181,832	183,955	59,599	204,001	207,918	2,261,451
Retail	43,908	131,866	375,120	49,579	524,657	8,334	72,641	89,880	67,482	69,254	143,865	1,576,586
Positions guaranteed by real estate	18,784	37,571	98,690	243,408	137,233	25,500	170,415	9,021	89,331	32,445	53,771	916,169
Past due items	6,200	215,538	100,332	59,984	84,124	146,967	28,516	24,610	11,101	14,914	23,418	715,704
Total	**97,274**	**548,197**	**1,153,717**	**535,251**	**938,323**	**761,161**	**453,403**	**307,467**	**276,051**	**320,615**	**428,972**	**5,820,431**
Of which SMEs	*85,048*	*520,225*	*740,002*	*512,710*	*799,646*	*366,323*	*434,186*	*148,370*	*208,207*	*164,511*	*406,107*	4,385,334

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

Dec-2018		Secondary Sector		Tertiary Sector								
Exposure classes	Primary Sector	Construction	Other	Professional, Activities	Wholesale and retail trading	Professional, Insurance businesses	Lodging, restaurant and similar activities	Transport and Storage	Public Sector (1)	Professional, scientific and technical activities	Other	Total
Central Governments or Central Banks	0	0	0	0	0	0	0	0	26,569	0	0	26,569
Regional Governments or Local Authorities	0	0	0	0	0	0	0	0	14,759	0	0	14,759
Public Sector Entities	0	0	0	0	0	70,000	0	0	0	0	0	70,000
Institutions	0	0	0	0	0	159,927	0	0	0	0	0	159,927
Corporates	29,760	184,552	584,475	233,409	235,741	312,231	142,385	134,663	42,889	198,921	276,876	2,375,904
Retail	42,745	139,984	411,274	44,292	538,191	9,609	69,403	84,957	69,033	75,889	147,964	1,633,342
Positions guaranteed by real estate	21,347	136,292	120,207	364,785	153,298	39,218	212,483	88,352	105,667	44,145	90,171	1,375,964
Past due items	11,480	287,821	74,797	152,505	98,903	103,688	27,525	24,992	10,642	28,232	36,743	857,327
Total	**105,333**	**748,650**	**1,190,754**	**794,991**	**1,026,132**	**694,673**	**451,796**	**332,964**	**269,560**	**347,186**	**551,754**	**6,513,794**
Of which SMEs	*96,095*	*573,560*	*815,278*	*760,432*	*870,909*	*379,862*	*413,651*	*198,082*	*203,952*	*184,405*	*364,114*	4,860,340

Note: only risk categories to which BM is exposed are presented.

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

198. In accordance with Article 442, point f) of the CRR, the table below breaks down the net positions by residual maturity and risk category. It is currently observed that approximately 35% of assets are long-term (remaining maturity of more than 10 years).

199. As in the previous year, the majority of these assets are classified under “Positions with Collateral of Real Estate Property” (around 35%) 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).

200. The second most significant risk category with respect to exposure is the Central Governments and Central Banks category (around 17%), where the positions are fully distributed over the residual maturities up to 10 years.

Table 24 | EU CRB-E Residual maturity of the exposure

(thousands of euros)

Dec-2019 Exposure classes	Residual maturity RM < 1	1 year < RM < 5 years	5 years < RM < 10 years	RM > 10 years	Revolving	TOTAL
Central Governments or Central Banks	1,626,667	1,006,009	680,261	9,646	0	3,322,582
Regional Governments or Local Authorities	284	9,722	38,446	2,350	6	50,807
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	372,793	84,395	107,160	175,797	19,290	759,436
Corporates	442,533	392,989	770,108	482,464	370,742	2,458,836
Retail	217,921	469,130	679,739	262,206	855,919	2,484,916
Positions guaranteed by real estate	50,248	194,443	937,105	5,427,092	70,762	6,679,649
Past due items	204,796	149,073	192,298	183,020	118,895	848,082
Exposures associated with Particularly High Risks	165,388	57,981	14,126	22,170	288,913	548,578
Covered Bonds	0	0	12,733	0	0	12,733
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0
Positions on Collective Investment Undertakings	259,289	0	0	0	0	259,289
Shares	140,264	0	0	0	0	140,264
Other items	1,361,524	28,258	4,965	774	0	1,395,520
Securitisations	0	0	0	2,417	0	2,417
Fully	**4,841,707**	**2,392,001**	**3,436,941**	**6,637,935**	**1,724,527**	**19,033,110**

Dec-2018 Exposure classes	Residual maturity RM < 1	1 year < RM < 5 years	5 years < RM < 10 years	RM > 10 years	Revolving	TOTAL
Central Governments or Central Banks	1,591,878	613,287	870,969	0	0	3,076,134
Regional Governments or Local Authorities	48	13,086	2,417	1,178	1	16,729
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	426,230	69,406	11,181	96,561	26,383	629,761
Corporates	494,456	452,643	593,807	503,365	442,912	2,487,183
Retail	216,551	473,210	670,573	271,087	925,660	2,557,081
Positions guaranteed by real estate	54,298	258,263	1,020,191	5,879,649	220,505	7,432,907
Past due items	324,941	74,726	194,538	309,637	193,290	1,097,131
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	28,394	2,696	2,408	0	1,689,065
Securitisations	0	0	0	3,034	0	3,034
Fully	**5,361,260**	**1,983,015**	**3,366,371**	**7,136,919**	**1,808,751**	**19,656,315**

201. In December 2019, 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 25 | Credit and counterparty risk capital requirements

(thousands of euros)

	Dec-2019	Risk weights								Other	Fully
		0%	10%	20%	35%	50%	75%	100%	150%		
1. Original exposure by exposure class	Central Governments or Central Banks	3,180,030	0	3,305	0	0	0	146,726	0	0	3,330,061
	Regional Governments or Local Authorities	0	0	50,962	0	0	0	0	0	0	50,962
	Public Sector Entities	0	0	0	0	0	0	70,000	0	0	70,000
	Institutions	206,466	0	194,098	0	328,872	0	29,971	42	100	759,548
	Corporates	0	0	16,239	0	31,794	0	2,453,777	0	0	2,501,810
	Retail	0	0	0	0	0	2,519,799	0	0	0	2,519,799
	Positions guaranteed by real estate	0	0	0	5,680,125	672,507	198,159	153,834	0	0	6,704,626
	Past due items	0	0	0	0	0	0	1,183,166	277,398	0	1,460,565
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	625,523	0	625,523
	Covered Bonds	0	12,733	0	0	0	0	0	0	0	12,733
	Positions on Collective Investment Undertakings (CIU):	0	0	0	0	0	0	259,289	0	0	259,289
	Shares	0	0	0	0	0	0	140,264	0	0	140,264
	Other items	215,048	0	33,311	0	0	0	1,504,220	0	0	1,752,579
	Securitisation positions under the Standardised Approach	0	0	934	0	1,279	0	0	0	204	2,417
	TOTAL original exposures:	**3,601,545**	**12,733**	**298,848**	**5,680,125**	**1,034,451**	**2,717,958**	**5,941,247**	**902,963**	**304**	**20,190,175**
2. Exposure by exposure class (reserve base of risk weights):	Central Governments or Central Banks	3,171,609	0	3,305	0	0	0	146,726	0	0	3,321,639
	Regional Governments or Local Authorities	0	0	49,838	0	0	0	0	0	0	49,838
	Public Sector Entities	0	0	0	0	0	0	70,000	0	0	70,000
	Institutions	196,246	0	191,143	0	328,872	0	29,631	42	100	746,033
	Corporates	0	0	16,239	0	31,794	0	2,027,403	0	0	2,075,436
	Retail	0	0	0	0	0	1,777,301	0	0	0	1,777,301
	Positions guaranteed by real estate	0	0	0	5,661,215	644,666	113,623	123,490	0	0	6,542,994
	Past due items	0	0	0	0	0	0	519,489	236,404	0	755,892
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	459,192	0	459,192
	Covered Bonds	0	12,733	0	0	0	0	0	0	0	12,733
	Positions on Collective Investment Undertakings (CIU):	0	0	0	0	0	0	259,289	0	0	259,289
	Shares	0	0	0	0	0	0	140,264	0	0	140,264
	Other items	215,048	0	18,401	0	0	0	1,162,071	0	0	1,395,520
	Securitisation positions under the Standardised Approach	0	0	934	0	1,279	0	0	0	204	2,417
	TOTAL exposures:	**3,582,903**	**12,733**	**279,859**	**5,661,215**	**1,006,610**	**1,890,924**	**4,478,363**	**695,638**	**304**	**17,608,548**
3. TOTAL risk weighted exposures (=S (2."x" risk weights))		**0**	**1,273**	**55,972**	**1,981,425**	**503,305**	**1,418,193**	**4,478,363**	**1,043,456**	**0**	**9,481,987**
Capital requirements by exposure class (2. "x" risk weights "x" 8%)	Central Governments or Central Banks	0	0	53	0	0	0	11,738	0	0	11,791
	Regional Governments or Local Authorities	0	0	797	0	0	0	0	0	0	797
	Public Sector Entities	0	0	0	0	0	0	5,600	0	0	5,600
	Institutions	0	0	3,058	0	13,155	0	2,371	5	0	18,589
	Corporates	0	0	260	0	1,272	0	150,736	0	0	152,267
	Retail	0	0	0	0	0	83,629	0	0	0	83,629
	Positions guaranteed by real estate	0	0	0	155,377	23,324	6,260	9,557	0	0	194,518
	Past due items	0	0	0	0	0	0	41,559	28,368	0	69,928
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	55,103	0	55,103
	Covered Bonds	0	102	0	0	0	0	0	0	0	102
	Positions on Collective Investment Undertakings (CIU):	0	0	0	0	0	0	20,743	0	0	20,743
	Shares	0	0	0	0	0	0	11,221	0	0	11,221
	Other items	0	0	294	0	0	0	92,966	0	0	93,260
	Securitisation positions under the Standardised Approach	0	0	15	0	51	0	0	0	57	123
	TOTAL capital requirements:	**0**	**102**	**4,478**	**155,377**	**37,801**	**89,889**	**346,491**	**83,477**	**57**	**717,671**

