MARKET DISCIPLINE

2019

Table of Contents

List of Tables

List of Figures

Introductory note

The document 'Market Discipline 2019' aims to supplement the Notes to the annual Financial Statements, providing more detailed information to the market on the risk exposure and solvency of the Caixa Geral de Depósitos Group (“'CGD' or 'CGD Group'), as planned in Part VIII of Regulation (EU) no. 575/2013 of the European Parliament and of the Council and following EBA directives (EBA/2016/11) of 4 August 2017.

Except when explicitly mentioned, the information provided concerns the CGD Group's position and banking book perimeter, on 31 December 2019 and monetary amounts correspond to thousands of euros, having been ascertained through prudential consolidation.

I. Declaration of responsibility

The Board of Directors of Caixa Geral de Depósitos, S.A.:

- Certifies that all procedures considered necessary were undertaken and that, to its knowledge, all disclosed information is factual and reliable;

- Ensures the quality of all disclosed information, including any that is associated or comes from entities encompassed in the economic group to which Caixa Geral de Depósitos, S.A., belongs;

- Commits to disclosing, in a timely manner, any significant amendments that occur during subsequent activity to which this document refers;

- Promotes the continued improvement of our risk management system, considering it fit for the CGD Group's complexity, nature, dimension and risk profile.

Information on activity and subsequent facts relating to the CGD Group can be found on our website https://cgd.pt/, with the information under 'Investor Relations' being particularly relevant in this context.

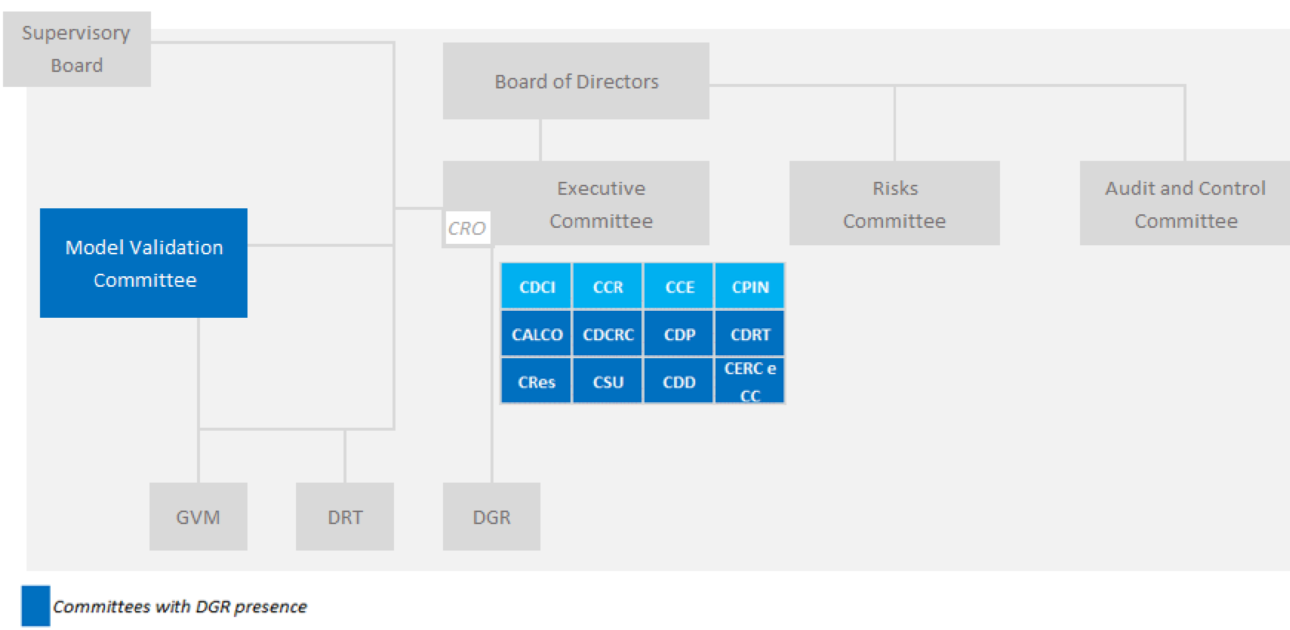
II. Risk management objectives and policies

II.1 Governance Model

The leading officer in charge of the CGD Group's risk management is the '*Chief Risk Officer*' ('CRO'), who is a member of the Executive Committee of CGD's Board of Directors. The CRO of CGD is globally responsible for monitoring the Group's risk management and, in particular, for ensuring the adequate functioning and efficiency of risk management, equally aiming to inform and clarify the members of top management and supervisory bodies concerning any risks incurred, on CGD and the Group's global risk profile and on the degree of fulfilment of risk tolerance levels established.

The role of the CGD Group's risk management is supported by a governance model that is designed to comply with the best practices in this field, as set out in EU Directive 2013/36/EU, and to ensure a sound and efficient system for identifying, measuring, monitoring, reporting and controlling credit, market, liquidity and operational risks incurred by the Group.

Risk management is centralised and supported by a dedicated structure – the Risk Management Division (DGR) –, under the responsibility of the CRO. The Risk Management Division undertakes roles in the Group's financial and operational risk management and control, targeting stability, solvency and financial strength, guaranteeing the identification, evaluation, monitoring, control and reporting of financial and operational risks to which the CGD Group is exposed and the relationships between them, in order to ensure the coherent integration of its partial contributions, which are maintained at the risk appetite level set forth by the Board of Directors and which will not significantly affect the institution's financial situation, continually ensuring the fulfilment of and compliance with external norms and legal and regulatory requirements within this scope.



The Board of Directors, with support from the Risks Committee and the Audit and Control Committee, establishes the Institution's risk appetite, which is implemented by the Executive Committee with the support of the Risk Management Division as well as the control and business areas.

The Supervisory Board is the Independent Body responsible for monitoring whether Risk Management Function is being undertaken effectively, independently and efficiently.

The Risks Committee[1] monitors the policy for managing all risks related to the CGD Group's activity, namely liquidity, interest rate, exchange rate, market and credit risks. The CR namely monitors risk measurement models and the calculation of the internally adopted capital base, as well as EU Directives and Bank of Portugal and European Central Bank (ECB) guidelines concerning financial risks, especially credit risks. As part of its roles and competencies, it analyses, among others, reports presented by the DGR concerning Risk, has assessed proposals for financing and refinancing presented by the respective divisions and has issued an opinion on a few necessary appointments for head positions in Risk Management[2].

The Audit and Control Committee is responsible for monitoring the process of financial information disclosure and the effectiveness of internal control and internal audit systems.

Risk Management is performed centrally and supported by a dedicated corporate structure, the Risk Management Division (DGR), which covers the assessment and control of credit, market and liquidity risks incurred by the CGD Group, establishing the principle of segregation of responsibilities between commercial areas, and the risk management area.

The *Head of Risk* is directly responsible for Risk Management Function (Central Manager of the DGR), responsible for, without prejudice to the other duties established by CGD's internal regulations, undertaking and leading a benchmark Division taking into account the provisions of the General Scheme for Credit Institutions and Financial Companies (RGICSF), other applicable legal texts and best practices and international standards, in order to guarantee the efficiency and effectiveness of the risk management system and to contribute to promoting and continually improving a risk culture as part of the CGD Group.

The CRO and the Head of Risk (Central Manager of the DGR), together with the CRO, have free access to top management and supervisory bodies in order to, in a proactive and unrestricted way, provide information and clarification concerning risks incurred, CGD and the Group's global risk profile and the degree of fulfilment of the risk tolerance levels set.

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[1] At the beginning of the second quarter of 2019, the Financial Risks Committee was renamed Risks Committee, and the scope of its competencies and duties was revised.

[2] In compliance with Article 435(2)(d) it is noted that the Risk Committee held 17 meetings in 2019.

In fulfilment of the mission it is entrusted with, Risk Management Function is responsible for:

- Ensuring the implementation and monitoring of the Risk Appetite Framework (RAF), as defined in the RAF's internal regulations;
- Ensuring the development and implementation of a risk management system based on robust identification, evaluation, monitoring and risk control processes, as well as coordinating the undertaking of policies and procedures to support said processes;
- Identifying the risks inherent to the activity undertaken, on an individual, aggregated, current and prospective basis, and assessing the risks and measuring exposure to said risks, through appropriate methods;
- Permanently monitoring the risk-generating activities and the inherent risk exposures, assessing its compliance with the approved risk appetite and set risk limits, and ensuring the planning of corresponding capital and liquidity needs under normal and adverse circumstances;
- Undertaking, implementing and monitoring the *Internal Capital Adequacy Assessment Process (ICAAP)* and the *Internal Liquidity Adequacy Assessment Process (ILAAP)*, as well as coordinating the preparation of the respective reports;
- Participating in the process of approving new products and services, by undertaking an assessment of the associated risks and an analysis of the Institution's capacity to manage such risks;
- Ensuring that the related party transactions are revised and that their risks to the institution, real or potential, are identified and adequately assessed;
- Advising top management and supervisory bodies before taking decisions involving material risks, notably when acquisitions, divestitures, mergers or launching new activities or products are involved, in order to ensure a timely and appropriate assessment of their impact to the Institution and the Group's overall risk;
- Monitoring market developments, legal and regulatory amendments relating to Risk Management, strategic planning and the Institution and the CGD Group's respective decisions, in order to permanently keep up to date with its responsibilities;
- Developing and implementing early warning mechanisms for breaches of risk appetite limits;
- Issuing recommendations based on results from completed evaluations and continuously monitoring identified situations, with the appropriate frequency for the risk involved;
- Preparing and updating a Risk Management Plan designed to make sure that all of the Institution's and the CGD Group's material risks are identified, assessed, monitored and reported adequately;

- Providing relevant and independent information, analyses and expert assessments on risk positions, and furthermore issuing opinions on the compatibility of proposals and decisions relating to risks related to the Institution's risk tolerance/appetite;
- Periodically preparing and submitting reports to top management and supervisory bodies on risk management issues, including an assessment of the Institution's and the CGD Group's overall risk profile and various material risks, a summary of the key deficiencies detected in the control procedures, including those which are immaterial when considered in isolation, but which may demonstrate trends of deterioration in the internal control system, as well as identifying recommendations that were (or not) undertaken;
- Reporting to the top management and supervisory bodies any infringement or breach (including its causes and a legal and economic analysis of the real cost of eliminating, reducing or compensating the exposure in comparison with the potential cost of maintaining it), informing, if necessary, the areas in question and recommending potential solutions;
- Ensuring the preparation and submission of prudential reports related to the Institution's and the CGD Group's risk management system.

The DGR is present:

At Executive Committee meetings by specific request and monthly as its own agenda item, to present the development of key indicators for measuring financial and non-financial risks and essential concerns in this regard for the subsequent financial periods;

At Risk Committee meetings, by specific request and monthly as its own agenda item, to present the development of key indicators for measuring financial and non-financial risks and essential concerns in this regard for the subsequent financial periods;

At the Capital, Asset and Liability Management Committee (CALCO), together with the business-generating areas, support areas and members of the Executive Committee. The CALCO is the decision-making body of the Executive Committee responsible for proactive balance sheet management and profitability in the CGD Group. Among others, this Committee has the following responsibilities:

- Promoting the Asset and Liability Management (ALM) process and the actions and procedures necessary for its implementation, including the establishment of a systematic monitoring and reporting system for financial risks, liquidity and capital position and regulatory ratios, on a consolidated basis and for each of the individual entities of the CGD Group;
- Assessing and deliberating on proposals for strategic guidelines for the CGD Group's funding and liquidity policy;

- Assessing and deliberating on proposals for strategic guidelines (and subsequent monitoring) for the risk management policy, namely in what regards balance sheet interest rate risk and market risks affecting the Group, establishing indicators, limits and management regulations;
- Assessing and deliberating on proposals for strategic guidelines (and subsequent follow-up) concerning the Group's capital ratios and the capital raising and management policy, from a regulatory and economic perspective.

At the Executive Board of Products (CDP) which is responsible for analysing Caixa's product and service offer, continually ensuring its compliance with regulations as well as internal policy and procedures, in various fields: legal, conduct, compliance, ethics, tax, accounting, management information requirements and regulatory reporting;

At the Executive Board of Rating (CDRT), which is responsible for assigning or revising internal ratings for counterparties with exposures greater than or equal to EUR 50 million, and for the approval of exemptions of internal ratings for counterparties whose exposure is greater than or equal to EUR 10 million, measured, in both cases, at the level of the economic group to which they belong. The CDRT is also responsible for monitoring and controlling the development of all assigned ratings, as well as for monitoring revisions to rating assignment methods;

At the Business Continuity, Operational Risk and Internal Control Executive Board (CDCRC). The CDCRC is the body responsible for coordinating, assessing and discussing matters related to operational risk management and internal control deficiencies at Group level. Its responsibilities include *(a)* monitoring the overall level of operational risk taken on by the Group, verifying compliance with the established strategy and policies and deciding on action plans presented; and *(b)* promote the effectiveness of the internal control system, by monitoring weaknesses and its action plans, fast-tracking management decisions that make its implementation more efficient;

At the Delegated Data Council (CDD), a body dependent on the Executive Committee that oversees the activities carried out within the scope of Governance and Data Quality and matters relating to the monitoring and management of data protection and appreciates and coordinates Information Security initiatives within CGD and the CGD Group.

The CDD is responsible for structural decisions aimed at ensuring data protection management, their enforcement by Top Management and the empowerment of the *Data Protection Officer* for their day-to-day management;

At the Model Validation Committee (CVM), in which the Credit Risk Division (DRC) and the Model Validation Office (GVM) are also present. The CVM is the body responsible for the functional management of the GVM, responsible for assessing validation reports, deciding on submitted recommendations and approving amendments to the Validation Manual or to other methodological documents within the scope of the GVM's responsibilities;

At the Resolution Committee (CRes), the body responsible for the examination, discussion, decisions and approval of all matters related to Resolution;

At the Sustainability Committee (CSU), an advisory body to the Executive Committee that oversees the management and guides decisions on the implementation of the Sustainability Strategy, incorporating the principles of sustainable development, responsible banking and sustainable finance into the CGD's day-to-day activities, in alignment with the Institution's Strategic Plan and the expectations of stakeholders;

At the Specialised Credit Risk Executive Board (CERC) and the Specialised Executive Credit Board (CC), in specific sessions that aim to guarantee the correct coordination of responsibilities to address at-risk clients between the CGD's Commercial Structures and specialised areas for monitoring and recovering credit.