(thousands of euros)

	Jun-2019	Risk weights									Total
		0%	10%	20%	35%	50%	75%	100%	150%	Other	
1. Original exposure by exposure class	Central Governments or Central Banks	3,781,570	0	3,309	0	0	0	141,981	0	0	3,926,860
	Regional Governments or Local Authorities	0	0	15,666	0	0	0	0	0	0	15,666
	Public Sector Entities	0	0	0	0	0	0	70,704	0	0	70,704
	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	128,440	0	352,624	0	168,926	0	40,736	42	100	690,869
	Corporates	0	0	23,916	0	19,187	0	2,224,840	0	0	2,267,943
	Retail	0	0	0	0	0	2,557,512	0	0	0	2,557,512
	Positions guaranteed by real estate	0	0	0	5,849,994	1,005,010	210,420	222,715	0	0	7,288,139
	Past due items	0	0	0	0	0	0	1,639,081	317,313	0	1,956,393
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	111,257	0	111,257
	Covered Bonds	0	12,650	0	0	0	0	0	0	0	12,650
	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	297,589	0	0	297,589
	Shares	0	0	0	0	0	0	139,698	0	0	139,698
	Other items	174,107	0	91,702	0	0	0	1,713,151	0	0	1,978,960
	Securitisation positions under the Standardised Approach	0	0	1,039	0	1,632	0	0	0	224	2,894
	TOTAL original exposures:	**4,084,118**	**12,650**	**488,256**	**5,849,994**	**1,194,754**	**2,767,932**	**6,490,494**	**428,612**	**324**	**21,317,134**
2. Exposure by exposure class (reserve base of risk weights):	Central Governments or Central Banks	3,768,345	0	3,309	0	0	0	141,981	0	0	3,913,635
	Regional Governments or Local Authorities	0	0	14,605	0	0	0	0	0	0	14,605
	Public Sector Entities	0	0	0	0	0	0	70,704	0	0	70,704
	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	117,930	0	348,427	0	168,926	0	40,411	42	100	675,836
	Corporates	0	0	23,916	0	19,187	0	1,791,295	0	0	1,834,398
	Retail	0	0	0	0	0	1,804,786	0	0	0	1,804,786
	Positions guaranteed by real estate	0	0	0	5,825,513	940,526	125,752	167,236	0	0	7,059,028
	Past due items	0	0	0	0	0	0	721,192	269,191	0	990,383
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	111,257	0	111,257
	Covered Bonds	0	12,650	0	0	0	0	0	0	0	12,650
	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	297,589	0	0	297,589
	Shares	0	0	0	0	0	0	139,698	0	0	139,698
	Other items	174,107	0	76,792	0	0	0	1,376,534	0	0	1,627,433
	Securitisation positions under the Standardised Approach	0	0	1,039	0	1,632	0	0	0	224	2,894
	TOTAL exposures:	**4,060,383**	**12,650**	**468,088**	**5,825,513**	**1,130,271**	**1,930,538**	**4,746,639**	**380,490**	**324**	**18,554,896**
3. TOTAL risk weighted exposures (=S (2."x" risk weights))		**0**	**1,265**	**93,618**	**2,038,930**	**565,135**	**1,447,904**	**4,746,639**	**570,735**	**0**	**9,464,225**
Capital requirements by exposure class (2. "x" risk weights "x" 8%)	Central Governments or Central Banks	0	0	53	0	0	0	11,358	0	0	11,411
	Regional Governments or Local Authorities	0	0	234	0	0	0	0	0	0	234
	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	5,575	0	7,518	0	3,233	5	0	16,331
	Corporates	0	0	383	0	767	0	136,895	0	0	138,045
	Retail	0	0	0	0	0	85,078	0	0	0	85,078
	Positions guaranteed by real estate	0	0	0	159,892	34,822	6,962	12,993	0	0	214,668
	Past due items	0	0	0	0	0	0	57,695	32,303	0	89,998
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	13,351	0	13,351
	Covered Bonds	0	101	0	0	0	0	0	0	0	101
	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	23,807	0	0	23,807
	Shares	0	0	0	0	0	0	11,176	0	0	11,176
	Other items	0	0	1,229	0	0	0	110,123	0	0	111,351
	Securitisation positions under the Standardised Approach	0	0	17	0	65	0	0	0	63	145
	TOTAL capital requirements:	**0**	**101**	**7,489**	**159,892**	**43,173**	**92,040**	**372,937**	**45,659**	**63**	**721,354**

202. In accordance with Article 442, points g) and h), institutions must publish information relative to exposures by risk category (broken down into default and non-default exposures), sector of activity, geographic area and credit risk adjustments in 2019.

Table 26 | EU CR1-A Credit quality of exposures by risk category

(thousands of euros)

Dec-2019	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	3,330,061	7,478	0	0	-11,540	3,322,582
Regional Governments or Local Authorities	0	50,962	155	0	0	-29	50,807
Public Sector Entities	0	70,000	0	0	0	0	70,000
Multilateral Development Banks	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	0
Institutions	0	759,548	113	0	0	18	759,436
Corporates	0	2,501,810	42,974	0	0	-5,788	2,458,836
of which SMEs	*16*	*1,373,586*	*33,851*	*0*	*0*	*-3,478*	*1,339,751*
Retail	0	2,519,799	34,883	0	0	-4,547	2,484,916
of which SMEs	*0*	*1,749,613*	*28,899*	*0*	*0*	*-3,035*	*1,720,713*
Positions guaranteed by real estate	0	6,704,626	24,977	0	0	-10,657	6,679,649
of which SMEs	*0*	*1,336,231*	*11,361*	*0*	*0*	*-4,117*	*1,324,870*
Past due items	1,454,900	5,665	612,483	0	0	-271,943	848,082
Exposures associated with Particularly High Risks	160,954	464,569	76,945	0	0	76,945	548,578
Covered Bonds	0	12,733	0	0	0	0	12,733
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0
Positions on Collective Investment Undertakings (CIU):	0	259,289	0	0	0	0	259,289
Shares	0	140,264	0	0	0	0	140,264
Other items	0	1,752,579	357,059	0	0	5,542	1,395,520
Securitisations	0	2,417	0	0	0	0	2,417
TOTAL	**1,615,854**	**18,574,321**	**1,157,065**	**0**	**0**	**-221,998**	**19,033,110**
of which: Loans	*1,523,962*	*11,927,371*	*782,981*	*0*	*0*	*-213,876*	*12,668,352*
of which: Debt securities	*0*	*2,636,550*	*0*	*0*	*0*	*0*	*2,636,550*
of which: Off-balance sheet exposures	*91,892*	*373,967*	*10,488*	*0*	*0*	*-1,818*	*455,371*