CGD also has an Appointment, Evaluation and Payments Committee ('CNAR'). In terms of the Selection and Evaluation of Board of Directors and Supervisory Board Members and Essential Posts Policy, available at CGD's institutional site[3], the CNAR, in its role of providing support in the filling of open positions in corporate bodies and the appointment of Executive Directors, is responsible for evaluating, at least annually, the structure, dimension, composition and undertakings of the Board of Directors and Supervisory Board and, when required, make recommendations to said Boards, as well as evaluating, at least annually, the knowledge, skills, experience and fulfilment of specific duties inherent to roles undertaken by each member of the Board of Directors and the Supervisory Board, in addition to their affiliated bodies, and communicate the respective results to them.

This policy further establishes that the evaluation of adequacy must take into account the individual characteristics of members of bodies which are collective, as well as the safeguard of conditions underlying the functioning of these bodies as collective entities, notably the diversity of qualifications and skills, the availability of the members of the top management and supervisory bodies as a whole and the promotion of the increase in the number of people who are[4] underrepresented in terms of gender in these bodies.

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[3] https://www.cgd.pt/Institucional/Governo-Sociedade-CGD/Modelo-de-Governo/Documents/Selecao-e-Avaliacao-Orgaos-Sociais-CGD.pdf

[4] Concerning gender equality, for additional information, we refer to the 2019 Report and Accounts, items 'Gender Equality and anti-discrimination practices'.

Lastly, concerning the requirement to disclose information related to posts held by members of the management body, within and outside of the Group, and other relevant activities undertaken by members of the management bodies throughout 2019, reference is made to the Report and Accounts: section 'Accumulations of Tasks' and 'Appendix III – Curriculum Vitae of the Members of the Corporate Bodies'.

II.2 Key developments in 2019

Throughout 2019, CGD's achievements in terms of risk management best practices were significant and comprehensive. The following, in particular, are highlighted:

- In terms of credit risk control, in the first quarter of 2019, CGD updated its strategic and operational plan to reduce exposures classified as Non-Performing Exposures (NPE), also including real estate divestment. The plan's implementation was led by the Executive Committee, along with core bank areas that generate, control and monitor NPE;
- With a view to speeding up the whole decision-making process, while maintaining the necessary levels of rigour, CGD has substantially extended (periodicity was changed to daily) the decision rounds for proposals on relevant exposures (at the level of the Credit Board).
- In the area of credit risk, and within the scope of the corporate function of the Credit Risk Division (DRC), the processes of standardising internal regulations in the various entities of the CGD Group were streamlined, with a view to aligning credit policies with regard to the granting, control, monitoring and recovery of credit;
- In 2019, the validation activities of the Model Validation Office (GVM) focused on the models supporting the decision and monitoring of credit risk and internal capital adequacy (ICAAP), and its activity was aligned with the management's needs in terms of development of new models and revision of current ones. For 2020, the planning includes a set of corporate initiatives aimed at ensuring the alignment of risk models in an integrated manner within the CGD Group;
- In order to increase the scope, while optimising and consolidating the way it operates, the Risk Management Division (DGR)'s organisational structure was significantly revised. This included the reorganisation of core areas and the addition of an area dedicated to non-financial risks (complementary to the area specialising in 'traditional' operational risks), of an Internal Control Area and of new areas, specialised in more cross-cutting matters, namely the areas of Risk Culture Dissemination, Planning and Strategy and Data and Technological Infrastructure;

- In order to increase the alignment among the various risk management tools, thus promoting a harmonised, comprehensive and consensual structure and establishing the three respective lines of defence, a comprehensive review of the risk taxonomy was carried out;
- Development of a new Governance Policy for the Internal Control System, which required close coordination among the three control functions (Risk, Compliance and Auditing).

Highlight goes also to the implementation of over 85% of the initiatives planned for 2019 as part of the Strategic Plan for the Risk Management Function, which allowed ensuring the desired robustness and consolidation of the entire risk management infrastructure, from the governance model to the operationalisation and dissemination of risk appetite across all levels of the Institution.

In parallel with the implementation of the strategic plan, a number of other major initiatives were carried out, as follows:

- Within the context of the strategic goals of harmonising corporate risk management practices, seeking to ensure a risk control infrastructure that is in line with domestic practices, initiatives were promoted to implement internal models for credit risk assessment (rating and scoring) in the various geographies;
- Activities continued in preparation for a number of structural regulatory changes, in particular those related to the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), the Fundamental review of the trading book (a review of the approaches used to calculate capital requirements), the Principles for effective risk data aggregation and risk reporting (set of principles aimed at promoting the accuracy and transparency of risk information, its aggregation techniques, and analysis reports), the Interest rate risk in the banking book (revision of the requirements under Pillar II – Supervisory Review Process and Pillar III – Market Discipline), among others;
- The year was also devoted to the Group's participation in the European Central Bank's comprehensive Liquidity Stress Test (or LiST), which was based on an infrastructure dedicated to exercises of this nature, whose features seek to promote the strengthening of the institution's balance sheet and capital positions;
- It should also be noted that, in the first quarter, CGD updated its strategic and operational plan to reduce exposures classified as Non-Performing Exposures (NPEs), also including real estate divestment. The implementation of the plan was spearheaded by the Executive Committee (CE), with the participation of core areas in the bank that manage, control and monitor NPEs;

- As of June 2019, inclusive, CGD expanded the framework for measuring and controlling interest rate risk in its banking book with the requirements set out in the Guidelines issued by the European Banking Authority [Guidelines on the management of interest rate risk arising from non-trading book activities (EBA/GL/2018/02)]. Nevertheless, throughout 2020, the Institution will conduct a thorough assessment of all recommendations set out therein in order to implement any gaps it may identify.

II.3 Key risks to which the bank is exposed

This segment aims to comply with the disclosure obligations under Article 435(1)(a) to (e) of Regulation (EU) No. 575/2013.

CGD undertakes its activities in the context of universal banking, without overlooking specialised financial services, so its clients have a full range of services provided by an international Group.

CGD is present in an integrated fashion in almost all quadrants in the banking business, namely: commercial banking, investment banking, brokering and risk capital, real estate, asset management, specialised credit, among others, incurring credit, market, liquidity and operational risks (exposure to exchange rate risk is negligible here).

Credit risk

Credit risk is associated with losses and a degree of uncertainty concerning a client's/counterparty's ability to comply with their obligations.

Given the nature of the banking activity, credit risk takes on particular importance, given its materiality, notwithstanding its connection with the other risks.

For credit risk management and control, there are internal regulations that, namely based on ratings/scorings and exposure value, the early warning system, as well as the classification of clients as being in financial difficulty, set forth the necessary competency levels in credit-granting decisions.

For Corporates, municipalities, autonomous regions and financial institutions with a more significant exposure level, or other criteria/triggers of added risk, the assessment of credit risk, in addition to being supported on internal rating models (which incorporate either financial information or qualitative elements), is subject to individual assessment by a team of analysts who produce credit risk analysis reports and issue an opinion on the inherent credit risk. The analysis is always undertaken from an economic group perspective to which the bidder belongs, and the analysis teams follow, from a certain exposure level, a logic of sector specialisation.

In the retail banking segment, credit risk assessment is supported by the use of risk assessment statistical tools (Probability of Default - PD - and Loss Given Default - LGD - models), by a series of internal regulations establishing objective criteria to be observed when granting credit, as well as by a delegation of competencies in accordance with risk notations assigned to clients/transactions.

At the end of 2018, the new centralised business credit decision-making model came into service, ensuring that all credit transactions benefit from intervention from the Credit Risk Division (DRC). The centralisation of decision-making in granting credit to private clients was, furthermore, implemented in June 2018, ensuring intervention from the DRC when analysing the risk of all proposals.

The follow-up of credit portfolios and credit risk control is regularly undertaken by the DGR, supported by operational systems that identify daily events which could potentially increase credit risk. Reports are produced revealing the behaviour and perceived quality of the credit portfolio, namely in the components of i) new production, ii) restructuring due to a client in financial difficulty, iii) non-performing exposures, iv) default, and v) concentration.

Also related to the default and credit asset valuation, a process to determine object impairment losses is deployed in the CGD Group, monitored monthly by the management body, with criteria and methods inherent to calculating impairment being subject to control and audit processes whether by internal bodies responsible for checks (the Model Validation Office and the Internal Audit Division), or by external auditors producing an independent report to be sent to the Bank of Portugal each semester.

Additionally, credit risk control has been the subject of progressive improvements, both concerning the outlining of new approaches to credit portfolio segmentation and in terms of a greater uniformity of applied treatment methods.

Market Risk

Market risk entails potential negative impacts on results or on the Institution's capital, arising from unfavourable performance of the price of the assets in the portfolio. It arises, as such, from uncertainty as to price and market rate fluctuation, be they equity or index prices, or interest or exchange rates, and the behaviour of correlations between them.

The Group has approved a Corporate Policy for Market Risk Management (PCGRM), which outlines the responsibilities and establishes the principles applicable to the management of market risk, both on an individual and a consolidated basis, as well to as all foreign branches and subsidiaries that integrate the prudential supervision perimeter. The management strategy and tolerance to market risk are established in conformity with the CGD Group's risk appetite statement, with the aim of keeping the focus of the Group's activity centred in products and services that are in accordance with the strategy of a retail/commercial bank, limiting the complexity of products and positions and ensuring that these are in line with the risk monitoring abilities in place.

The management of market risk and balance sheet foreign currency risk is additionally supported by a formal authorisation structure – market risk or foreign exchange risk guidelines – which require the approval of the Executive Board of Capital, Asset and Liability Management (CALCO). These guidelines formalise, *inter alia*, the strategies for trading, management and control of risk, authorised instruments, metrics and respective market risk limits, constituting the performance border of the business units concerning hedging or mitigating market risk.

The establishment of limits on concentration, market liquidity, market risk and loss level indicators acts as a sieve, guaranteeing that the risk levels adopted are in accordance with the Group's risk appetite. The established limits are subject to control, monitoring and daily or intra-daily reports, reporting to the management bodies (CRO and CFO) and to the business units. Furthermore, loss limits are established, as well as expected actions in the event of a breach. Internal regulations define the rules for action in the event of a breach of these limits, which aim to ensure swiftness in defining the action plan and in resolving the breach.

Market risk is centrally controlled, monitored and reported by the market risk area of the Risk Management Division, which directly reports to the Chief Risk Officer. Thus, there is a direct line of reporting that is independent from the trading areas reporting to the CFO or to other members of the Executive Committee. CGD's Risk Committee is tasked with monitoring market and exchange rate risks affecting CGD and other Group entities.

The calculation of the capital requirements for market risk takes into account the Prudential Trading Book), i.e., all positions in securities and derivative financial instruments held for trading or for hedging positions held for trading purposes, in accordance with the strategy applicable to the CGD Group's Trading Book and in compliance with the internal definition of 'Trading Book'. This specifically includes any position that results from market creation, short positions in securities, short positions in stock derivatives with a rotational nature, arbitration positions or those destined for resale in the short term, and intentional trading books which are related to or result from services provided to costumers. Any instruments intended to hedge the listed items or for the dynamic hedging of items that would qualify for the banking book by themselves, form an integral part of the trading book. This portfolio is actively managed, taking into account the time horizons for holding provided for in the strategy applicable to the CGD Group's Trading Book, as it is revalued daily for fair value, following the principles of independence, precision, clarity and accuracy, established in the Bank's internal regulations – corporate policy for the valuation of own positions in securities and derivatives recognised at fair value. With regard to the calculation of capital requirements for foreign exchange risk, all balance sheet positions contributing to the foreign exchange position (including off-balance sheet) both in the trading book and in the banking book, are considered.

The risk assessment accounts for general market risks, non-linear risks and the specific risks that affect the positions held. To this end, the *Value at Risk* (VaR), *Expected Shortfall* (ES) and *Three Worst* (3W) risk metrics are used. VaR is used as a reference methodology for the monitoring of market risks in general, and it is based on historical simulations. The VaR is calculated for an investment period of one day (95% trust interval) for management trading books and with a retention period of 10 days (99% trust interval) for the remaining portfolios of the Group, including the scopes of the prudential and accounting Trading Portfolios. The risk assessment is further complemented by other risk metrics such as *duration, bpv* and greeks (*delta, gamma, rho, vega and theta*).

In order to assess the quality of the VaR model used, each month, the daily VaR is compared with the actual results obtained ("backtesting") in line with the methodologies and recommendations issued by the Basel Committee, without prejudice to other backtesting approaches deemed appropriate.

At least once a month, the CGD Group conducts stress tests, focusing on market and foreign exchange risks, within the framework of a global stress tests programme and in accordance with current best practices. The conducting of stress tests is intended to assess the impact of adverse events arising from exposure to market risk, by measuring the impact on the fair value of investments and on the quantitative and qualitative adequacy of the CGD Group's own funds. The stress tests are based on risk factors, which, as a whole, represent the circumstances which may generate extraordinary losses on portfolios exposed to market risks. These factors include low-probability events associated with the main types of risk, including the many components of market and foreign exchange risks.

The identification of market risk at the CGD Group is based on a robust, continually reliable, centralised and integrated structure, which aims at ensuring a timely and comprehensive knowledge of the traded products, enabling the identification, measuring, controlling and reporting of market risk. The registering of transactions in the front office system is subject to a specific internal regulation that ensures that the process of transmitting information is fulfilled and reliably reaches the market risk system, for evaluation of the respective metrics. With regard to foreign exchange risk, its identification is also ensured, based on the accurate, standardised and timely transmission of CGD's and any Group entity's foreign exchange position.

Pension fund risk

The group maintains a defined benefit pension plan for current and former employees of Caixa Geral de Depósitos S.A., subject to certain eligibility conditions. The plan has been closed to new entrants since 2012. The ability to meet the responsibilities of the pension plan is ensured by the management of a portfolio of assets whose strategy is approved by the Board of Directors of the member, under the management of an independent asset management entity. In addition, regular contributions to the fund from members and participants are established.

Pension fund risk arises from potential mismatches between the pension fund's asset and liability amounts. This mismatch may arise from the degradation of the market value of the pension fund's assets or from the increase in the estimated value of pension liabilities due to actuarial, demographic or market factors. Depending on the magnitude of the mismatch and the reason therefor, the member may need to prepare for potential shortages or make up for shortages through extraordinary contributions to the pension fund, thus materialising this risk.