Jun-2019	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	3,926,860	13,225	0	0	-5,690	3,913,635
Regional Governments or Local Authorities	0	15,666	32	0	0	-54	15,634
Public Sector Entities	0	70,704	0	0	0	0	70,704
Multilateral Development Banks	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	0
Institutions	0	690,869	98	0	0	-17	690,771
Corporates	0	2,267,943	26,145	0	0	-21,375	2,241,798
of which SMEs	*0*	*1,226,079*	*15,570*	*0*	*0*	*-20,617*	*1,210,509*
Retail	0	2,557,512	25,458	0	0	3,438	2,532,055
of which SMEs	*0*	*1,787,797*	*18,125*	*0*	*0*	*834*	*1,769,671*
Positions guaranteed by real estate	0	7,288,139	32,280	0	0	-3,153	7,255,859
of which SMEs	*0*	*1,717,066*	*14,504*	*0*	*0*	*-621*	*1,702,562*
Past due items	1,956,393	0	861,428	0	0	-19,692	1,094,966
Exposures associated with Particularly High Risks	0	111,257	0	0	0	0	111,257
Covered Bonds	0	12,650	0	0	0	0	12,650
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0
Positions on Collective Investment Undertakings (CIU):	0	297,589	0	0	0	0	297,589
Shares	0	139,698	0	0	0	0	139,698
Other items	0	1,978,960	351,526	0	0	64	1,627,433
Securitisations	0	2,894	0	0	0	0	2,894
TOTAL	**1,956,393**	**19,360,741**	**1,310,191**	**0**	**0**	**-46,480**	**20,006,944**
of which: Loans	*1,862,000*	*12,004,851*	*935,525*	*0*	*0*	*-39,741*	*12,931,326*
of which: Debt securities	*0*	*2,693,094*	*0*	*0*	*0*	*0*	*2,693,094*
of which: Off-balance sheet exposures	*94,393*	*299,030*	*10,550*	*0*	*0*	*-955*	*382,874*

203. The following table presents the breakdown of exposures by relevant geographic area:

Table 27 | EU CR1-C Credit quality of exposures by geographic area:

(thousands of euros)

Dec-2019	Gross carrying values of						
Exposure classes	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
Portugal	1,559,770	16,289,368	1,114,211	0	0	-233,763	16,734,926
Spain	27	387,878	183	0	0	-70	387,723
Italy	4	510,323	2	0	0	1	510,325
Angola	52,432	220,027	16,086	0	0	-10,482	256,373
Other	3,622	1,166,725	26,583	0	0	22,315	1,143,764
TOTAL	**1,615,854**	**18,574,321**	**1,157,065**	**0**	**0**	**-221,998**	**19,033,110**

Jun-2019	Gross carrying values of						
Exposure classes	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-	Credit risk adjustment charges of	Net values
Portugal	1,875,951	17,689,351	1,277,793	0	0	-47,582	18,287,508
Spain	36	334,266	108	0	0	-74	334,194
Italy	4	283,930	1	0	0	0	283,932
Angola	70,969	326,286	28,094	0	0	6,077	369,160
Other	9,434	726,909	4,194	0	0	-401	732,150
TOTAL	**1,956,393**	**19,360,741**	**1,310,191**	**0**	**0**	**-41,979**	**20,006,944**

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

Table 28 | EU CR1-B Credit quality of exposures by sector

(thousands of euros)

Dec-2019	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 and fishing	8,913	76,845	3,989	0	0	-383	81,769
Mining	776	15,538	673	0	0	-79	15,641
Manufacturing	165,744	936,828	84,696	0	0	-387	1,017,876
Electricity, gas, steam and air conditioning supply	12,249	51,670	6,726	0	0	5,730	57,194
(Collection, purification and distribution of water)	1,914	80,920	1,610	0	0	-458	81,225
Construction	487,677	471,629	233,368	0	0	-35,677	725,938
Wholesale and retail trading; repair of motor vehicles and motorcycles	163,261	869,574	91,244	0	0	-16,599	941,591
Transport and storage	55,441	323,759	33,764	0	0	-5,808	*345,436*
Hotels, restaurants and similar activities	36,310	444,791	11,937	0	0	-3,290	469,165
Information and communication activities	3,568	78,522	3,184	0	0	-4,042	*78,906*
Financial and insurance activities	183,501	641,876	62,628	0	0	11,943	762,748
Real estate activities	193,459	666,960	102,256	0	0	-16,427	*758,163*
Professional, scientific and technical activities	32,051	317,378	16,006	0	0	-1,040	333,424
Administrative and support service activities	11,011	112,396	8,333	0	0	-2,150	115,073
Public Administration and Defence; Compulsory Social Security	0	51,080	509	0	0	293	50,572
Education	6,796	57,202	3,277	0	0	-382	60,720
Human health and social work activities	15,782	215,932	5,887	0	0	96	225,828
Arts, entertainment, sports and recreation activities	12,940	67,884	8,507	0	0	-9,826	72,317
Other service activities	5,816	68,468	2,269	0	0	-2,314	72,015
Activities of international organisations and other extra-territorial institutions	0	6	0	0	0	0	6
Other activities	11,145	51,976	8,038	0	0	11,145	55,083
TOTAL	**1,408,354**	**5,601,234**	**688,900**	**0**	**0**	**-69,656**	**6,320,689**

Jun-2019	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 and fishing	9,693	75,991	3,567	-	-	12	82,117
Mining	749	16,523	450	-	-	-111	16,822
Manufacturing	185,700	898,614	74,653	-	-	1,104	1,009,661
Electricity, gas, steam and air conditioning supply	4,712	59,478	1,647	-	-	709	62,543
(Collection, purification and distribution of water)	2,720	83,467	1,790	-	-	124	84,397
Construction	519,603	453,528	247,446	-	-	-23,951	725,685
Wholesale and retail trading; repair of motor vehicles and motorcycles	199,552	881,692	92,196	-	-	-475	989,048
Transport and storage	62,047	346,855	38,033	-	-	601	*370,868*
Hotels, restaurants and similar activities	42,564	417,543	14,591	-	-	787	445,516
Information and communication activities	14,595	80,636	12,142	-	-	5,712	*83,089*
Financial and insurance activities	170,940	527,068	47,860	-	-	-2,645	650,147
Real estate activities	221,047	630,573	117,503	-	-	6	*734,117*
Professional, scientific and technical activities	40,103	311,538	17,182	-	-	1,957	334,458
Administrative and support service activities	13,556	120,666	8,783	-	-	-11	125,439
Public Administration and Defence; Compulsory Social Security	0	43,445	91	-	-	1	43,354
Education	7,213	60,696	3,089	-	-	-100	64,820
Human health and social work activities	14,989	200,534	4,900	-	-	-62	210,623
Arts, entertainment, sports and recreation activities	23,627	71,787	9,200	-	-	-8,734	86,213
Other service activities	7,445	71,521	3,607	-	-	-413	75,358
Activities of international organisations and other extra-territorial institutions	0	6	0	-	-	0	6
Other activities	17,803	17,803	17,803	-	-	17,803	17,803
TOTAL	**1,558,657**	**5,369,961**	**716,533**	**-**	**-**	**-7,687**	**6,212,085**

7.3 Past due and impaired loans

205. The distribution of the past due exposures and respective impairment provisions by sector 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.

206. 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 geographic structure of the total portfolio.

207. Pursuant to Article 442, points g) and i) of the CRR and with respect to the exposures subject to impairment and the credit quality of the exposures (tables above), the following table shows the breakdown of the past due exposures, notwithstanding their classification as to non-performance.

208. In December 2019, approximately 47% of past due exposures were equal to or older than 1 year.

Table 29 | EU CR1-D Ageing of past due exposures

Dec-19	Gross carrying values						
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year	Total
Loans	403,978	44,391	37,432	85,377	126,724	755,652	1,453,555
Debt securities	0	0	0	1,800	0	33,000	34,800
Total	**403,978**	**44,391**	**37,432**	**87,177**	**126,724**	**788,652**	**1,488,355**

Jun-19	Gross carrying values						
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year	Total
Loans	491,643	53,276	16,588	113,960	112,862	1,027,273	1,815,601
Debt securities	0	0	0	0	33,000	0	33,000
Total	**491,643**	**53,276**	**16,588**	**113,960**	**145,862**	**1,027,273**	**1,848,601**

209. 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 30 | EU CR1-E Non-performing exposures and deferred exposures

(thousands of euros)

	Gross values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees 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	3,127,526	0	0	34,800	34,800	34,800	0	10,481	0	4,824	0	613	0
Loans and advances	12,867,394	53,140	97,600	1,453,555	1,453,555	1,452,114	770,183	98,679	3,670	668,126	361,528	522,910	342,653
Off-balance sheet amount	1,821,410	1,396	1,185	119,690	119,690	119,690	915	3,076	6	12,321	76	0	0
Total	**17,816,331**	**54,536**	**98,785**	**1,608,045**	**1,608,045**	**1,606,604**	**771,098**	**112,236**	**3,676**	**685,271**	**361,604**	**523,522**	**342,653**

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

210. It is important to mention that the gross value of these exposures came to approximately 17,816 million euros, of which about 1,068 million euros (9.03%) corresponded to non-performing exposures.

211. Moreover, the previous table was prepared taking into account the Group's financial statements, to which IFRS 5 is applicable, thus excluding the exposure relative to Finibanco Angola.

212. The following tables present the default or impaired (stage 3) exposures and the respective movements in 2019:

Table 31 | EU CR2-A Variations in adjustments for specific and general credit risk

(thousands of euros)

Dec-2019	Accumulated credit risk adjustments (impairment)
Opening balance - June 2019	**865,512**
Increases due to amounts set aside for estimated loan losses during the period	35,717
Decreases due to amounts reversed for estimated loan losses during the period	-203,055
Decreases due to amounts taken against accumulated credit risk adjustments	
Transfers between credit risk adjustments	27,611
Impact of exchange rate differences	
Business combinations, including acquisitions and disposals of subsidiaries	
Other adjustments	135,643
Closing balance - December 2019	**861,428**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	
Specific credit risk adjustments directly recorded to the statement of profit or loss	

Jun-2019	Accumulated credit risk adjustments (impairment)
Opening balance - December 2018	**881,119**
Increases due to amounts set aside for estimated loan losses during the period	20,046
Decreases due to amounts reversed for estimated loan losses during the period	-9,727
Decreases due to amounts taken against accumulated credit risk adjustments	
Transfers between credit risk adjustments	14,869
Impact of exchange rate differences	
Business combinations, including acquisitions and disposals of subsidiaries	
Other adjustments	-44,880
Closing balance - June 2019	**861,428**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	
Specific credit risk adjustments directly recorded to the statement of profit or loss	

Table 32 | EU CR2-B Variations in non-performing loans and debt securities.

(thousands of euros)

Gross carrying value of defaulted exposures	Amounts
Opening balance - Dec18	**1,981,572**
Loans and debt securities that have defaulted or impaired since the last reporting period	269,321
Returned to non-defaulted status	-48,073
Amounts written off	-205,483
Other changes	-389,292
Closing balance - Dec19	**1,608,045**

7.4 Concentration risk

213. 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 sector. 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, according to Banco de Portugal Instruction 5/2011.

214. The calculation of the individual concentration rate[2] is based on the 100 greatest exposures in portfolio, aggregated by client/economic group. The weight of these exposures in December 2019 corresponded to approximately 19.8% of the credit portfolio.

215. The sectoral concentration rate[3] is calculated from the classification of economic activities (CEA) associated with the counterparts in the portfolio.

Table 33 | Concentration rates

	Credit Portfolio	
	Dec-19	Dec-18
Individual CR	0.35	0.37
Sectoral CR	8.78	8.86

216. It should be noted that the value of the gross exposure of the 100 largest exposures per counterparty fell by 124 million euros, with that of the total portfolio having fallen by approximately 750 million euros, in relation to 2018, giving rise to a decrease of the Individual Concentration Rate from 0.37 to 0.35.

217. The reduction of the sectoral concentration rate in 2019 reflects the ongoing business diversification strategy that has been implemented in the credit portfolio.

7.5 Use of External Credit Assessment Institutions (ECAI)

218. Credit and counterparty capital requirements are calculated pursuant to the Standardised Approach as defined in the 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 the Moody's, S&P and Fitch agencies are used for attributing the respective risk weights.

219. This practice runs 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-best rating should be 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;

[2] Individual Concentration Rate = $\Sigma x^2 / (\Sigma x * \Sigma y) * 100$, where x represents the value of the total exposure to each counterparty/economic group belonging to the Institution's 100 largest counterparties, and Σy corresponds to the total portfolio exposure.
[3] Sectoral Concentration Rate = $\Sigma x^2 / (\Sigma x)^2 * 100$, where x represents total exposures to each economic activity sector.

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

220. 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 Sector 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 (ECAI) which are considered eligible.

221. Taking into account the guarantees and collateral associated to the exposures, the 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 the CRR.

222. 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

223. 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.

224. 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 the CRR, and do not correspond to all collaterals received.

Table 34 | 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-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18
Total exposures	**19,033,110**	**19,656,315**	**240,700**	**135,426**	**198,960**	**221,604**
Central Governments or Central Banks	3,322,582	3,076,134	0	0	0	0
Regional Governments or Local Authorities	50,807	16,729	0	0	0	0
Public Sector Entities	70,000	70,000	0	0	0	0
Institutions	759,436	629,761	0	0	0	1,629
Corporates	2,458,836	2,487,183	114,135	19,460	45,517	57,612
Retail	2,484,916	2,557,081	118,856	109,259	134,856	141,525
Positions guaranteed by real estate	6,679,649	7,432,907	6,186	5,005	11,057	17,417
Past due items	848,082	1,097,131	1,524	1,702	2,392	3,422
Exposures associated with Particularly High Risks	548,578	161,786	0	0	5,138	0
Covered Bonds	12,733	0	0	0	0	0
Positions on Collective Investment Undertakings (CIU):	259,289	298,663	0	0	0	0
Shares	140,264	136,842	0	0	0	0
Other items	1,395,520	1,689,065	0	0	0	0
Securitisation positions under the Standardised Approach	2,417	3,034	0	0	0	0

225. 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 the CRR.

226. 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 BM's structure, independent from the commercial department. The reassessment of the assets is carried out according to the requirements defined in Article 208 of the 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.

227. The following table 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 the CRR. It is important to mention that the guarantees/bails provided by private customers and sole proprietorships are also not considered within this framework.

Banco Montepio

Table 35 | EU CR3 CRM Techniques – Overview

(thousands of euros)

Dec-19	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	4,717,059	7,951,293	7,708,404	242,889	0
Total debt securities	2,724,921	25,614	0	25,614	0
Total exposures	**7,441,980**	**7,976,907**	**7,708,404**	**268,502**	**0**
Of which defaulted	*597,750*	*156,505*	*154,981*	*1,524*	*0*

228. The total amount of securities includes 88 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.

229. In December 2019, no positions covered by credit derivatives were held.

230. 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 36 | EU CR4 Standardised approach – Credit exposures and CRM effects

(thousands of euros)

Dec-19	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	3,321,639	943	3,461,831	791	147,386	4.26%
Regional Governments or Local Authorities	49,821	986	49,821	17	9,968	20.00%
Public Sector Entities	70,000	0	167,260	209	70,000	41.80%
Multilateral Development Banks	0	0	0	0	0	
International Organisations	0	0	0	0	0	
Institutions	505,860	210,395	505,860	196,992	211,328	30.07%
Corporates	2,044,083	412,217	1,889,591	69,899	1,900,808	97.01%
Retail	1,835,394	649,501	1,593,611	64,813	1,045,341	63.03%
Secured by mortgages on immovable property	6,544,900	134,749	6,527,901	8,907	2,431,470	37.20%
Exposures in default	738,130	109,952	735,819	20,073	874,094	115.64%
Exposures associated with particularly high risk	403,368	145,210	398,234	60,958	688,789	150.00%
Covered bonds	12,733	0	12,733	0	1,273	10.00%
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	
Collective investment undertakings (CIUs)	259,289	0	259,289	0	259,289	100.00%
Equity exposures	140,264	0	140,264	0	140,264	100.00%
Other items	1,395,520	0	1,395,520	0	1,165,751	83.54%
Total	**17,321,001**	**1,663,954**	**17,137,734**	**422,659**	**8,945,762**	

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

231. The net effect of inflows and outflows is especially relevant in the risk categories of “Central Governments or Central Banks” and “Public Sector Entities” which amounts to approximately 237 million euros. Regarding financial collateral, about 90% of the credit risk mitigation effect is allocated to the Companies and Retail risk categories.