Pension fund risk is monitored by the area in charge of Risk Appetite, with monthly reporting to the Executive Committee and the Risk Committee. In this context, any mismatches between the value of the asset portfolio and the estimated liabilities are closely monitored, as is the evolution of the performance of the portfolio and the prospective evolution of the discount rate of liabilities, in order to mitigate the possibility, or, at least, the unpredictability of significant mismatches. The evaluation of the defined benefit plan is adversely affected by a fall in the discount rate of liabilities, in an environment of persistent low levels of interest rate/credit spreads, and justifies monitoring focused on this assumption, using an internal reference curve for the discount rate of the fund's liabilities.

Liquidity and Interest Rate Risks

Liquidity risk in the banking business may result from i) difficulties in raising funds for assets, naturally driving up uptake costs, but which may also imply a restriction in asset growth, or ii) difficulties ensuring a timely liquidation of obligations by third-parties, induced by significant gaps between the residual maturity dates of asset and liabilities.

The balance sheet interest rate risk is the risk incurred by a financial institution whenever, in the course of its activity, it contracts transactions with financial flows that are sensitive to interest rate variations. In other words, it is the risk resulting from a variation in the interest rate associated, namely, with the gap between assets and liabilities repricing dates, decreasing their profitability or increasing their financial cost.

The particular dichotomy in the universe of assets and liabilities held by credit institutions between fixed and variable rate, short-, medium- and long-term portfolios, can also foster interest rate risk in its dimensions of basis risk and yield curve risk, which should be subject to close monitoring when evaluating interest rate risk.

In the context of the liquidity and interest rate risk management and control procedures, the Institution has set forth guidelines that define the roles and responsibilities of the various stakeholders, the metrics being monitored, their respective limits and the limits' control system. The continuous monitoring process of the exposure dimension to these risks translates into monthly reports that support the control of compliance with existing guidelines.

Operational Risk

Operational risk corresponds to the risk of negative impacts on earnings or capital resulting from failures in the analysis, processing or settlement of operations, internal and external fraud, use of outsourced resources, ineffective internal decision-making processes, insufficient or inadequate human resources and situations of infrastructure downtime.

The CGD Group's operational risk management adopts a method supported by a process-based vision (end-to-end), implemented both by CGD and by its Branches and Subsidiaries.

This methodology includes outlining, monitoring and reporting tolerance limits and risk appetite for the entire Group. It further encompasses identifying operational risk events, self-assessment of risks and controls associated with the processes, managing key risk indicators, analysing new products and services and monitoring of subcontracted activities, as well as fostering action plans which aim to mitigate exposure to operational risk, namely through the implementation of adequate risk control and mitigation procedures.

Solvency Risk

Solvency risk refers to the risk of negative impacts on earnings or capital resulting from changes in regulatory or tax environments, including the risk of misalignment between capital adequacy and risk profile.

Formalised in the CGD Group's latest risk taxonomy review, solvency risk comprises the sub-categories of tax risk, regulatory capital risk and internal capital risk.

In the context of solvency risk monitoring, the regular monitoring of the adequacy between own funds and the risk profile is noteworthy. In accordance with the approved risk appetite framework and statement, the capital adequacy assessment, both internal and regulatory, focuses on the planning that supports the implementation of the Group's strategy.

In the context of solvency risk, compliance with the regulatory limit of exposure to a client or group of clients with which there is a relationship, be it of control or economic dependence, is also assessed. In addition, the calculation and monitoring of the leverage ratio is ensured.

Non-Financial Risks

Non-financial risks include strategy and business, model, information technology (IT) and reputational risk. These risks consist of the probability of negative impacts on income or capital depending on the category of risk, as follows:

- Business and Strategy Risk: losses arising from risks such as macroeconomic, geopolitical, business model, investment execution, holdings in banks and non-banks, as well as climate change risks;
- IT risk: losses that arise from the risk of change, data integrity, failure of IT systems, access risk and IT system delivery risk;
- Model risk: losses caused by shortcomings in the models/algorithms applied inappropriately, used to set prices or facilitate decision-making in transactions or other business decisions;
- Reputational risk: losses caused by a negative perception of the institution's public image (banking activity, bancassurance, asset management and confidential data protection risks).

The main responsibilities of the Non-Financial Risks Area are the identification, evaluation, measurement, monitoring, control and reporting of the Group's non-financial risks, other than those addressed by the specialised operational risk centre. It is also tasked with outlining the strategy and the consequent risk management model, within a framework of coordinated intervention across the three lines of defence, with one single, common language between them.

The strategy for managing non-financial risks is established in accordance with the CGD Group's risk appetite statement, with a view to adequately controlling all activities and processes so as to limit losses motivated by non-financial risks and keeping them within the tolerance levels defined by CGD's Board of Directors, while mitigating other relevant negative impacts.

II.4 Risk Appetite Statement

The Risk Appetite Statement (RAS) formally establishes the Bank's risk appetite, detailing the maximum risk level that the Bank is willing to take on for each material risk category. This risk strategy is directly related to the Bank's objectives and strategic plan, regularly revised and monitored by the Board of Directors and the management team.

The general principles of Risk Appetite are realised through qualitative statements outlining the Group's risk strategy. These principles derive from, and are aligned with, CGD's business strategy and the agreement on resulting risk-benefit trade-offs. They are part of the Bank's culture and strategy and underpin all its activities.

The Bank has established these three general principles:

- Ensuring solvency and liquidity levels – The CGD Group must guarantee adequate solvency and liquidity levels, applying this principle as follows:
    - Maintaining capital strength through regular balance sheet assessments;
    - Maintaining a capital level above regulatory requirements, guaranteeing a buffer in line with market expectations, whether in normal or adverse scenarios;
    - Continuing to ensure a stable, solid and secure liquidity position, capable of supporting adverse scenarios;
    - Maintaining stable levels of financing capability and an adequate stock of high-quality net assets through an approach targeting the market, enabling structural adaptations to the balance sheet when needed;
    - Controlling the exposure to risk of international entities, simultaneously maintaining their independence in terms of financing and capital adequacy;
- Ensuring long-term sustainability and maintaining the market leadership position – The CGD Group must ensure its sustainability and leadership position, while observing the following principles:
    - Long-term sustainability through the adequate remuneration of balance sheet risks, improvements to operating efficiency, and management of ant risks that may jeopardise the pursuit of the Bank's strategy, in particular those linked to credit risk;
    - Maintaining an identity as a Commercial Bank and the leadership position in the Portuguese market, whether in deposits or in loans to the economy and to households, with a focus on retail customers and small and medium-sized businesses;
    - Striving to ensure a simple and transparent Group structure, rooted in a modern infrastructure, to provide high levels of satisfaction to clients and minimise operational risks;

- Adopting excellent practices in risk management – The CGD Group shall ensure the adoption of best practices in risk management, while observing the following principles:
    - Strengthening Governance and Risk Management and Control, guaranteeing that they observe market best practices, thus contributing to higher stakeholder confidence;
    - Operating in accordance with solid risk management principles, with an effective Governance model and policies that ensure compliance with laws and regulations, and guaranteeing full alignment with the directives of the European Central Bank's Supervisory Review and Evaluation Process (SREP) (cross-sectional method of structured supervision of the i) analysis of the institutions' business models, ii) assessment of internal governance and established controls, iii) evaluation of risks to capital and the adequacy of its levels to mitigate them, and iv) assessment of risks to the institutions' liquidity levels, and the adequacy of liquidity sources to mitigate them);
    - Developing a strong risk management culture focused on protecting the bank's solvency and funding capacity, avoiding risks that may affect stakeholders, particularly depositors, and ensuring a strong reputation and image in the market.

The Board of Directors is the highest body responsible for outlining and approving Risk Appetite, whether at the level of the Governance Model or the Declaration. The specific responsibilities of the Board of Directors include:

- Aligning the Risk Appetite with the Bank's strategic priorities and objectives;
- Continually monitoring the development of risk metrics, before each meeting and, if necessary, more often;
- Discussing tolerance limits or levels.

The Risk Appetite Statement (RAS) is supplemented by 'cascade' statements to Group units (international entities and domestic activity) and by the Risk Appetite Framework (RAF), which establishes the governance model and involvement of different areas of the Bank, risk management and monitoring mechanisms, and the integration of Risk Appetite in risk management and decision-making processes.

As such, an RAS dashboard was designed, containing 'Level 1' metrics, i.e. basic metrics which express the Group's position in various risk categories, namely, solvency, liquidity and finance, business and strategy, credit, market, operational, reputational…). These corporate metrics are controlled by the Board of Directors.

Apart from 'Level 1' metrics, the supporting risk metric report also includes a series of 'Level 2' metrics which provide additional (supplementary) information on risk categories. This document is produced monthly for the CE, the CR and the CAC.

Each Risk Appetite metric has a target, a tolerance level, a limit and a Recovery Plan trigger. These borders increase risk appetite visibility and constitute an effective defence mechanism against an excessive risk level.

The fall in tolerance level, limit or Recovery Plan trigger requires specific methods to be activated by the respective person in charge of the risk.

Risk Appetite is integrated into the Bank's management through interdependence with other exercises, namely capital and liquidity adequacy (ICAAP and ILAAP) exercises, Budget, capital planning and allocation and Stress Tests.

As specified in internal regulations, Risk Appetite should be revised and updated annually, between September and December of each year, by the DGR's central team, interacting, as needed, with other areas of the Bank.

In order to present an extensive overview of the CGD's risk management and in compliance with article 435(f) of the CRR, the CGD Group's main ratios and metrics are outlined below[5].

[5] Information supplemented by CGD Indicators included in item '1.2 Key Highlights of 2019' of the Report and Accounts.

Table 1 | Key indicator

Consolidated Own Funds	2019	2018
Common Equity Tier I *(CETI)*	7.120.653	6.535.521
Tier I	7.639.283	7.038.659
Total Own Funds	8.266.232	7.699.700
Risk Weighted Assets	**44.185.050**	**48.548.356**
Solvency Ratios (*)		
CET I (*Phasing in*)	16,9%	14,6%
Tier I (*Phasing in*)	18,1%	15,7%
Total (*Phasing in*)	19,5%	17,0%
CET I (*Fully Implemented*)	16,9%	14,6%
Leverage and Liquidity Ratios		
Leverage Ratio (*Phasing-in*)	9,1%	7,7%
Net Stable Funding Ratio	156,0%	148,9%
Liquidity Coverage Ratio	331,1%	234,6%
Credit Quality and Coverage Degree		
NPL Ratio (1)	4,7%	8,5%
NPE Ratio(2)	3,8%	6,7%
NPL impairment coverage	79,3%	62,4%
NPE impairment coverage	73,5%	61,6%
Credit risk cost	-0,1%	0,2%
Profitability and Efficiency Ratios		
Return on Equity - ROE (3)	9,8%	10,3%
Return on Assets - ROA (3)	1,3%	0,9%
Cost-to-income	50,1%	54,4%
Ratings (Long/Short Term)		
Moody's	Ba1/NP	Ba1/NP
FitchRatings	BB+/B	BB/B
DBRS	BBB (low)/ R-2 (high)	BBB (low)/ R-2 (mid)

Values in thousand euros

(*) Assuming the non-distribution of dividends related to 2019

(1) Non-performing loans (NPL) - EBA's definition

(2) Non-performing exposures (NPE) - EBA's definition

(3) Calculated according to Bank of Portugal instructions

III. Regulatory framework's scope of application

Caixa Geral de Depósitos, S.A. is a public limited company of exclusively public capital, whose shares can only belong to the Portuguese Republic. On 31 December 2019, its share capital amounted to 3,844,143,735 euros, represented by 768,828,747 shares with a nominal value of 5 euros each.

III.1 The CGD Group's consolidation perimeter

Caixa Geral de Depósitos, S.A. is the parent company of the CGD Group. The Group is composed of a vast series of units undertaking activities predominantly in the fields of banking and provision of financial services.

The CGD Group uses two consolidation methods:

- ⇨ Full consolidation method

  This method consists of aggregating all elements of the balance sheet and results statements of the parent company and its subsidiaries, wiping all balances that result from transactions made between the latter and the parent company. In summary, it is a line-by-line consolidation;

- ⇨ Equity method

  This method consists of accounting relief of an investment in a subsidiary through updating acquisition costs by means of variations in its net worth. Acquisition costs are updated through a single book entry (one line consolidation).

The entities' type and applied consolidation methods are as follows:

- ⇨ Branches: these are establishments without their own legal personality, which aim to directly carry out the banking and finance service operations provided by the parent company. These entities are consolidated by the full method.

- ⇨ Subsidiaries: these are entities over which the Group exercises effective control in terms of management in order to obtain a series of economic benefits resulting from their activity. The effective control exercise is usually underpinned by ownership of more than 50% of their share capital or voting rights.

  In situations where the Group owns 50% or less of its capital or voting rights, it is necessary to analyse CGD's effective degree of influence in accordance with the provisions of IFRS 10. As such, it is necessary to verify the degree of the subsidiary's management control, its profits and duties arising from its management control the way in which benefits resulting from the company's activity are influenced. If influence in these three respects is significant and prevalent, the entities shall be considered Subsidiaries of the Group. These entities are consolidated by the full consolidation method.

- ⇨ Associates: these are entities over which the Group has significant influence but doesn't assume control. An entity is considered to have significant influence in another's current management when it has, directly or indirectly, a level of participation or voting rights between 20% and 50%, inclusive. This set of entities is consolidated by the equity method.
- ⇨ Special purpose entities (EPE): Within the framework of the IAS/IFRS, these are considered securitisation vehicles and funds, risk capital funds and other entities, created to serve a very specific purpose which, when said purpose is accomplished, are the subject of extinction. Entities with such characteristics are consolidated by the full consolidation method when the Group exercises effective control over its activity in accordance with the provisions of IFRS 10 or holds the majority of its economic benefits and associated risks.

The CGD Group's financial statements incorporate the financial statements of Caixa Geral de Depósitos, S.A., as well as the entities directly or indirectly controlled by the Group.