232. The following table breaksdown, 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 37 | EU CR5 Standardised approach – Breakdown of the exposure

(thousands of euros)

Dec-2019 Exposure classes	Risk weights 0%	10%	20%	35%	50%	75%	100%	150%	Other	Total
Central Governments or Central Banks	3,171,609	0	3,305	0	0	0	146,726	0	0	3,321,639
Regional Governments or Local Authorities	0	0	49,838	0	0	0	0	0	0	49,838
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	196,246	0	189,251	0	287,599	0	29,614	42	100	702,852
Corporates	0	0	16,239	0	31,794	0	2,024,867	0	0	2,072,900
Retail	0	0	0	0	0	1,777,280	0	0	0	1,777,280
Positions guaranteed by real estate	0	0	0	5,661,215	644,666	113,623	123,490	0	0	6,542,994
Past due items	0	0	0	0	0	0	519,489	236,404	0	755,892
Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	459,192	0	459,192
Covered Bonds	0	12,733	0	0	0	0	0	0	0	12,733
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	259,289	0	0	259,289
Shares	0	0	0	0	0	0	140,264	0	0	140,264
Other items	215,048	0	18,401	0	0	0	1,162,071	0	0	1,395,520
Securitisations	0	0	0	0	0	0	0	0	0	0
Total	**3,582,903**	**12,733**	**277,033**	**5,661,215**	**964,059**	**1,890,903**	**4,475,810**	**695,638**	**100**	**17,560,393**

Jun-2019 Exposure classes	Risk weights 0%	10%	20%	35%	50%	75%	100%	150%	Other	Total
Central Governments or Central Banks	3,768,345	0	3,309	0	0	0	141,981	0	0	3,913,635
Regional Governments or Local Authorities	0	0	14,605	0	0	0	0	0	0	14,605
Public Sector Entities	0	0	0	0	0	0	70,704	0	0	70,704
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	117,930	0	336,890	0	117,035	0	40,166	42	100	612,162
Corporates	0	0	23,916	0	19,187	0	1,788,375	0	0	1,831,477
Retail	0	0	0	0	0	1,798,351	0	0	0	1,798,351
Positions guaranteed by real estate	0	0	0	5,825,513	940,526	125,752	167,236	0	0	7,059,028
Past due items	0	0	0	0	0	0	721,192	269,191	0	990,383
Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	111,257	0	111,257
Covered Bonds	0	12,650	0	0	0	0	0	0	0	12,650
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	297,589	0	0	297,589
Shares	0	0	0	0	0	0	139,698	0	0	139,698
Other items	174,107	0	76,792	0	0	0	1,376,534	0	0	1,627,433
Securitisations	0	0	0	0	0	0	0	0	0	0
Total	**4,060,383**	**12,650**	**455,512**	**5,825,513**	**1,076,748**	**1,924,104**	**4,743,473**	**380,490**	**100**	**18,478,973**

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

233. In December 2019, about 32% 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.

234. The second most significant credit risk weight is that of 100%, which corresponds to 25% of the exposure. This weight is essentially applicable to exposures to Companies and Other Items (mostly properties and tangible fixed assets).

235. It is also worth mentioning that about 20% of the exposure is reflected in the credit risk weight of 0%. This weight is essentially associated to 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

236. 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).

237. 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.

238. 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.

239. 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

240. 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 2019, the outstanding securitisation operations backed by loans originated by the Group were the following: Pelican Mortgages No. 3, Pelican Mortgages No. 4, Pelican Mortgages No. 5, Pelican Mortgages No. 6, Aqua Mortgage 1 and Pelican Finance No. 1.

241. As originator, the Group runs the risk of not receiving the funds due for the sale of the credits to the loans portfolio buyer, whether at the beginning or in successive revolving. Another risk results from the possible request, by the loans portfolio buyer, 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.

242. 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.

243. 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.

244. 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.

245. None of the other securitisation operations complies with the requirements set out in Article 243 of the 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 related with the underlying credit portfolios.

246. 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 the 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 and Moody's were taken into consideration.

247. 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 153 and 194) and Note 53 (pages 281-285) which are presented in the Annual Report for 2019.

248. 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 38 | 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	163,509	117,710	set/54	BBB	A2	A	n.a.	3/15/2016	0.20%	no	434	1,330
XS0293657689	Class B	14,250	4,222	4,222	set/54	BBB	Ba1	BB-	n.a.	3/15/2016	0.30%			
XS0293657846	Class C	12,000	3,555	3,555	set/54	BB+	B2	B	n.a.	3/15/2016	0.36%			
XS0293657929	Class D	6,375	1,889	1,889	set/54	BB	Caa1	B-	n.a.	3/15/2016	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	394,206	394,206	set/56	A+	n.a.	n.a.	AA (h)	6/15/2017	0.30%	no	278	2,386
XS0365138295	Class B	55,500	34,897	34,897	set/56	A+	n.a.	n.a.	n.a.	6/15/2017	0.45%			
XS0365138964	Class C	60,000	37,726	37,726	set/56	BBB+	n.a.	n.a.	n.a.	6/15/2017	0.60%			
XS0365139004	Class D	25,000	15,719	15,719	set/56	B+	n.a.	n.a.	n.a.	6/15/2017	0.90%			
XS0365139699	Class E	27,500	17,291	17,291	set/56	B	n.a.	n.a.	n.a.	6/15/2017	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	346,011	346,011	dez/61	A+	n.a.	n.a.	AAA	6/15/2018	0.30%	no	257	2,117
XS0419743389	Class B	195,000	121,186	121,186	dez/61	A-	n.a.	n.a.	n.a.	6/15/2018	0.50%			
XS0419743462	Class C	27,500	17,090	17,090	dez/61	BBB	n.a.	n.a.	n.a.	6/15/2018	0.90%			
XS0419743546	Class D	27,500	170,090	170,090	dez/61	n.a.	n.a.	n.a.	n.a.	6/15/2018	1.25%			
XS0419743629	Class E	4,500	0	0	dez/61	n.a.	n.a.	n.a.	n.a.	6/15/2018	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	358,622	358,622	dez/63	A+	n.a.	AA	AAA	-	0.30%	no	1,352	12,307
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	65,597	65,597	dez/63	n.a.	n.a.	A+	AAA	-	0.15%	no	384	1,803
XS0400982087	Class B	29,824	21,080	21,080	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	72,420	72,420	dez/28	A+	n.a.	n.a.	AH	-	3% (fixed	no	4,395	5,190
PTTGUZOM0014	Class B	91,100	44,285	44,285	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 39 | Credit risk - Securitisation operations: Standardised approach

(thousands of euros)

Traditional Securitisation	Fully adjusted exposure value		Risk-weighted exposure amount	
		Amounts deducted from own funds (-)	Dec-19	Dec-18
	2	3	9	10
B=Investor : total exposures	2,417	0	1,541	1,869
B1 – Balance sheet items	2,417	0	1,541	1,869
Securitisations	2,417	0	1,541	1,869
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 40 | 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-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18
Traditional securitisation (total)	1,963,304	2,478,966	715,910	998,224	0	0
On-balance sheet items	1,963,304	2,478,966	715,910	998,224	0	0
Securitisations	1,963,304	2,478,966	715,910	998,224	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						

249. For further information related with securitisation operations, see Note 53 (pages 281-285) of the notes attached to the financial statements of the Annual Report for 2019.

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

250. 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 the 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 BM's specific regulations.

251. 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

252. 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 the 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 the CRR, which results in the weighting of assets according to the sector and credit quality of the issuer.

Equity

- General risk: corresponds to the risk of loss caused by unfavourable variations in the share 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 the 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 the CRR.
- For the calculation of the capital requirements for positions in Collective Investment Undertakings (CIU), the method used is the one provided for in Section 6, Chapter 2, Title IV of Part III of the CRR.

Table 41 | Capital requirements - Trading book

(thousands of euros)

Trading book risks	Requirements Own funds Dec-19	Requirements Own funds Dec-18
Total trading book risk (1 + 2)	**2,042**	**1,409**
Position risk	702	1
Standardised Approach for the trading book	702	1
Debt instruments		
Specific risk	83	0
General risk	383	1
Equity securities		
Specific risk	105	0
General risk	130	0
Collective investment undertakings (CIU)	0	0
Counterparty credit risk	1,341	1,408
Bonds	0	0
Derivative instruments	1,341	1,408
Other	0	0

253. In quantitative terms, the use of the methods described above led to the ascertaining, as at 31 December 2019, of capital requirements of 1.3 million euros for trading book risks.