On 31 December 2019, the CGD Group's accounting and prudential consolidation scope included the following entities:

Table 2| Outline of the differences in the scopes of consolidation (entity by entity) (EU LI3)

		Consolidation Method				
		Financial Perimete	Prudential Perimeter	% of Equity	Country	Activities
	Branches					
	Sucursal de Luxemburgo	Full	Full	100,00%	Luxembourg	Financial institutions
	Sucursal de França	Full	Full	100,00%	France	Financial institutions
	Sucursal de Timor	Full	Full	100,00%	Timor	Financial institutions
	Sucursal de Espanha	Full	Full	100,00%	Spain	Financial institutions
	Subsidiaries					
(*)	Banco Caixa Geral Brasil, S.A.	Full	Full	100,00%	Brazil	Financial institutions
	Caixa - Banco de Investimento, S.A.	Full	Full	99,77%	Portugal	Financial institutions
	Banco Comercial e de Investimentos, S.A..	Full	Full	63,05%	Mozambique	Financial institutions
	Banco Interatlântico, S.A.	Full	Full	70,00%	Cape Verde	Financial institutions
(*)	Banco Comercial do Atlântico, S..A.	Full	Full	58,19%	Cape Verde	Financial institutions
	Banco Nacional Ultramarino, S.A.	Full	Full	100,00%	China (Macau)	Financial institutions
	Caixa - Participações, SGPS, S.A.	Full	Full	100,00%	Portugal	Financial (holding)
	Parbanca, SGPS, S.A.	Full	Full	100,00%	Portugal	Financial (holding)
	Partang, SGPS, S.A. .	Full	Full	100,00%	Portugal	Financial (holding)
(*)	CGD Investimentos CVC	Full	Full	100,00%	Brazil	Financial institutions
	A Promotora, S.A.	Full	Full	45,33%	Cape Verde	Venture Capital
	Caixa Gestão de Ativos Sociedade Gestora de Fundos de Investimento, SA	Full	Full	100,00%	Portugal	Asset Management
	CGD Pensões - Soc. Gestora de Fundos de Pensões, S..A.	Full	Full	100,00%	Portugal	Asset Management
	Caixa Leasing e Factoring, IFIC, S.A.	Full	Full	100,00%	Portugal	Asset Management
	Sogrupo - Compras e Serviços Partilhados, S.A.	Full	Full	90,00%	Portugal	Ancillary Services
	GIE - Groupment d'Interet Economique	Full	Full	100,00%	France	Ancillary Services
	Banco Caixa Geral Angola	Full	Full	51,00%	Angola	Financial institutions
	SCI - Rue du Helder	Full	Full	100,00%	France	Real Estate Management
	Inmobiliaria Caixa Geral, S.L.	Full	Full	100,00%	Spain	Real Estate Management
	Caixa - Imobiliário, S.A.	Full	Full	100,00%	Portugal	Real Estate Management
	Special Purpose Entities					
	Nostrum Mortgages 2	Full	Full	100,00%	Portugal	Securitisation Fund
	FCR - Grupo CGD - Caixa Capital	Full	-	100,00%	Portugal	Venture Capital Fund
	FCR - Empreender+	Full	-	100,00%	Portugal	Venture Capital Fund
	FCR - Caixa Fundos	Full	-	100,00%	Portugal	Venture Capital Fund
	FCR - Caixa Crescimento	Full	-	100,00%	Portugal	Venture Capital Fund
	Caixagest Private Equity (FEI)	Full	-	32,22%	Portugal	Investment Fund (open-end)
	Caixagest Imobiliário Internacional (FEI)	Full	-	41,08%	Portugal	Investment Fund (open-end)
	Caixagest Infra-Estruturas (FEI)	Full	-	18,56%	Portugal	Investment Fund (open-end)
	Cidades de Portugal FIIAH	Full	-	100,00%	Portugal	Real Estate Investment Fund (closed-end)
	Fundolis - Fundo de Investimento Imobiliário Fechado	Full	-	100,00%	Portugal	Real Estate Investment Fund (closed-end)
	Fundiestamo	Full	-	78,08%	Portugal	Real Estate Investment Fund (closed-end)
	Associated					
	GCI - Sociedade Gestora de Fundos, S.A.R.L.	Equity	Equity	35,67%	Mozambique	Venture Capital
	Esegur - Empresa de Segurança, S.A.	Equity	Equity	50,00%	Portugal	Ancillary Services
	Locarent - Comp. Portuguesa de Aluguer de Viaturas, S.A.	Equity	Equity	50,00%	Portugal	Financial institutions
	SIBS - Sociedade Interbancária de Serviços, S.A.	Equity	Equity	22,97%	Portugal	Financial institutions
	Fidelidade Companhia de Seguros SA	Equity	Equity	15,00%	Portugal	Insurance company
	Fidelidade Assistência Companhia de Seguros SA	Equity	Equity	20,00%	Portugal	Insurance company
	Multicare Seguros de Saúde SA	Equity	Equity	20,00%	Portugal	Insurance company
(**)	Imobci, Lda.	Full	Full	46,31%	Mozambique	Real Estate Management
(***)	Companhia Papel do Prado, SA.	Equity	Equity	38,15%	Portugal	Industry
	S.G.P.I.C.E - Sociedade de Serviços de Gestão de Portais na Internet e de Consultoria de Empresas, S.A	Equity	Equity	33,33%	Portugal	Telecommunication services
	Turismo Fundos, SGFII, S.A.	Equity	Equity	33,47%	Portugal	Asset management
	Bem Comum, Sociedade Capital Risco	Equity	Equity	32,00%	Portugal	Venture Capital
	Banco Internacional de S.Tomé e Príncipe	Equity	Equity	27,00%	São Tomé Príncipe	Financial institutions

(*) With IFRS 5 implementation- "Non-current Assets Held for Sale and Discontinued Operations"

(**) With IFRS 10 implementation- "Principle of Control"

(***) A Participação efectiva no Perímetro Prudencial = 37,4%

In January 2019, as part of the Strategic Plan and with a view to reorganising the CGD Group, two mergers took place, that of Fundger into Caixa Gestão de Ativos and that of Imocaixa into Caixa Imobiliário.

In the last quarter of 2019, also as part of the Strategic Plan, the processes initiated in 2017 to sell Banco Caixa Geral, S.A. and Mercantile Bank Holdings Limited were concluded. Real estate funds Beirafundo and Iberia were also disposed of.

In 2019, highlight goes to the winding up of Caixa Geral Finance Limited, the companies Caixanet and CaixaTec, of Economic Interest Groupings Sogrupo - Serviços Informação and Sogrupo - Gestão Imóveis, as well as of the funds Caixa Arrendamento, Estratégias Alternativas and Caixa Imobiliário. In 2019, there was also a partial redemption of investment units in the fund Fundimo (in March and September), with a view to making a cash contribution to the CGD Pension Fund.

Lastly, it should be noted that Companhia Papel do Prado, S.A. and S.G.P.I.C.E - Sociedade de Serviços de Gestão de Portais na Internet e de Consultoria de Empresas, S.A (formerly Yunit Serviços, S.A.) were removed from the consolidation process.

The prudential consolidation perimeter differs from the CGD Group's accounting perimeter in the treatment of entities whose economic activity is different from that which characterises credit institutions and financial companies, in compliance with the provisions of the 'General Scheme of Credit Institutions and Financial Companies'. Subsidiaries that undertake their activity in economic sectors that are not subject to prudential supervision (e.g. commerce, industry, agriculture and insurance) are recorded in the prudential consolidation scope by the equity method.

The Group includes collective investment organisations, as well as special-purpose vehicles, which weren't included in the banking supervision scope, as they do not fit the definition of a financial company, as determined in the 'General Scheme of Credit Institutions and Financial Companies'. The Nostrum Mortgage 2 Fund was included in the prudential perimeter by order of the supervision entity.

Pursuant to Article 36(1)(i) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June, participations in financial sector entities in which the group has significant investment (capital shareholdings over 10%) and which was recorded in the prudential consolidation scope by the equity method are the subject of deductions in their main level 1 funds. The amount to be decreased corresponds with the portion that exceeds 10% of the institution's main level 1 funds, as outlined under article 48 of the aforementioned Regulation. The prudential perimeter entities in this situation are as follows: Banco Internacional de S. Tomé e Príncipe and SIBS – Sociedade Interbancária de Serviços, S.A..

There are no subsidiaries not included in the prudential consolidation perimeter and that are subject to clearance of their funds and, to the knowledge of Caixa Geral de Depósitos, S.A., there are no significant impediments to a rapid transfer of their funds or to the immediate reimbursement of liabilities between the parent company and its subsidiaries.

III.2 Reconciliation between accounting and regulatory consolidation elements

In compliance with the requirements included in Part VIII, article 436, of the CRR, the following tables present the differences in terms of consolidation base for prudential and accounting purposes.

Table 3| Differences between accounting and regulatory scopes of consolidation (EU LI1)

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and cash equivalents at central banks	7.303.807	7.361.395	7.361.395	0	0	0	0
Cash balances at other credit institutions	513.480	515.595	515.595	0	0	0	0
Loans and advances to credit institutions	2.704.800	2.976.104	2.583.030	375.261	0	17.813	0
Financial assets at fair value through profit or loss	7.834.658	7.687.088	1.196.442	883.805	0	5.606.841	0
Available-for-sale financial assets	3.598.515	3.600.937	3.588.936	0	12.001	0	0
Financial assets with repurchase agreement	10.737	21.593	21.593	0	0	0	0
Hedging derivatives	7.186	7.186	0	7.186	0	0	0
Held-to-maturity investments	9.019.237	9.019.237	9.019.237	0	0	0	0
Loans and advances to customers	47.973.544	48.489.977	48.356.877	0	0	0	133.101
Non-current assets held-for-sale	1.333.471	323.981	323.981	0	0	0	0
Investment properties	185.666	17.081	17.081	0	0	0	0
Other tangible assets	584.619	601.542	601.542	0	0	0	0
Intangible assets	74.596	75.167	0	0	0	0	75.167
Investments in associates and jointly controlled entities	461.719	721.788	695.894	0	0	0	25.894
Current tax assets	463.528	464.517	464.517	0	0	0	0
Deferred tax assets	1.406.225	1.423.791	1.423.791	0	0	0	142.660 (*)
Other assets	2.300.274	2.313.762	1.892.549	77.706	0	0	343.508
Total assets	**85.776.060**	**85.620.743**	**78.062.460**	**1.343.958**	**12.001**	**5.624.654**	**720.329**
Liabilities							
Resources of central banks and other credit institutions	1.077.668	1.058.835	0	0	0	0	1.058.835
Customer resources and other loans	65.791.555	66.744.141	0	0	0	0	66.744.141
Debt securities	2.463.422	2.463.422	0	0	0	0	2.463.422
Financial liabilities at fair value through profit or loss	908.651	920.374	0	920.374	0	0	0
Hedging derivatives	3.169	3.169	0	3.169	0	0	0
Non-current liabilities held-for-sale	980.711	0	0	0	0	0	0
Provisions for employee benefits	753.307	755.688	0	0	0	0	755.688
Provisions for other risks	291.133	363.820	202.603	0	0	0	161.217
Current tax liabilities	33.001	41.269	0	0	0	0	41.269
Deferred tax liabilities	127.414	127.280	0	0	0	0	127.280
Other subordinated liabilities	1.116.458	1.116.458	0	0	0	0	1.116.458
Other liabilities	3.663.564	3.512.510	0	0	0	0	3.512.510
Total liabilities	**77.210.053**	**77.106.965**	**202.603**	**923.543**	**0**	**0**	**75.980.819**

Values in thousand Euros

(*) Of which: €12.294 millions related to tax losses and €130.366 millions to temporary differences

As mentioned previously, the CGD Group's prudential consolidation perimeter differs from the accounting perimeter in its treatment of entities whose economic activity is different from that which characterises credit institutions and financial companies, in compliance with the provisions in the “Legal Framework of Credit Institutions and Financial Companies”, namely:

(i) subsidiaries that undertake their activity in economic sectors that are not subject to prudential supervision (e.g. commerce, industry, agriculture and insurance) are recorded in the prudential consolidation scope by the equity method;

(ii) collective investment organisations, as well as special-purpose vehicles, that were not included in the bank supervision perimeter, since they are not encompassed in the definition of a financial company, as determined in the 'General Scheme of Credit Institutions and Financial Companies', are not integrated into the consolidation perimeter, being recorded at its acquisition cost or respective fair value, in accordance with the asset class under which it is encompassed (unconsolidated subsidiaries and branches or financial assets at fair value by results or other comprehensive revenue).

Additionally, it should be highlighted that Banco Comercial do Atlântico, S.A., BCG Brasil and CGD Investimentos CVC are recorded in the accounting scope in accordance with IFRS 5 (assets of said entities are recorded in a single line item of consolidated assets, under 'Non-current assets held for sale' while liabilities appear in line item “Non-current liabilities held for sale”) and Imobci, Lda. according to IFRS 10 – 'Principle of Control'.

In the prudential scope, the consolidation of these entities is undertaken line item by accounting line item.

Table 4 | Main sources of differences between regulatory amounts and carrying amounts in financial statements (EU LI2)

	Total	Items subject to: Credit risk framework	Counterparty credit risk framework	Securitisation framework	Market risk framework
Asset carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	85.043.074	78.062.460	1.343.958	12.001	5.624.654
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	1.126.146	202.603	923.543	0	0
Total net amount under the regulatory scope of consolidation	83.916.928	77.859.858	420.415	12.001	5.624.654
Off-balance sheet amounts	13.129.923	13.129.923	0	0	0
Amount relative with Potential Future Exposure of derivatives [1]	117.113	0	117.113	0	0
Differences due to compensation rules [2]	-4.963.431	0	661.223	0	-5.624.654
Differences due to CCF application	-10.652.691	-10.652.691	0	0	0
Differences due to mitigation effect	-495.313	-348.195	-147.118	0	0
Exposure amounts considered for regulatory purposes	81.052.528	79.988.894	1.051.632	12.001	-

Values in thousand euros

[1] Exposure relative to the potential future value of derivatives according with article 274 (2) from CRR, and after netting effects

[2] Exposure relative to the adjustment of the derivative's substitution value, according with article 274 (1) from CRR, and after netting effects

While reconciling prudential balance sheet balances and regulatory exposure values, it is worth highlighting the exposure pertaining to off-balance commitments, duly adjusted by respective credit conversion factors, as set forth in article 111 and Appendix I of the CRR. The risk reduction techniques, namely financial collateral, and netting agreements of transactions subject to the CCR framework, equally justify the differences between the prudential scope's accounting balances and the positions that are the subject of weighting.

IV. Capital Adequacy

IV.1 Capital management

The objectives of Caixa Geral de Depósitos' Capital management are guided by the following general principles:

- Complying with the regulatory requirements established by the Supervisory Authorities, namely the European Central Bank, the Bank of Portugal and the National Board of Financial Supervisors;
- Generating an adequate level of profit for the company, creating value for shareholders, providing them with applicable capital payments;
- Sustaining the development of operations which CGD is legally authorised to conduct, maintaining a solid capital structure, able to respond to the growth in activity and which is proven to be adequate for the Institution's risk profile;
- Ensuring the Institution's and the Group's reputation, by preserving integrity in all operations conducted in the course of its activity.

In order to achieve the objectives described above, Caixa Geral de Depósitos carefully plans its short- and medium-term capital needs, taking into account the financing of its activity, especially resorting to self-finance and external fundraising. Said planning is based on internal estimates of growth in balance sheet transaction and financing through external funds, predominantly, through issuing subordinate debt, into which Supplementary Own Funds, within certain limits, are integrated.

The activity of credit institutions in Portugal is regulated by the General Scheme of Credit Institutions and Financial Companies, approved by Decree-Law No. 298/92, which assumes a vital role in prudential regulation in Portugal, reflecting, to a large extent, EU Directives applicable to the financial system (Directives 2006/48/EC, 2006/49/EC and 2010/76/EU).

Until 31 December 2013, the elements comprising the CGD Group's capital (base own funds, supplementary own funds and deductions) are those listed in Notice 6/2010, as amended by Notices 7/2011, 2/2012 and 3/2013, all issued by the Bank of Portugal.

IV.2 SREP and Capital Buffers

Regulatory framework

The activity of credit institutions in Portugal is regulated by the General Scheme of Credit Institutions and Financial Companies, approved by Decree-Law No. 298/92, which assumes a vital role in prudential regulation in Portugal, reflecting, to a large extent, EU Directives applicable to the financial system (Directives 2006/48/EC, 2006/49/EC and 2010/76/EU).

With the entry into force, in January 2014, of the new regulatory framework called Basel III [Regulation (EU) No 575/2013 and of Directive 2013/36/EU of the European Parliament and of the Council, both of 26 June], which applies to all Member States of the European Union, which defined the prudential requirements applicable to credit institutions and investment firms, the regulatory framework now provides for a set of transitional provisions allowing for the phased application of the new capital requirements, including more stringent requirements regarding the quality of capital that can be computed and the calculation of risk-weighted assets, giving the competent authorities of Member States the possibility of maintaining or accelerating their implementation.

The main impacts of Regulation (EU) no. 575/2013 (CRR/CRD IV) on capital ratios were in terms of deferred tax assets (DTA), provisions for insufficient impairment against expected losses, pension fund corridor, minority shareholdings in consolidated subsidiaries, significant shareholdings in non-consolidated financial institutions and additional requirements for market and counterparty risk.

In this context, the Bank of Portugal issued Notice 6/2013, regulating the transitional regime set out in Regulation (EU) No 575/2013, establishing the transitional implementation of the impacts of own funds elements.

With the entry into force, on 1 October 2016, of Regulation (EU) 2016/445 of the European Central Bank, credit institutions now disregard the applicable percentage of unrealised gains [as per the definition provided in Article 468(1) of Regulation (EU) No 575/2013] in the calculation of their Common Equity Tier 1 (CET1) Capital elements and include the gains related to exposures to central governments classified as available-for-sale, thereby accelerating the application of the transitional provisions.

In November of 2016, the European Commission published an outline of the new CRR and CRD IV, which incorporate various Basel standards, such as the Fundamental Review of the Trading Book for Market Risk, the Net Stable Funding Ratio (NSFR) for liquidity risk and interest rate risk in the banking book, as well as amendments regarding the treatment of central counterparties, the Minimum Distributable Amount (MDA), Pillar II, the leverage ratio and Pillar III, among others.

The most significant change was the implementation of the TLAC (Total Loss Absorbing Capacity) Term Sheet, established internationally by the Financial Stability Board (FSB) in the capital structure.

Therefore, systemically important banks will have to comply with MREL/TLAC requirements under Pillar I, while banks that are not systemically important must only comply with MREL under Pillar II, as decided by the resolution authority on a case-by-case basis.

In December of 2017, the Bank of Portugal published Notice no. 10/2017, which revoked Notice no. 6/2013 and defined a new structure for the gradual application of deductions from own funds, among which, due to their relevance, deferred tax assets that depend on future profitability, as from January 1, 2018, stand out.

Also during the same period, Regulation (EU) 2017/2395 of the European Parliament and of the Council was published, amending Regulation (EU) No 575/2013 as regards a transitional regime to reduce the impact of the introduction of IFRS 9 - 'Financial Instruments' on own funds and for the treatment of large exposures of certain public sector exposures denominated in the national currency of any Member State.

It should be noted that CGD has not adhered to the possibility of gradual implementation of the transitional regime provided for in the above-mentioned Regulation, and the estimated impact on its Common Equity Tier 1 (CET 1) is -25 b.p., both in *phasing-in* and in *full implementation*.

On 17 April 2019, the European Parliament and the Council of the European Union published Regulation (EU) 2019/630, which amended Regulation (EU) 575/2013 as regards minimum loss coverage for Non-Performing Exposures (NPEs), with a view to preventing excessive accumulation of NPEs in the future and preventing the emergence of systemic risks in the non-banking sector.

This Regulation complements the prudential rules set out in Regulation (EU) 575/2013 with regard to provisions requiring a deduction from own funds when the NPE is not sufficiently covered by provisions or other adjustments.

It was set out in these Regulations that institutions must deduct from their Common Equity Tier 1 capital instruments, the applicable amount of insufficient coverage for non-performing exposures, if the exposure originated after 26 April 2019.

In May 2019, Regulation 2019/876 (so-called CRR II) was published, amending Regulation 575/2013 and Directive 2019/878 (so-called CRD V).

The amendments introduced by CRR II relate to: leverage ratio, liquidity ratio, own funds requirements and eligible liabilities, counterparty credit risk, market risk, central counterparty exposures, collective investment undertaking risks, large exposures and information and disclosure requirements.

On 27 June, CRD V entered into force but it is not yet applicable, as Member States have until 28 December 2020 to transpose it into national law.

CRR II will come into force on 28 June 2021, with some exceptions that came into force for the period beginning on 1 January 2019.

Among these exceptions, highlight goes to the entry into force, on 27 June 2019, of the main amendments concerning Capital, deductions from Own Funds and calculation of Credit Risk under the standardised and IRB approaches.

Requirement of combined buffer

In September 2015, the Bank of Portugal, through Notice 1/2015, imposed on credit institutions based in Portugal the early adoption of the Conservation Buffer of own funds at 2.5%, pursuant to article 138-D of the General Scheme of Credit Institutions and Financial Companies.

Considering the context of the Single Supervision Mechanism (SSM) in which Capital decisions relating to credit institutions are determined and adopted for the entire Euro Zone and, on the other hand, Capital transactions arising from those decisions must be undertaken essentially by turning to the market, it was necessary to ensure that national credit institutions operated in the same conditions as the institutions in that same space. Within this framework, the Bank of Portugal issued Notice 6/2016, of 31 May, repealing Notice 1/2015. The obligation to choose the early adoption of the own funds conservation buffer was thus discontinued, and the temporary scheme established in Article 23(1) to (4) of Decree-Law No. 157/2014, of 24 October came into effect, resulting in a phased application with annual increases of 0.625% in the requirements of the Capital Conservation Buffer, starting in 2016.

The transitional period ended in early 2019 and an own funds conservation buffer of 2.5% is currently applicable.

'Other Systemically Important Institutions' Buffer Requirements

Pursuant to Article 138-Q of the General Scheme of Credit Institutions and Financial Companies, and in accordance with the Directives of the European Banking Authority (EBA) to identify 'Other Systemically Important Institutions' (O-SIIs), the Bank of Portugal identified CGD as an O-SII, having informed the European Banking Authority and the European Central Bank of this identification.

The practical consequence of this decision for CGD consists on a requirement of a Capital Buffer for an O-SII, fully covered by CET1 and applicable on a consolidated basis.

This Capital buffer was set by the Bank of Portugal at 1% for CGD, being implemented incrementally and applying to 25% of the fixed amount in 2018, 50% in 2019, 75% in 2020 and 100% in 2021, in compliance with the decision communicated on 30 November 2017. As such, CGD, in its consolidated scope, must consider an OSII Capital buffer of 0.25% in 2018, 0.50% in 2019, 0.75% in 2020 and 1.00% in 2021.

However, on 8 May 2020, the Bank of Portugal issued a Communication on the postponement of the phasing-in period of the own funds reserve for 'Other Systemically Important Institutions' by one year, thus delaying the 2020 requirement for 2021, which means the phasing-in period of the requirement will end in 2022.

Countercyclical Buffer Requirements

In accordance with the Basel Committee, the Countercyclical Buffer's main objective is to guarantee that banks have a sufficiently large capital buffer, allowing them to deal with unexpected losses, when confronted with a negative system shock, without compromising the granting of credit to the real economy.

The Bank of Portugal, carrying out its competencies as a national macroprudential authority, can impose on credit institutions the constitution of an additional Capital Buffer whose objective is to protect the banking sector in periods of increased cyclical systemic risk, due to excessive credit increase.

The Countercyclical Buffer (measured as a percentage of the total exposure amount) will be set at between 0% and 2.5%, except when exceptional circumstances justify setting a higher percentage.

The Buffer percentage for each institution, or, the 'institution-specific Countercyclical Buffer', is an average of the countercyclical buffer percentages applicable in countries where said institution has exposure to credit.

For 2019, the Bank of Portugal set the Countercyclical Buffer at 0% of the total amount of exposure values.

In compliance with the requirements in article 440(1)(a) of the CRR, to disclose information, the table below presents the geographical distribution of the relevant credit exposure values established in the institution's Countercyclical Buffer. With the exception of France, the Countercyclical Buffer rate of relevant geographies (those whose exposure represents more than 2% of the total risk-weighted positions) is 0%, which results in a rate of 0,0157%.

Table 5 | Geographical breakdown of credit exposures relevant to the calculation of the own funds Countercyclical Buffer

				Own funds requirements					
Relevant countries	Exposure for standardised approach	Sum of long and short positions from trading book	Securitised exposures for standardised approach	*Of which: General credit risk exposures*	*Of which: Exposure in trading book*	*Of which: Securitised exposure*	Total	OFR weight	Own funds countercyclical buffer
Portugal	39.692.972	9.716	12.001	1.960.489	496	480	1.961.465	76%	0,00%
Mozambique	1.075.493	0	0	74.595	0	0	74.595	3%	0,00%
Macao	3.200.468	0	0	135.719	0	0	135.719	5%	0,00%
France	2.868.467	1.805	0	162.471	12	0	162.483	6%	0,25%
Others	3.925.332	23.136	0	253.602	573	0	254.175	10%	
Total	**50.762.732**	**34.657**	**12.001**	**2.586.876**	**1.081**	**480**	**2.588.437**	**100%**	**-**

Values in thousand euros

Nevertheless, it should be emphasised that the potential non-compliance of some formerly identified capital buffers (O-SII, Countercyclical Buffer and Specific Buffer) doesn't undermine the continuity of the institutions' activity.

However, it involves, namely, restrictions to distributing dividends and repurchasing own shares, as well as submitting to the supervisor, on the part of the institutions in question, of a duly scheduled own funds conservation plan, with the objective of completely fulfilling the agreed own funds requirement. The supervisor is tasked with setting the time frame to realise this plan.

Harmonising national discretionary criteria – EU Regulation 445/2016

In the first quarter of 2016, the European Central Bank issued Regulation 445/2016, governing national discretionary criteria relating to the impact relief period of Basel III in the capital components. The practical outcome for CGD concerned the fair value reserves of exposure to Sovereign Funds classified as 'financial assets for sale', which from 1 October 2016 was incrementally reflected in the own funds, with the integration of 60% beginning in 2016, with increments of 20% each year until 100% was attained in 2018.

Deferred Tax Assets' (DTA) Treatment

Deferred Tax Assets' prudential treatment has been scrutinised both by the European Commission and the European Central Bank. In Portugal, as was the case in Spain and Italy, it was necessary to amend fiscal legislation on deferred taxes (Law No. 23/2016, which amended Law No. 61/2014), limiting the total protected stock existing on 31 December 2015, i.e., deferred taxes from 1 January 2016 were no longer subject to special treatment, thus being susceptible to being deducted from the Common Equity Tier 1 or weighted at 250%.

ECB 2019 Capital Requirements and levels for 2020

Requirements in 2019

The ECB, in the context of allocations under Regulation (EU) No. 1024/2013, of 15 October, is undertaking institution revision and evaluation exercises, including strength tests and, based on said revision process (SREP - Supervisory Review and Evaluation Process), may impose specific additional own fund requirements on credit institutions, as well as specific information disclosure requirements.

The minimum CET1 capital requirement (phased-in) applicable to CGD on a consolidated basis is 9.75%, which includes: i) the minimum CET1 capital ratio required under Pillar I, of 4.5%; ii) the minimum CET1 capital ratio required under Pillar II (P2R), of 2.25%; iii) the Capital Conservation Buffer (CCB), of 2.50%; iv) the reserve for 'Other Systemically Important Institutions', of 0.50% and v) the Countercyclical Buffer, of 0%.

In 2019, the Bank of Portugal set the Countercyclical Buffer at 0% of the total exposure amount.

Table 6 | Minimum Capital Ratios - 2019

2019					
Ratios	Total	of which:			
		Pillar 1	Pillar 2	Buffers	
				Conservation	O-SII
CET1	9,75%	4,50%	2,25%	2,50%	0,50%
TIER 1	11,25%	6,00%	2,25%	2,50%	0,50%
Total Capital	13,25%	8,00%	2,25%	2,50%	0,50%

Requirements in 2020

Under the requirements established in the SREP 2019, issued in December of 2019, in 2020, CGD must ensure the minimum ratios presented in the previous table, which does not include any additional requirement imposed by the Supervisor in relation to 2019 figures, so CGD must accommodate the increase in requirements of 0.25%, resulting from the phase-in increase of the requirements of the O-SII (*Other Systemically Important Institutions*) buffer, which is to be fully covered using CET 1 capital, as decided on 11 November 2017 by the Bank of Portugal, resulting in an O-SII systemic buffer of 0.75%.