12. Foreign exchange and commodity risks in the banking and trading books

254. The method used by BM 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 the CRR.

255. 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 the 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.

256. 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 the CRR.

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

Table 42 | Capital requirements – Exchange and commodity risks

(thousands of euros)

CAPITAL REQUIREMENTS - FOREIGN EXCHANGE AND COMMODITIES RISKS			
	Foreign Exchange and Commodities Risk	Dec-19	Dec-18
1. Foreign Exchange Risk (=1.1.+1.2.)		**7,109**	**8,499**
1.1.	Standardised Approach	7,109	8,499
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**

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

Table 43 | EU MR1 Market risk on the standardised approach

(thousands of euros)

	RWAs			Capital Requirements		
	Dec-19	Jun-19	Dec-18	Dec-19	Jun-19	Dec-18
Outright products						
Interest rate risk (general and specific)	5,825	7,743	8	466	619	1
Equity risk (general and specific)	2,949	6,954	5	236	556	0
Foreign exchange risk	88,869	106,802	106,244	7,109	8,544	8,499
Commodities risk	0	0	0	0	0	0
Options						
Simplified approach						
Delta-plus method						
Scenario approach						
Securitisations (specific risk)						
Total	**97,643**	**121,499**	**106,257**	**7,811**	**9,720**	**8,501**

259. The observed reduction of market risk requirements, in relation to the previous year, primarily arises from the foreign exchange risk, in particular the devaluation of the Kwanza resulting from Finibanco Angola's activity.

260. Notes 23 and 24 on pages 215 to 220 of the financial statements attached to the Annual Report for 2019, should be consulted, in particular, for the valuation of the financial instruments of the trading book and banking book.

13. Exposures to banking book shares

261. 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).

262. 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.

263. 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.

264. The fair value of unlisted shares is estimated based on the following 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 44 | Equity exposures in the banking book

(thousands of euros)

	Listed shares		Unlisted shares		Total	
	Dec/2019	Dec/2018	Dec/2019	Dec/2018	Dec/2019	Dec/2018
Acquisition cost	68,243	65,300	77,546	80,461	145,789	145,761
Fair value	46,667	47,310	89,512	85,246	136,179	132,556
Market price	46,667	47,310			46,667	47,310
Gains or losses arising from sales and settlements in the period:					25	-630
Total unrealised gains or losses:					-9,610	-13,204
Total latent revaluation gains or losses					**0**	**0**

265. Further details on the portfolio of shares can be consulted in the notes attached to the financial statements of the Annual Report for 2019, in particular Note 24 (pages 219 and 220) and Note 25 (pages 220 to 225).

14. Operational risk

266. Concerning capital requirements for operational risk, Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June considers operational risk a significant risk for Credit Institutions; therefore, this type of risk needs specific coverage in terms of Own Funds.

267. The Banco Montepio Group has calculated own funds requirements for operational risk according to the standardised approach since 2010.

268. As noted in Article 317, Chapter 3, Title III, Part III of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June, in the standardised approach, the relevant indicator must be calculated by activity segments, which implies the existence of prior mapping between the activities developed by BM and the proposed activity segments.

269. The table below presents the eight activity segments and the list of associated activities, as well as the risk weights associated to each segment.

Table 45 | Activity segments and list of activities

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.

270. The rules of distribution of the activities by the segments of activity that institutions should observe are as follows:

271. All the activities should be distributed over the activity segments listed in the previous table, so that each activity corresponds to only one segment, and no activity remains unallocated;

272. Any activity that cannot easily be allocated to the defined activity segments, but that represents an auxiliary function of an included activity, should be allocated to the activity segment to which it provides support. If this auxiliary activity supports more than one activity segment, the following allocation criteria should be used;

273. If an activity cannot be allocated to a specific activity segment, it should be placed in the activity segment to which the highest percentage corresponds. Any related auxiliary activity should be allocated to the same activity segment;

274. Institutions may use in-house price-fixing methods to distribute the relevant indicator over different activity segments. The costs generated in one activity segment that are imputable to a different activity segment can be reallocated to the activity segment to which they belong;

275. The distribution of activities over the activity segments, for purposes of determination of own fund requirements to cover operational risk should be consistent with the categories used for credit and market risk;

276. The management is responsible for the distribution policy, under control of the institution's management body;

277. In the standardised approach, own funds requirement to cover operational risk consists of the average of the last three years of the sum of the relevant indicators, calculated in each year, weighted by the risk related to the activity segments referred to above.

278. The relevant indicator consists of the sum of net interest income and other net income, on an annual basis, reported at the end of the financial year.

279. Relevant Indicator

+ Interest and equivalent income

- Interest and equivalent costs

+ Income from shares and other variable/fixed yield securities

+ Commissions and fees received

- Commissions and fees paid

+ Net trading income

+ Other operating income

280. These items should be adjusted, if necessary, so as to meet the following conditions:

a) The relevant indicator should be calculated before deducting any provisions and operating costs, with the latter including commissions and fees paid for services provided by third parties (outsourcing) that are not the parent company or subsidiary of the institution, nor subsidiary of a parent company that is also parent company of the institution;
b) Commissions and fees paid for outsourcing services provided by third parties that are the parent company or subsidiary of the institution, subsidiary of a parent company that is also parent company of the institution, can contribute to reduce the relevant indicator if charged by a company that is subject to supervision by virtue of the regulations herein or equivalent rules;

c) Commissions and fees received for the provision of outsourcing services should contribute to increase the relevant indicator;

d) When not arising from the current activity of the institutions, the profit/loss from the sale of items not included in the trading book, extraordinary results, income from insurance activity specifically (excluding the mere activity of insurance intermediation, understood as an activity auxiliary to the current activity of the institutions) and the indemnities received arising from insurance taken out (for example, to meet operational losses) should not be considered to calculate the relevant indicator.

281. The following table presents, according to the standardised method, the calculation of the capital requirements allocated to operational risk in the last three years.

Table 46 | Capital requirements for operational risk

(thousands of euros)

Approach	Relevant indicator			Capital requirements (Consolidated)
	2017	2018	2019	
Total	503,478	467,907	420,670	60,896
1. Sum of activities subject to the Basic Indicator Approach	0	0	0	0
2. Sum of activities subject to the standardised approach	503,478	467,907	420,670	60,896
2.1. Corporate finance	3,738	1,578	1,676	
2.2. Negotiation and sales	-17,622	-7,921	4,989	
2.3. Retail brokerage	-2,767	-358	-150	
2.4. Commercial banking	124,162	190,491	131,537	
2.5. Retail banking	359,246	278,675	270,980	
2.6. Payment and settlement	34,660	3,943	9,946	
2.7. Agency services	2,062	1,499	1,692	
2.8. Asset Management	0	0	0	

15. Banking book interest rate risk

282. 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.

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

284. Following the Basel recommendations and Banco de Portugal Instruction 34/2018 of 26 December, 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.

285. 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.

286. 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.

287. 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 47 | Interest Rate Risk

(thousands of euros)

Scenario (Ref. 2018)	1-year impact on net interest income	Impact on net worth
Parallel shock up	68,949	-63,163
Parallel shock down	-68,949	69,975
Short rates up	83,014	-8,497
Short rates down	-83,014	8,505
Steepener shock	-52,817	-21,723
Flattener shock	65,650	10,714

288. For further information on interest rate risk, see 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 313.

16. Liquidity risk

289. Liquidity risk is assessed using defined regulatory indicators, as well as other internal metrics for which there are established internal limits. This control is strengthened with the monthly conduct of stress tests, aimed at characterising the risk profile and ensuring that the Group complies with its obligations under normal business conditions, but also in a scenario of any stress or liquidity crisis. 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.

290. 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 risk appetite.

291. 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. Under liquidity management and control, prudential information, namely information on the Liquidity Coverage Ratio (LCR), is prepared for the supervisory authority on a regular basis. The table below presents information on the quarterly average value of the LCR and its main components, according to the EBA guidelines (EBA/GL/2017/01).