However, as a result of the impacts of the crisis caused by the Coronavirus Pandemic, the European Central Bank announced a series of measures to ensure that banks can continue to carry out their activities, with a particular interest in their role as funders of the economy.

The ECB will allow for a 'respite' from the capital requirements defined for Pillar II *Guidance* (P2G), the Capital Conservation Buffer (CCB) and the Liquidity Coverage Ratio (LCR). It will also allow banks to partially use capital instruments that do not qualify as Common Equity Tier 1 (CET1), such as Additional Tier 1 or Tier 2 instruments, to meet the requirements of Pillar 2 (P2R). This anticipates a measure that was initially scheduled to take effect in January of 2021, as part of the latest revision of the Capital Requirements Directive (CRD V).

In this context, the ECB decided, on 8 April 2020, to issue an amendment to the SREP of 4 December 2019, in which it maintains the requirement for a total ratio (TSCR) of 10.25% (of which 8% corresponds to Pillar I and 2.25% to Pillar II – P2R). However, this new decision allows the P2R set for CGD, at 2.25%, which previously had to be covered by instruments classified as CET 1, to be covered at 56.25% by CET 1 instruments, at 18.75% by AT 1 instruments and at 25% by Tier 2 instruments.

As a result of the introduction of this amendment to the SREP, the minimum ratios that the CGD Group is to observe from March 2020 onwards have been revised:

Table 7 | Minimum Capital Ratios - 2020

2020					
Ratios	Total	dos quais:			
		Pillar 1	Pillar 2	Buffers	
				Conservation	O-SII
CET1	9,02%	4,50%	1,27%	2,50%	0,75%
TIER 1	10,94%	6,00%	1,69%	2,50%	0,75%
Total Capital	13,50%	8,00%	2,25%	2,50%	0,75%

IV.3 Regulatory Capital

Own Funds and Capital Ratios

After the conclusion of the Recapitalisation Plan in 2018 (phases detailed in the Reports of previous periods), in 2019, Caixa Geral de Depósitos continued to show significant improvements in the evolution of solvency indicators, as shown in the table below, which compares the levels of Own Funds and Capital Ratios of December 2019 and December 2018.

The following table systematises the composition of Own Funds, *transitional funds*, with reference to the end of 2018 and 2019.

Table 8 | Eligible own funds

Transitional	31-12-2019	*Proforma* 31-12-2018	*Corep* 31-12-2018
Share Capital	3.844.144	3.844.144	3.844.144
Retained earnings	2.901.948	2.834.905	2.834.905
Net income	469.093	296.212	0
Revaluation reserves:	281.259	257.492	257.492
Unrealised gains and losses on available for sale items	*167.850*	*137.307*	*137.307*
Property revaluation reserve and unrealised gains in investment	*113.409*	*120.185*	*120.185*
Total minority interest given recognition in CET 1 capital	51.241	52.127	52.127
Total CET 1 capital prior to regulatory adjustments	**7.547.685**	**7.284.880**	**6.988.668**
Intangibles other than goodwill, net of related DTLs	-75.167	-75.112	-75.112
DTAs (excluding temporary differences only), net of related DTLs	-12.294	-50.488	-50.488
Defined benefit pension fund assets	0	-803	-803
Total CET 1 capital after the regulatory adjustments above	**7.460.223**	**7.158.477**	**6.862.265**
DTAs arising from temporary differences (amount above 10% threshold)	-84.531	-82.444	-112.065
Total CET 1 capital after the regulatory adjustments above	**7.375.692**	**7.076.033**	**6.750.200**
Amount exceeding the 15% threshold	-71.729	-9.930	-32.590
National filters and deductions that affect CET1*	-183.311	-182.089	-182.089
CET 1 capital	**7.120.653**	**6.884.015**	**6.535.521**
AT 1	500.000	500.000	500.000
AT 1 - subsidiaries	8.630	3.138	3.138
Tier 1 capital	**7.629.283**	**7.387.153**	**7.038.659**
Tier 2 capital instruments	600.000	639.115	639.115
Tier 2 capital instruments - subsidiaries	36.949	21.926	21.926
Total capital	**8.266.232**	**8.048.194**	**7.699.700**

Values in thousand euros

* Includes deduction related to the IPC- Irrevocable Payment Commitments arising from Deposit Guarantee Scheme and the Resolution Fund and AVA - Additional Valuation Adjustment

The 2018 pro-forma version takes into account the profit for that year, net of EUR 200 million of dividends delivered to the Shareholder in 2019 and was included in the table for comparison with the 2019 figures that were reported to the Supervisor, considering the positive result for the period.

In the calculation of Own Funds and consolidated prudential ratios as at 31 December 2019, a net profit of around EUR 469,093 thousand was considered, as authorised by the ECB and under Article 26(2) of Regulation (EU) No. 575/2013, and this amount was calculated on the net book profit for the prudential perimeter, of around EUR 785,821 thousand, EUR 316,728 thousand pertaining to the amount of distributable dividends [amount calculated in accordance with Article 5 of European Central Bank Decision (EU) 2015/656 of 4 February 2015, on the inclusion of interim or year-end profits in Common Equity Tier 1 Own Funds].

However, as a consequence of the exceptional situation caused by the COVID-19 pandemic, and, above all, by uncertainty regarding its impact on the evolution of the economy in the euro area, on 27 March 2020, the ECB updated its recommendation on dividend distribution [Recommendation (ECB/2020/19)], recommending that banks should not distribute dividends for the years 2019 and 2020 or buy back their own shares at least until 1 October 2020.

This measure aims to increase the banks' capacity of absorbing losses and supporting loans to households and businesses during the coronavirus pandemic.

In this regard, the ECB will consider two situations:

> a) maintaining the initial recommendation on dividend distribution, but making the actual payment conditional on a reassessment of the situation when the uncertainties caused by COVID 19 no longer exist (in any case, not before 1 October 2020);
>
> b) proposing a change in the dividend policy, whereby no dividend shall be distributed for FY 2019, committing to a possible distribution of reserves, subject to a reassessment of the situation when the uncertainties caused by COVID 19 no longer exist (in any case, not before 1 October 2020).

On 29 May 2020, the General Meeting approved the proposal of the Board of Directors, presented on the recommendation of the Executive Board, to not distribute dividends for the year 2019, and instead integrate the net profit into free reserves, after a deduction to the legal reserve (option b) as per the recommendation of the ECB. The approved proposal for the non-distribution of dividends thus complies with the aforementioned recommendation of the European Central Bank of 27 March 2020. Thus, the ratios for 31 December 2019 correspond to a CET 1 of 16.9%, Tier 1 of 18.1% and Total of 19.5%.

These ratios result from an improvement in Own Funds of around EUR 372,630 thousand, of which around EUR 316,728 thousand correspond to the amount of distributable dividends, around EUR 55,902 thousand to the positive effects that occur within the prudential limits of 10% and 15% (EUR 31,673 thousand and EUR 24,230 thousand), respectively) due to improved levels of Own Funds before deductions, which translates into the following amounts: Own Funds CET 1: EUR 7,493,283 thousand; Tier 1: EUR 8,001,913 thousand, and Total: EUR 8,638,862 thousand.

The capital levels presented in the table below, which result not only from the implementation of the recapitalisation plan, but also from the evolution of the activity, and are considerably above the minimum SREP capital requirements applicable in 2019, decisively reinforcing CGD's soundness.

Table 9 | Capital ratios and own funds

Transitional	31-12-2019	*Proforma* 31-12-2018	*Corep* 31-12-2018
Regulatory capital			
CET 1 capital	7.120.653	6.884.015	6.535.521
Tier 1 capital	7.629.283	7.387.153	7.038.659
Total capital	8.266.232	8.048.194	7.699.700
RWA	44.185.050	48.548.356	48.548.356
Solvency Ratios			
CET1 ratio	16,1%	14,2%	13,5%
Tier 1 ratio	17,3%	15,2%	14,5%
Total ratio	18,7%	16,6%	15,9%
Minimum Requirements (*SREP*)			
Common Equity Tier 1 (CET 1)	9,750%	8,875%	8,875%
Tier 1 capital	11,250%	10,375%	10,375%
Total capital	13,250%	12,375%	12,375%

In 2019, there is no difference between the value of Own Funds and the Capital ratios in *Transitional* and *Full implementation*, which was not the case in 2018, as, in the case of Total Own Funds for that period, there was still an instrument eligible for Tier 2 which was still in a *Phasing-out* process, which ended in May of 2019 (ISIN PTCG17OE0003).

The evolution of the CET1 ratio between December 2018 (proforma) and December 2019 is essentially explained by the following impacts:

1. The increase in Common Equity Tier 1 (CET 1) Own Funds by around +EUR 237 million represents a positive contribution to the CET 1 ratio of 54 basis points and results mainly from the contributions of the following components:

   a) The net profit in the amount authorised by the ECB and computed into Own Funds (around EUR 496 million) was the main component with a positive contribution, with a weight of +106 basis points in the CET 1 ratio;

   b) The improvement in the revaluation reserves, of around EUR 24 million contributed with +5 basis points to the CET 1 ratio;

   c) The decrease in the deduction of deferred tax assets due to tax losses, of around EUR 38 million contributed with +9 basis points to the CET 1 ratio;

   d) Negative change in Other Reserves and Retained Earnings of about -EUR 229 million, which translated into a decrease of about -52 basis points in the CET1 ratio, essentially justified by the impacts of actuarial deviations related with employee benefits, which totalled about -EUR 310 million;

e) The amounts of the deduction related to the exceeding of the prudential limits of 10% and 15% of Own Funds caused an impact of around -EUR 64 million, which translated into a decrease of around -14 basis points in the CET1 ratio.

2. The reduction in RWA, of around -EUR 4,363 million contributed +140 basis points to the CET 1 ratio and is mainly explained by the removal of the Spanish and South African subsidiaries from the prudential perimeter, upon the conclusion of their sales processes.

The following table contains detailed information on the main characteristics of Common Equity Tier 1, Additional Common Equity Tier 1 and Common Equity Tier 2, as set forth in article 437(1)(b) of Regulation (EU) No. 575/2013.

Supplementing the information presented in the table below, the issued credits are available at the following addresses:

ISIN	
PTCGDJOM0022	https://www.bourse.lu/security/PTCGDJOM0022/249390
PTCG17OE0003	*Issued 13/05/2019* https://www.cgd.pt/English/Investor-Relations/Debt-Issuances/Prospectus/Documents/Tier-2_Final-Terms.pdf (link indisponível)
PTCGDKOM0037	https://www.bourse.lu/security/PTCGDKOM0037/267807
PTCGHFOM0006	https://www.bourse.lu/security/PTCGHFOM0006/135956

Table 10 | Capital instruments' main features

1.	Issuer	CGD Lisboa	CGD Lisboa	CGD Lisboa
2.	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	PTCGDJOM0022	PTCGHFOM0006	PTCGDKOM0037
3.	Governing law(s) of the instrument	CRD IV (Directive 157/2014)	Bank of Portugal Notification 12/92	CRD IV (Directive 157/2014)
	Regulatory treatment			
4.	Transitional CRR rules	Additional Tier 1	Tier 2	Tier 2
5.	Post-transitional CRR rules	Additional Tier 1	Tier 2	Tier 2
6.	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Individual e (sub)Consolidated	Individual e (sub)Consolidated	Individual e (sub)Consolidated
7.	Instrument type (types to be specified by each jurisdiction)	Other capital instruments	Subordinated bonds	Subordinated bonds
8.	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	500	100	500
9.	Nominal amount of instrument	500.000.000	100.000.000	500.000.000
9.a).	Issue price	100%	100%	100%
9.b).	Redemption price	100%	100%	100%
10	Accounting classification	Own Funds	Liabilities - amortized cost	Liabilities - amortized cost
11	Original date of issuance	2017-03-30	2008-03-03	2018-06-28
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	Perpetual	2028-03-03	2028-06-28
14	Issuer call subjet to prior supervisory approval	Yes	No	Yes
15	Optional call date, contingent call dates, and redemption amount	2022-03-30	N/A	2023-06-28
16	Subsequent call dates, if applicable	After 1st call on each coupon payment date	N/A	After 1st call on each coupon payment date
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Coupon rate and any related index	10,75%	5,98%	5,75%
19	Existence of a dividend stopper	N/A	N/A	N/A
20.a)	Fully discretionary, partially discretionary or mandatory (in terms of timing	Fully discretionary	Mandatory	Mandatory
20.b)	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	N/A	N/A	N/A
22	Noncumulative or cumulative	Noncumulative	N/A	N/A
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specifiy instrument type convertible into	N/A	N/A	N/A
29	If convertible, specifiy issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	CET1 Ratio<5,125%	N/A	N/A
31	If write-down, write-down trigger (s)	CET1 Ratio<5,125%	N/A	N/A
32	If write-down, full or partial	Partial	N/A	N/A
33	If write-down, permanent or temporary	Temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	Fully discretionary	N/A	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	Tier 1	Lower Tier 2	Tier 2
36	Non-compliant transitioned features	No	No	No
37	If yes, specifiy non-compliant features	-	-	-

Information relating to the nature and amount of prudential filters, realised deductions and non-deducted elements, as well as the description of restrictions applied to the own funds calculation, as specified in article 437(1)(d) and (e) of Regulation 575/2013, found in Appendix I – Details of Own Funds Composition of this document.

As previously mentioned, the consolidation perimeters for accounting and regulatory purposes are different, resulting in differences between the information used in the own funds calculation and that used in the published financial statements, in particular relating to own fund elements. In order to identify the origin of the disparity between data used in the own funds calculation and that used in the institutions' financial statements, Regulation (EU) No. 1423/2013 determines the need to disclose the way in which elements of the financial statements used in the own funds calculation develop when the consolidation for regulatory purposes is applied.

As such, in order to comply with the requirement to disclose a complete reconciliation of the own fund elements with the audited financial statements, as described in Article 437(1)(a) of Regulation (EU) No. 575/2013, the institutions must apply the method mentioned in Appendix I of Regulation (EU) No. 1423/2013 and publish the information on balance sheet reconciliation, as per the following tables:

Table 11 | Reconciliation of prudential and accounting balance sheet

ASSETS	Financial Perimeter	Consolidation of other entities + IFRS5	Differences in consolidation adjustments	Differences in intragroup eliminations	Prudential Perimeter	Key (*)
Cash and cash equivalents at central banks	7.303.807	57.588	0	0	7.361.395	
Cash balances at other credit institutions	513.480	-79.108	0	81.223	515.595	
Loans and advances to credit institutions	2.704.800	360.825	0	-89.521	2.976.104	
Financial assets at fair value through profit or loss	7.834.658	-375.523	227.954	0	7.687.088	
Available-for-sale financial assets	3.598.515	2.423	0	0	3.600.937	
Financial assets with repurchase agreement	10.737	10.856	0	0	21.593	
Hedging derivatives	7.186	0	0	0	7.186	
Held-to-maturity investments	9.019.237	0	0	0	9.019.237	
Loans and advances to customers	47.973.544	516.433	0	0	48.489.977	
Non-current assets held-for-sale	1.333.471	-1.080.965	71.475	0	323.981	
Investment properties	185.666	-204.951	36.366	0	17.081	
Other tangible assets	584.619	16.923	0	0	601.542	
Intangible assets	74.596	572	0	0	75.167	9
Investments in associates and jointly controlled entities, of whic	461.719	5.083	254.986	0	721.788	11
Insurance companies	*306.921*	*0*	*0*	*0*	*306.921*	
Other financial institutions (Equity stake > 10%)	*38.119*	*0*	*0*	*0*	*38.119*	
Current tax assets	463.528	989	0	0	464.517	
Deferred tax assets, of which:	1.406.225	17.314	252	0	1.423.791	
Deferred tax assets for temporary differences	*1.393.877*	*0*	*0*	*0*	*1.411.443*	10
Deferred tax assets for tax losses carry forward	*12.348*	*0*	*0*	*0*	*12.348*	8
Other assets	2.300.274	-46.841	0	60.329	2.313.762	
Total assets	**85.776.060**	**-798.380**	**591.032**	**52.031**	**85.620.743**	

LIABILITIES AND EQUITY	Financial Perimeter	Consolidation of other entities + IFRS5	Differences in consolidation adjustments	Differences in intragroup eliminations	Prudential Perimeter	Key (*)
Resources of central banks and other credit institutions	1.077.668	74.613	0	-93.445	1.058.835	
Customer resources and other loans	65.791.555	867.559	0	85.027	66.744.141	
Debt securities	2.463.422	0	0	0	2.463.422	
Financial liabilities at fair value through profit or loss	908.651	11.724	0	0	920.374	
Hedging derivatives	3.169	0	0	0	3.169	
Non-current liabilities held-for-sale	980.711	-980.711	0	0	0	
Provisions for employee benefits	753.307	2.381	0	0	755.688	
Provisions for other risks	291.133	1.212	71.475	0	363.820	
Current tax liabilities	33.001	8.267	0	0	41.269	
Deferred tax liabilities, of which:	127.414	6.153	-6.287	0	127.280	
Deferred tax liabilities for temporary differences	*127.360*	*0*	*0*	*0*	*127.226*	10
Other deferred tax assets liabilities	*54*	*0*	*0*	*0*	*54*	8
Other subordinated liabilities	1.116.458	0	0	0	1.116.458	7
Other liabilities	3.663.564	-14.860	-196.644	60.450	3.512.510	
Total liabilities	**77.210.053**	**-23.663**	**-131.456**	**52.031**	**77.106.965**	
Capital	3.844.144	-785.962	785.962	0	3.844.144	1
Other equity instruments (Additional Tier 1)	500.000	0	0	0	500.000	6
Revaluation reserves	281.259	0	0	0	281.259	2
Other reserves and retained earnings	2.928.767	71.536	-98.356	0	2.901.948	3
Net income attributable to the shareholder of CGD	775.928	-60.291	70.184	0	785.821	4
Shareholders' equity attributable to CGD	8.330.098	-774.718	757.791	0	8.313.171	
Non-controlling interests, of which:	235.909	0	-35.302	0	200.607	5
Ordinary shares	*235.909*	*0*	*0*	*0*	*200.607*	
Preference shares	*0*	*0*	*0*	*0*	*0*	
Total equity	**8.566.007**	**-774.718**	**722.488**	**0**	**8.513.778**	
Total liabilities and equity	**85.776.060**	**-798.380**	**591.032**	**52.031**	**85.620.743**	

Values in thousand euros

(*) Link between elements on Prudential Balance Sheet and regulatory Own Funds

The prudential consolidation scope differs from the CGD Group's accounting scope in the treatment of entities whose economic activity is different from that which characterises credit institutions and financial companies, in compliance with the provisions in the 'General Scheme of Credit Institutions and Financial Companies', namely:

(i) subsidiaries that undertake their activity in economic sectors that are not subject to prudential supervision (e.g. commerce, industry, agriculture and insurance) are recorded in the prudential consolidation scope by the equity method;

(ii) collective investment organisations, as well as special-purpose vehicles, that were not included in the bank supervision perimeter, since they are not encompassed in the definition of a financial company, as determined in the 'General Scheme of Credit Institutions and Financial Companies', are not integrated into the consolidation perimeter, being recorded at its acquisition cost or respective fair value, in accordance with the asset class under which it is encompassed (unconsolidated subsidiaries and branches or financial assets at fair value by results or other comprehensive revenue).

Table 12 | Reconciliation of the Prudential Balance Sheet and Regulatory Own Funds

	Key (*)	Prudential Balance Sheet	Own Funds
Share capital	1	3.844.144	3.844.144
Other reserves and retained earnings	3	2.901.948	2.901.948
Net income (included in CET 1 capital)	4	785.821	469.093
Revaluation reserves	2	281.259	281.259
Non-controlling interests given recognition in CET 1 capital	5	200.607	51.241
Total CET 1 capital prior to regulatory adjustments			**7.547.685**
Intangibles (Includes goodwill), net of related DTLs	9	75.167	-75.167
DTAs (arising from tax losses carry forward), net of related DTLs	8	12.348	-12.294
Total CET 1 capital after the regulatory adjustments identified above			**7.460.223**
DTAs arising from temporary differences (amount above the 10% threshold)	10	1.411.443	-84.531
Total CET 1 capital after the regulatory adjustments identified above			**7.375.692**
Amount exceeding the 15% threshold, of which:			-71.729
Financial institutions and insurers	11	*721.788*	*-25.894*
DTA's (arising from temporary differences)	10	*1.411.443*	*-45.835*
National filters and other deduction affecting CET1 (ie. AVA - Additional Valuation Adjustment and irrevocable payment commitments arising from Deposit Guarantee Scheme and the Resolution Fund)			*-183.311*
Common Equity Tier 1 (CET 1)			**7.120.653**
Additional Tier 1, of which:			**500.000**
Other equity instruments	6	*500.000*	*500.000*
AT 1 - subsidiaries (Non-controlling Interests)			*8.630*
Tier 1 capital			**7.629.283**
Tier 2 capital instruments	7	1.116.458	600.000
Tier 2 capital instruments - subsidiaries (Non-controlling Interests)			36.949
Total capital			**8.266.232**

(*) Link between elements on Prudential Balance Sheet and regulatory Own Funds

Values in thousand euros

IV.4 Capital Requirements

Regulatory Capital Requirements

Pursuant to Article 438(c) to (f) of the CRR, the following table contains the own fund requirements by risk type on 31 December 2019 and 2018.

Table 13| Overview of Risk-Weighted Assets (RWA) (EU OV1)

	RWA		Minimum capital requirements
	31-12-2019	31-12-2018	31-12-2019
Credit risk (excluding counterparty credit risk)	**38.389.831**	**42.677.938**	**3.071.186**
Of which: Standardised Approach (SA)	38.389.831	42.677.938	3.071.186
Of which: Foundation Internal Ratings-Based (F-IRB) approach	0	0	0
Of which: Advanced Internal Ratings-Based (A-IRB) approach	0	0	0
Of which: equity IRB under the simple risk-weighted approach or the IMA	0	0	0
Counterparty credit risk (CCR)	**715.078**	**408.587**	**57.206**
Of which: mark to market	330.627	365.851	26.450
Of which: Original exposure	0	0	0
Of which: Internal Model Method (IMM)	0	0	0
Of which: Comprehensive Financial Collateral Method (for FTS)	346.602	11.519	27.728
Of which: Exposures to contributions to a CCP's hedge fund	277	383	22
Of which: Credit valuation adjustment (CVA)	37.572	30.834	3.006
Settlement risk	**0**	**0**	**0**
Securitisation exposures in the banking book (after the cap)	**5.999**	**5.281**	**480**
Of which: IRB approach	0	0	0
Of which: IRB supervisory formula approach (SFA)	0	0	0
Of which: internal advanced approach (IAA)	0	0	0
Of which: standardised approach (SA)	5.999	5.281	480
Market risk	**1.333.695**	**1.465.669**	**106.696**
Of which: standardised approach	1.333.695	1.465.669	106.696
Of which: internal model approaches (IMA)	0	0	0
Large Exposures	**0**	**0**	**0**
Operational risk	**3.880.203**	**3.860.177**	**310.416**
Of which: basic indicator approach	0	0	0
Of which: standardised approach	3.880.203	3.860.177	310.416
Of which: advanced measurement approach	0	0	0
Amounts below the thresholds for deduction (subject to 250% risk weight)	**0**	**0**	**0**
Floor adjustment	**0**	**0**	**0**
Total	**44.324.806**	**48.417.652**	**3.545.984**

Values in thousand euros

In December 2019, risk weighted assets (RWA) amounted to EUR 44.325 million, of which around 87% corresponded to credit risk (including counterparty risk and securitisations). Compared to the previous period, there was a decrease in RWA of about 8.5% (EUR 4.093 million), mainly explained by the drop in RWA for credit risk (-9.2%) and market risk (-9%). The amount of RWA for operational risk recorded a slight increase, of EUR 20.0 million, compared to 2018.

In absolute terms, the most significant change in RWAs was that observed for credit risk, (EUR 4.288 million), mostly justified by the restructuring of international activity, following the sale, in the last quarter of 2019, of BCG Spain and the Mercantile Bank, as well as the implementation of the strategy to reduce NPLs (non-performing loans), which included, namely, structured sale processes and *write-offs*.

It should be emphasised that CGD deducts from own funds significant investments in insurance companies, reassurance companies or holding management companies in the insurance sector so that they don't contribute to RWAs.

Internal Capital Requirements

In the context of Basel Pillar 2, the CGD Group annually conducts an evaluation exercise of internal capital adequacy, control systems and the institution's risk profile (ICAAP). The ICAAP is produced in the context of, and in conformity with, the approved Risk Appetite Framework and Statement (RAF and RAS). Quantifying internal capital adequacy concerns planning that supports implementing the Group's strategy. This involves a two-way process insofar as the results obtained inform strategy and contribute to calibrating planning. This self-assessment is also integrated into the risk management framework.

Considering the process' structural nature and its recognised internal and external importance for implementing sustainable business strategies, supported by adequate controls, the ICAAP is supported by a robust governance model, with a clear-cut assignment of roles and responsibilities. Within this framework, the self-assessment process of internal capital adequacy abides by a governance model outlined by internal norms, guaranteeing the involvement of the Board of Directors, the Executive Committee of the Board of Directors, the Risk Committee and the Audit and Internal Control Committee.

The ICAAP process aims to identify, measure and allocate capital to risks to which the Banking Group is exposed or may become exposed, supported by 5 stages requiring the involvement of either Group entities (the prudential scope's branches and subsidiaries) or various divisions of the bank:

- Risk identification process: CGD carried out a self-assessment questionnaire of the risks in which all banking entities of the prudential perimeter assess the materiality of the risks to which the entity is, or may be, exposed. This process is widely involved in different areas of the bank (including the Compliance Office risk, the Real Estate Business Division and the Information Systems Division for their respective risks and the Risk Management Division for all other risks), culminating in the outlining of CGD's risk profile and the identification of risks that are the subject of quantification of internal capital needs, within the ICAAP framework.

- Risk quantification methods: for each risk category assessed as material, the bank quantifies the capital needs based on internal methodologies that reflect the Bank's perspective and the exposure to each risk. The quantifying methods are revised and discussed by the Steering Committees and the Risk Committee in order to address the supervisor's recommendations and guidelines, improve the quality of the models and ensure integration with risk management. Without prejudice to the conclusions resulting from the risk identification stage, the allocation of capital necessarily encompasses, with available methodologies, credit risk, market risk, interest rate risk in the banking book, exchange rate risk, operational risk (including information systems), strategic, compliance and reputational risks.
- Outlining of macroeconomic scenarios: CGD presents a critical overview of the expected growth in available internal capital and internal capital requirements under two different scenarios: baseline and adverse. The baseline scenario is revised and applied in the framework of the Financing and Capital Plan (FCP). In turn, the adverse scenario, which includes both a systematic perspective and a set of idiosyncratic events, is based on an internal perspective guided by the CGD's concerns, discussed in the context of the annual revision of the Recovery Plan, updated, where necessary, in the framework of the ICAAP. In the current context of the pandemic, a 'COVID-19' scenario was also considered, which conservatively reflects expectations for the evolution of macroeconomic variables.
- Financial and capital projections: based on macroeconomic scenarios, CGD projects, in three years, its available internal capital (i.e., a balance sheet and statement of results) and the capital requirements under baseline and adverse conditions. The base scenario's financial projections are consistent with those of the Budget and with the FCP, while the projections underlying the adverse scenario are internally prepared based on statistical models whose methodology, assumptions and results are revised and discussed with several areas of the bank, including the risk management, finance market, planning and accounting divisions;
- Capital adequacy assessment and integration within CGD: CGD analyses the Group's solvency situation under different scenarios. The conclusions of this analysis are primarily quantitative and may trigger actions on the part of the Board of Directors or the Executive Committee in order to reinforce the Bank's capital position or adjust the Group's risk profile, in case capital is considered insufficient. Other qualitative conclusions may result in organisational amendments, the adoption of new methods, optimisation of information systems and processes, among others.

The results of the ICAAP's process are reported annually to the supervisor; however, the quantification of internal capital needs is updated on a quarterly basis for the most relevant risks, ensuring a regular monitoring of internal capital needs by the management bodies.

Furthermore, it is important to highlight that the ICAAP is audited, at least annually, by the Internal Auditing Division, covering all dimensions of the ICAAP, with a special focus on these three main blocks: auditing *(i)* (qualitative) risk profile assessment, *(ii)* scenario elaboration and selection, and *(iii)* quantifying processes.

Additionally, in the context of its internal control duties, the DC monitored and analysed the ICAAP process in order to assess compliance with legal requirements and internal regulations and policies.