Table 48 | Average liquidity coverage ratio (LCR)

(thousands of euros)

	Total non-weighted value (average)				Total weighted value (average)			
Quarter ending on:	31/Mar/2019	30/Jun/2019	30/Sep/2019	31/Dec/2019	31/Mar/2019	30/Jun/2019	30/Sep/2019	31/Dec/2019
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)					2,477,933	2,883,432	3,124,903	2,642,134
Cash outflows								
Retail deposits and deposits from small business customers, of which:	4,523,729	4,565,733	4,762,294	4,739,890	286,457	290,460	303,057	299,971
Stable deposits	3,417,920	3,477,249	3,630,474	3,632,576	170,896	173,862	181,524	181,629
Less stable deposits	1,105,810	1,088,484	1,131,820	1,107,313	115,561	116,598	121,533	118,342
Unsecured wholesale funding	2,517,975	2,502,404	2,471,156	2,325,686	1,213,283	1,160,111	1,158,898	1,090,547
Operational deposits (all counterparties) and deposits in networks of cooperative banks	440,383	507,372	498,527	484,774	110,096	126,843	124,632	121,194
Non-operational deposits (all counterparties)	2,035,292	1,995,033	1,966,663	1,840,912	1,060,888	1,033,268	1,028,300	969,354
Unsecured debt	42,300	0	5,967	0	42,300	0	5,967	0
Secured wholesale funding					0	17,646	38,425	0
Additional requirements	1,670,178	1,724,932	1,793,370	1,842,450	137,949	156,432	174,363	178,268
Outflows related to derivative exposures and other collateral requirements	18,748	30,014	35,353	34,142	18,748	30,014	35,353	34,142
Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
Credit and liquidity facilities	1,651,430	1,694,918	1,758,017	1,808,308	119,201	126,417	139,010	144,126
Other contractual funding obligations	47,170	43,460	65,366	56,000	22,974	22,410	47,168	37,802
Other contingent funding obligations	0	0	0	0	0	0	0	0
Total cash outflows					1,660,664	1,647,059	1,721,911	1,606,589
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	219,934	217,175	193,642	190,128	143,079	139,399	111,482	116,869
Other cash inflows	22,296	25,268	23,735	20,871	22,296	25,268	23,735	20,871
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0	0	0	0
(Inflows from a related specialised credit institution)					0	0	0	0
Total cash inflows	242,229	242,443	217,378	211,000	165,374	164,667	135,217	137,740
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	242,229	242,443	217,378	211,000	165,374	164,667	135,217	137,740
					Total adjusted value			
Liquidity Buffer					2,477,933	2,883,432	3,124,903	2,642,134
Total Net Cash Outflows					1,495,290	1,482,393	1,586,693	1,468,849
Liquidity Coverage Ratio (LCR) as %					166%	195%	197%	180%

292. 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.

293. 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).

294. In 2019, the funding structure was based mostly on customer deposits. Liquidity inflows were essentially due to revenue derived from the repayment and settlement of credit operations, as well as the issuance of subordinated notes and covered bonds publicly offered in the market.

295. In 2019 the Group recorded 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 that considered by the Liquidity Coverage Ratio (LCR).

17. Encumbered and unencumbered assets

296. Pursuant to Banco de Portugal Instruction 28/2014, 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 following information is presented on assets and collateral as at 31 December 2019:

Table 49 | Encumbered assets

(thousands of Euro)

Encumbered assets	Balance sheet value	Fair value
Portuguese public debt securities;		
Financing from the European Investment Bank (EIB)	422,667	0
Sale operations with repurchase agreement	162,851	0
Commitments to the Deposit Guarantee Fund	26,557	0
Total Portuguese public debt	**612,075**	**0**
Credit operations		
Collateralised financing from the European Central Bank (ECB)	1,083,967	1,083,967
Collateralised bonds by mortgage loan	0	0
Collateralised bonds by credit to the Public Administrative Sector	0	0
Securitisation operations	1,019,912	1,019,912
Total credit operations	**1,083,967**	**1,083,967**
Other assets		
Derivatives		
Credit Support Annex (CSA)	29,109	29,109
Stock exchange margins	0	0
Other collateral	0	0
Collateral in cash (DCSA)	0	0
Collateral in favour of EIB	0	0
Other	5,373	642,027
Total other assets	**34,482**	**671,136**
Total value of encumbered assets	**1,730,525**	**1,755,103**

Encumbered assets	Balance sheet value	Fair value
Capital instruments	510,621	510,616
Debt Instruments	2,506,565	1,966,173
Credit	10,165,551	10,165,551
Other assets	2,840,881	2,296,436
Total value of unencumbered assets	**16,023,618**	**14,938,776**

Table 50 | Fair value of assets received

(thousands of Euro)

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

Table 51 | Liabilities associated to encumbered assets and received collaterals

(thousands of Euro)

Sources of encumbrance	Associated and contingent liabilities	Assets and collateral received
Financial Liabilities		
Derivatives	11,098	29,109
Deposits	1,751,084	1,674,858
Financing from the European Central Bank	1,291,033	1,083,967
Financing from the European Investment Bank (EIB)	350,359	453,791
Sale operations with repurchase agreement	109,693	162,851
Other deposits		
Securities issued		
Collateralised bonds by mortgage loan		
Collateralised bonds by credit to the Public Sector		
Securitisation operations		
Total Financial Liabilities	**1,762,182**	**1,703,967**
Other sources of encumbrance		
Commitment to the Deposit Guarantee Fund	22,768	26,557
Commitment to the Investor Compensation Scheme	0	0
European Central Bank Liquidity Facility	0	0
Total other sources of encumbrance	**22,768**	**26,557**
Total value of sources of encumbrance	**1,784,949**	**1,730,525**

297. The encumbered assets are mainly pledging financing operations under the ECB's monetary policy and repo operations. The types of assets used as collateral of the financing operations above mentioned are divided into client loan portfolios, which support securitisation transactions and covered bonds issuances, be it those placed outside the Group and those issued to strengthen the collateral pool with the ECB, and Portuguese, Italian and Spanish sovereign debt portfolios, which collateralise repo operations in the monetary market.

298. Further information can be consulted on pages 315 to 317 of Note 55 on Risk Management, in the notes attached to the financial statements.

18. Remuneration policy

299. 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, you are hereby informed of the following:

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.

Pursuant to the Articles of Association of BM, the remunerations of the members of the governing bodies and of the statutory auditor are established by the Remuneration Committee foreseen in Article 11, point c) of the Articles of Association, which corresponds to the provisions established in Article 399 of the Commercial Companies Code.

Pursuant to Article 11, point c) of the Articles of Association of BM, the General Meeting is responsible for electing a Remuneration Committee composed of three independent members empowered to establish the remunerations of the members of the governing bodies, see Article 399, number 1 of the Commercial Companies Code.

Considering that this Remuneration Committee is not appointed by the shareholders, the power and duty to establish the remunerations of the members of the governing bodies of BM are, under the terms of the law, exclusively entrusted to the General Meeting.

In turn, the Remuneration, Appointments and Evaluations 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 number 1 of Article 2 of Law 28/2009 of 19 June, and is also responsible, under the provisions of number 4 of Article 115-C 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 Evaluations Committee is composed of three members, which includes a Chairman, appointed by the BD from among its non-executive members, where the majority, including the Chairman, must have an independent status.

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

The members of the Remuneration, Appointments and Evaluations 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 28/2009 of 19 June:

The General Meeting, by Unanimous Determination in Writing of 23 April 2018, established the remunerations of the members of the Management and Supervisory Body of Banco Montepio for the term of office 2018-2021, including the annual value paid to the members of the Board of the General Meeting, under the terms of the Law.

Pursuant to Article 16 of the Articles of Association of Banco Montepio, the remunerations of the members of the Management and Supervisory Body and of the Statutory Auditor are established by the Remuneration Committee stipulated in Article 11, point c) of the Articles of Association, which corresponds to the provisions established in Article 399 of the Commercial Companies Code. However, as this Committee was not appointed by the shareholders, the power and duty to establish the remunerations of the members of the governing bodies of BM are, under the terms of the law, exclusively entrusted to the General Meeting.

The Remuneration Policy of the Management and Supervisory members enforced in 2019 was approved at the General Meeting of 27 May 2019.

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

The Remuneration, Appointments and Evaluations Committee recommended to the Board of Directors to submit to the General Meeting of 30 June 2020 a proposed review of the current Remuneration Policy of the Members of the Management and Supervisory Body of Banco Montepio, in accordance with the best practices of the sector aimed at ensuring consistency between the remuneration policies applied to the Banco Montepio Group, in compliance with the provisions in the General Framework of Credit Institutions and Financial Companies (RGICSF) and EBA Guidelines relative to Sound Remuneration Policies (EBA/GL/2015/22). This proposal was approved at the aforesaid General Meeting of 30 June 2020.

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 BM, 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 components identified above, remuneration in the form of daily allowances, in the event of travel, can be attributed to the Members of the Executive Committee, paid under the same conditions as those applied to the rest of the employees (item 6.1.1, point b) of the Remuneration Policy of the Members of the Management and Supervisory Body).

For the payment of a variable remuneration to executive directors, BM has adopted a policy setting a maximum ceiling of variable remuneration dependent on the result of the appraisal of individual performance and the BM's performance, preventing excessive risk-taking behaviour.

Members of the Board of Directors did not receive any variable remuneration.

Further 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., numbers 2.2, 6.2.15 and 6.2.16 and in the Remuneration Policy of the Relevant Employees, Sections IV, V, VI, VII, VIII, IX - see address of the institutional website in point iv and at:

https://www.bancomontepio.pt/resources/SiteMontepio/documentos/institucional/informacao-financeira/politica-remuneracao-colaboradores-relevantes.pdf.

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

The remuneration structure of the executive directors 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 attributed in financial years in which no losses are recorded and shall be dependent on a multi-annual assessment of the performance of each member, which must be approved by the General Meeting.

During 2019, the attribution of a variable remuneration to the executive directors 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 attribute 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 attribute said remuneration. The deferral period starts after the attribution of the immediate portion of the variable remuneration, with the right over the first deferred portion only being acquired 12 months after the start of the deferral period (number 6.2.4 of the Remuneration Policy of the Members of the Management and Supervisory Body).

viii) Criteria underlying the attribution of variable remuneration in shares as well as on the holding, by the executive directors, of these shares, on any conclusion of contracts relative to these 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 accordance with the General Framework of Credit Institutions and Financial Companies, via instruments issued by BM, with a residual minimum repayment period of five years, and that are additional tier 1 or tier 2 instruments, in observance of Articles 52 and 63, respectively, both of the Capital Requirements Regulation (CRR - number 6.2.7 of the Remuneration Policy of the Members of the Management and Supervisory Body).

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 these instruments. The conclusion of these contracts determines the loss of the right to receive all of the variable remunerations that have been deferred (number 6.2.8 of the Remuneration Policy of the Members of the Management and Supervisory Body).

If any other instruments are issued, the identification and management shall be ensured of potential conflicts of interest that could be generated by the payment of these instruments as part of the variable remuneration. In this regard, procedures shall be adopted to ensure compliance with the requirements applicable to the management of privileged information and the non-adoption of measures that could have a short-term impact on the price of these instruments (number 6.2.9 of the Remuneration Policy of the Members of the Management and Supervisory Body).

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 this case, the remaining remuneration shall be paid in cash (number 6.2.10 of the Remuneration Policy of the Members of the Management and Supervisory Body).

Further information on points vi) and ix) 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., numbers 2.2, 6.2 and 7 and in the Remuneration Policy of the Relevant Employees, Sections VI, VII, VIII, IX (see address of the institutional website in point iv and v).

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

Under the terms of number 7 of the Remuneration Policy of the Members of the Management and Supervisory Body, 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.

These benefits were established at the General Meeting by Unanimous Determination in Writing of 23 April 2018.

xi) Main characteristics of the supplementary pension or early retirement schemes for directors 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 attributed 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.

This benefit was established at the General Meeting by Unanimous Determination in Writing of 23 April 2018.

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

Members of the Audit Committee and 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 a qualifying stake is held, can earn, in those entities, an amount of not more than 20% of their monthly fixed basic remuneration earned at BM (number 5.4 of the Remuneration Policy of the Members of the Management and Supervisory Body).

In the case of non-executive members of the BD, who are not members of the Audit Committee, and were appointed to perform executive duties in entities of the Group, their total remuneration cannot exceed the lowest remuneration of the members of the Executive Committee of BM (number 5.5 of the Remuneration Policy of the Members of the Management and Supervisory Body).

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 2019, the attribution of a variable remuneration to the executive directors was not deliberated.

xiv) Information on compensation paid or owed to former executive directors 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, pages 201 and 202, presented 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 assimilated to senior managers:

Table 52 | Remuneration of identified people

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	8	7	-	5	-	-	5	21	-
Senior staff	**8**	**7**	**-**	**5**	**-**	**-**	**5**	**21**	**-**
Control functions									
Fixed remuneration 2018									
In cash	1,247	1,871	-	659	-	-	371	2,194	-
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									
Compensation due to dismissal									
Average period of stay									
Maximum amount of this type of payments made to a single person									
Number of beneficiaries of contributions to discretionary pension benefits									
Total amount of contributions to discretionary pension benefits in the year									

Table 53 | 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	-
from 1.5 million euros to 2 million euros	-
from 2 million euros to 2.5 million euros	-
from 2.5 million euros to 3 million euros	-
from 3 million euros to 3.5 million euros	-

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, and on pages 622 to 624 of the Annual Report.

Table 54 | 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	Geographic 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 category:	
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 countercyclical 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 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 list of activities	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

Table 55 | Mapping CRR articles

Article/ Description	Reference in the Report
Article 435 Risk management objectives and policies	
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:	
(a) The strategies and processes to manage those risks;	Chapter 3.3 and 3.5
(b) The structure and organisation of the relevant risk management unit, including information on its authority and status, or other adequate provisions;	
(c) The scope and nature of risk reporting and measurement systems;	Chapter 3.5.
(d) The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants;	Chapter 3.6.
(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;	Chapter 3.1.
(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.	Chapter 3.2.
2. Institutions shall disclose the following information regarding governance arrangements, including regular updates on at least an annual basis:	
(a) The number of directorships held by members of the management body;	Chapter 3.4.
(b) The recruitment policy for the selection of members of the management body and their actual knowledge, skills and technical expertise;	
(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;	
(d) Whether or not the institution has set up a separate risk committee and the number of times the risk committee has met;	Chapter 3.3.
(e) The description of the information flow on risk to the management body.	Chapter 3.5.
Article 436 Scope of application	
Institutions shall disclose the following information regarding the scope of application of the provisions in this regulation, in accordance with Directive 2013/36/EU:	
(a) The name of the institution to which the requirements of this regulation are applicable:	Chapter 1.
(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;	Chapter 2.
(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;	
(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;	
(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.	
Article 437 Own Funds	
1. Institutions shall disclose the following information regarding their own funds:	
(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	Chapter 4.1

Article/ Description	Reference in the Report
to articles 32 to 35, 36, 56, 66 and 79, and the balance sheet in the audited financial statements of the institution;	
(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;	
(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 the 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 each 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	

Article/ Description	Reference in the Report
transactions, considering both the benefits from legally enforceable netting agreements and collateral arrangements;	
(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, detailed according to use in the institution's own credit portfolio and intermediation activities, including the distribution of credit derivative products, and the break-down of the credit protection 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 in the 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 ECAI	
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 ECAI and export credit agencies (ECA) 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 ratio between the external rating of each nominated ECAI or ECA and the credit quality degrees described in Part III, Title II, Chapter 2, taking into account that this information does not require disclosure if the institution respects the standard ratio published by the EBA;	
(e) The exposure values and the exposure values after credit risk mitigation associated with each credit quality degree 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 to securitisation positions	
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	

Article/ Description	Reference in the Report
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 securitisation special purposes entities (SSPE) 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 SSPE, 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 SSPE 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 ECAI 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 between securitisation and re-securitisation exposures and further broken down into a meaningful number of risk-weight	

Article/ Description	Reference in the Report
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-trading 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.	
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 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.	

Article/ Description	Reference in the Report
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 in 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 LGD 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 recorded in the previous period (for example, the institution may have experienced higher than average default rates, or higher than average LGD 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 453 Use of risk mitigation techniques	
The credit institutions applying credit risk mitigation techniques shall disclose the following information:	

Article/ Description	Reference in the Report
(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 Standardised Approach or the Internal Ratings-Based (IRB) Approach, but not providing own estimates of LGD 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 Standardised Approach or the Internal Ratings-Based (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 daily change 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 abbreviations and technical terms most used 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 of the European Council

CRM – Credit Risk Mitigation

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

IRB – Internal Ratings-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

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