As of 31 December 2019, internal capital needs were measured for the following risk categories:

- Credit Risk (including the subcategories of sovereign default, real estate and credit concentration risks);
- Market Risk (including CVA, foreign exchange rate risk and credit spread risk);
- Reputational Risk;
- Strategic Risk;
- Interest rate risk in the banking book;
- Operational Risk.

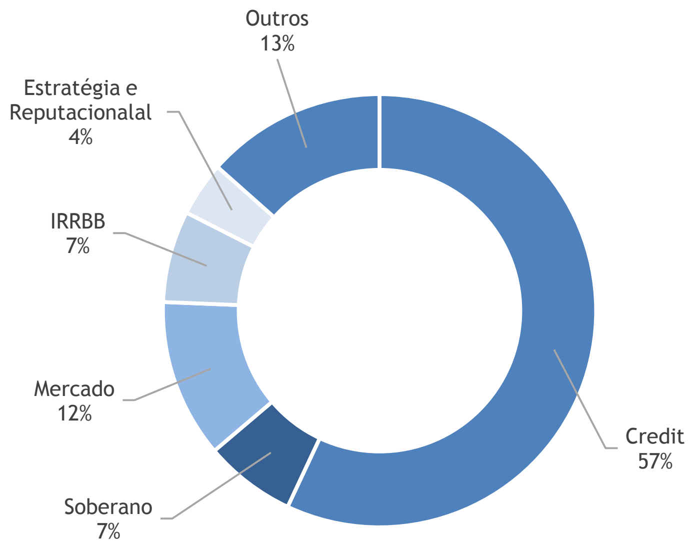
Capital adequacy is evaluated via comparison between internal capital and internal capital needs ascertained in accordance with internal quantification methodologies.

Internal capital is capital that the CGD Group holds in order to ensure that the Bank remains solvent. In other words, it corresponds to the available capital to absorb unexpected losses resulting from risks to which the bank is or may be exposed during its activity.

In order to guarantee the alignment between the definition of 'internal capital' and the concept of 'capital adequacy' from an economic perspective, outlined in the ECB guidelines on the ICAAP process, CGD uses regulatory own funds as a starting point for the implementation of its definition of 'internal capital', introducing the required adjustments, namely concerning balance sheet items that cannot be deemed available to cover losses, (including Tier 2 capital instruments and deferred tax assets), with a view to obtaining an adequate definition, consistent with the concept of 'economic value'.

At the end of 2019, internal capital needs corresponded to around 61% of the available internal capital, highlighting a position of strength for the Bank, with the following distribution by risk type:

Figure 1 | Internal capital requirements (Dec19)



Credit risk, in the subcategory of default risk, is considered the most relevant, as the respective capital requirements correspond to around 57% of the total internal capital needs. Capital requirements for market risk (including CVA, foreign exchange risk and credit spread risk) represent around 12% of domestic capital requirements, while sovereign risk (including exposure to Central Banks and public sector entities equivalent to Central Government) and interest rate risk in the banking book, together, represent 7% of total domestic capital requirements.

IV.5 Leverage ratio

As set forth in article 4(94) of Regulation (EU) No. 575/2013, leverage corresponds to the relative level of assets, off-balance sheet obligations and contingent obligations to pay, deliver or provide collateral, including obligations arising from received funding, undertaken commitments, derivatives or repurchase agreements, but excluding obligations that may only be undertaken during an institution's liquidation process, compared to that institution's own funds. Leverage ratio is a regulatory and supervisory instrument whose examination rules are outlined in Part VII of the CRR and in Delegated Regulation (EU) 2015/62; it is calculated from the division of an own funds measure (level 1 own funds) by a total exposure measurement.

The EBA (European Supervisory Authority) concluded, in its report of 3 August 2016 on the leverage ratio requirement, that a Tier 1 leverage ratio calibrated at 3% for any type of credit institution would have a reliable protective effect. A 3% leverage ratio requirement was also agreed at an international level by the BCBS. Therefore, the leverage ratio requirement was formally calibrated at 3%.

On 31 December 2019, CGD's leverage ratio stood at 9.10%, thus showing that CGD is not at risk of excessive leverage.

Table 14| Leverage ratio

	31-12-2019	31-12-2018
Total SFT Exposure	616.899	240.238
Total Derivatives Exposure	249.473	137.323
Total Off-Balance Exposure	3.097.235	3.307.686
Other Assets	84.330.394	87.644.326
(-) Asset amount deducted - Tier 1	-371.129	-453.146
Total LR Exposure	87.922.872	90.876.427
Tier 1 capital	8.001.913	7.038.659
Leverage Ratio	9,10%	7,75%

Values in thousand euros

In 2019, the *phasing in* leverage ratio showed an increase of 1.36% (from 7.75% in 2018 to 9.10% in 2019). This development is justified both by the increase in Tier 1 Own Funds, by around EUR 963 million, and by the reduction in exposure by around EUR 2,952 million.

It should be noted that the leverage ratio is monitored monthly under the Group's Risk Appetite Statement (RAS), thus enabling regular monitoring by management bodies and the application of corrective measures when necessary.

In compliance with what is stipulated in the Enforcement Regulation (EU) 2016/200 of 15 February, relevant information concerning the leverage ratio is presented in the following tables:

Table 15| Common rules on disclosure of leverage ratio

	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	84.331.836
2	(Asset amounts deducted in determining Tier 1 capital)	-371.129
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**83.960.707**
	Derivative instruments exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	583.016
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	199.653
UE-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-533.196
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivatives exposures (sum of lines 4 to 10)**	**249.473**
	SFT exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	375.261
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	241.638
UE-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
UE-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**616.899**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	13.135.386
18	(Adjustments for conversion to credit equivalent amounts)	-10.038.151
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**3.097.235**
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
UE-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-1.443
UE-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
	Capital and total exposure measure	
20	**Tier 1 capital**	**8.001.913**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**87.922.872**
	Leverage ratio	
22	**Leverage ratio**	**9,10%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
UE-23	Choice on transitional arrangements for the definition of the capital measure	0
UE-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

Values in thousand euros

Table 16| Leverage - Breakdown of on-balance sheet exposures

		CRR leverage ratio exposure
UE-1	**Total of on-balance sheet exposures (excluding derivatives, SFTs and risk exempt positions), of which:**	**83.797.198**
UE-2	Trading book positions	0
UE-3	**Banking book exposure, of which:**	**83.797.198**
UE-4	Covered bonds	43.848
UE-5	Exposures treated as sovereign	23.220.320
UE-6	Exposures to regional administrations, multilateral development banks, international organizations and ESP not treated as sovereign	2.060.644
UE-7	Institutions	2.984.550
UE-8	Secured immovable mortgages	26.701.087
UE-9	Retail exposures	5.282.191
UE-10	Corporates	11.527.859
UE-11	Exposures in default	964.725
UE-12	Other exposures (eg shares, securitisations and other assets not related with credit obligations)	11.011.974

Values in thousand euros

Table 17| Reconciliation of account assets and leverage ratio exposures

1	Total assets as per published financial statements	85.776.060
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-155.317
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	-641.518
5	Adjustment for securities financing transactions (SFTs)	241.638
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	3.097.235
UE-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-1.443
UE- 6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-393.784
8	Leverage ratio total exposure measure	**87.922.872**

Values in thousand euros

V. Credit Risk

This chapter intends to comply with the duties to disclose information, as per Article 442 of the CRR. The information on credit risk included in the following items of this chapter refer only to instruments encompassed by Part III, Title II, Section 2, namely credit risk under the standardised approach. Exposures that are the subject of counterparty credit risk and the securitisation transactions will be addressed in specific sections.

V.1 Qualitative data

Credit risk is associated with the losses and degree of uncertainty concerning the capacity of a client/counterparty to fulfil contractual obligations.

Given the nature of the banking activity, credit risk takes on particular importance, given its materiality, notwithstanding its connection with the other risks.

The CGD Group has set up a system to identify, assess and control risk to its credit portfolio, which encompasses all client segments and concerns both the moment credit is granted and the monitoring of risk throughout its operating life cycle.

CGD's organising model establishes the independence of roles between commercial areas (risk takers), recovery areas (credit recovery), transaction decision areas and Risk areas, responsible for risk control, its identification, monitoring and measuring. The structural units that compete for the CGD Group's credit risk management, as well as its respective responsibilities, are broadly the following:

⇨ CGD Executive Committee

Based on presented proposals, the Executive Committee is responsible for approving guidelines, models and processes inherent to credit risk management. It is equally responsible for monitoring CGD's global credit portfolio's development; to this end, it receives outputs on CGD's credit portfolio monitoring process.

⇨ CGD Credit Board and Executive Committee for Credit Risk

The CGD's Credit Board (CC) and the Executive Committee for Credit Risk (CERC) are responsible for exercising delegated competencies concerning credit, namely authorising credit transactions (risk and/or pricing).

The CERC is furthermore responsible for, among other roles, discussing the specific situation of economic sectors and outlining strategy and policies on credit and its respective risk, as well as assessment, discussion and decision-making concerning attributing credit impairment levels to the CGD Group's clients (CGD and other companies in the Group) and guaranteeing the appropriate articulation of responsibility in treating at-risk clients between CGD's commercial structures and specialised areas for credit monitoring and recovery.

⇨ Heads of Branches and Subsidiary Boards of Directors

They are responsible for adopting guidelines proposed by the CGD's Executive Committee or outlining guidelines for CGD's approval, relating to the entity's credit risk management. They ideally adopt models approved by CGD's Board of Directors or others that allow them to autonomously assess and monitor credit risk.

⇨ Credit Risk Division (DRC)

As part of credit risk management, the DRC intervenes in phases of granting credit and subsequent monitoring.

Besides its role in decision-making for granting credit to Businesses, Statutory and Financial Institutions, the DRC is also tasked with: (i) the prior and mandatory issuing of reports on risk for attributing internal limits or assessing transactions not covered by said limits, for clients whose total exposure (in terms of the Economic Group), whose rating or whose specific operating (or bidding) characteristics justify it (internal regulation); (ii) ultimately proposing the resetting of credit limits whenever necessary; (iii) analysing and checking individual impairment assessments; (iv) monitoring credit alerts, identifying situations of default, actual or potential, and producing action plans to be undertaken; and (v) approving the constitution of/amendments to Economic Groups.

In the framework of the new centralised decision-making model, the DRC is also part of the process of credit decisions for private clients.

⇨ Risk Management Division (DGR)

As part of the credit risk management process, the DGR intervenes in phases of granting credit and subsequent monitoring, both from the perspective of the client/transaction and the credit portfolio, through: *i)* establishing, undertaking and maintaining internal models for risk assessment (rating and); *scoring; ii)* globally monitoring and controlling the CGD Group's credit risk through credit portfolios, products and business units; *iii)* identifying clients with a high risk of default, through the detection of alert signals; *iv)* evaluating and validating individual impairment; v) determining impairment for all credit portfolio segments; vi) evaluating compliance with the set limits for Considerable Risks.

The DGR may also ultimately propose the approval and revision of policies and guidelines in the framework of the Group's credit risk management.

⇨ Executive Board of Rating (DRT)

Created in early 2019, the DRT is a first-level body within CGD's organic structure, with a corporate function that is independent of lines and business areas and whose responsibility is to assign risk ratings to all segments that have a relationship with the CGD Group, ensuring that all exposures are rated and permanently updated, so as to adequately reflect the clients' credit risk.

⇨ Business Units:

Business units intervene in the credit risk management process (for both private and corporate clients) concerning granting credit and monitoring and recovering the credit portfolio.

With regard to granting credit, these units are involved in all stages of the risk management process. To this end, they are namely responsible for collecting necessary information to assess credit proposals; analysing and issuing commercial and/or technical reports; and approving or obtaining the necessary approvals for credit operations, taking into account current standards.

⇨ Recovery Units:

The recovery areas are independent structures dedicated to recovering credit for clients in financial difficulties and are centred on managing ongoing transactions and legal processes, namely responsible for preventing losses in credit transactions where alert signals were detected or which are already in a situation of default, and monitoring the development of CGD's credit portfolio, and that of the respective business unit, in terms of credit granted and current or potential default.

⇨ Units responsible for information systems:

They are responsible for guaranteeing the undertaking and maintenance of support systems for identifying, evaluating and controlling credit risk.

⇨ Organisation and Quality Division (DOQ):

It collaborates in establishing and transposing to internal regulations procedures to support the management of credit risk.

⇨ Units responsible for Internal Audit and Validation:

They are responsible for evaluating adequacy and compliance with internal regulations, as well as for validating the adequacy of models used in credit risk management and testing respective outputs.

Transcending the various structural units – notably, the Heads of Branches and Subsidiaries' Boards of Directors, DGR, Business Units, Units responsible for information systems, DOQ – they are all responsible for setting forth adequate internal controls on credit risk management tasks and collaborating in maintaining the Credit Risk Manual.

Credit risk policies

CGD's credit risk management is regulated by internal corporate policies and norms, which set forth the rules and procedures to be observed in the credit's life-cycle:

i. In decision-making;

ii. In credit recovery;

iii. In credit risk control and monitoring;

iv. In measuring credit risk.

The processes for the approval of granting and restructuring credit are subject to a delegation of powers, differentiated by certain decision-making levels, and with intervention from the Credit Risk Division in credit transaction decisions and issuing statements on risk.

Concepts and Definitions

For the purposes of evaluating credit risk, the CGD Group uses the following definitions:

Credit risk: corresponds to the likelihood of the occurrence of negative impacts on earnings or capital, arising from the failure to fully and/or timely fulfil the obligations contracted by customers, counterparties or third parties with the institution, agreed under the terms of the respective agreement.

Credit transaction: any act or contract, regardless of its legal structure, through which CGD or any other Group company places or is set to place repayable funds to the service of others, or ensures compliance with monetary obligations before third parties or good performance of agreements. Also considered credit transactions are those of leasing and factoring, in which the Group stands as creditor before the lessee, customer or subscriber, as applicable.

Financial transaction: any transaction carried out by CGD or any other Group entity, for its own account or of customers, on money market or foreign exchange instruments, on demand and at term financial instruments, options and transactions on currencies, interest rates, commodities or transferable securities, which may result in a credible position, for the Group, vis-à-vis a counterpart or third party.

Impairment: a credit granted to customers, or a credit portfolio, defined as a group of credits with similar risk characteristics, is considered to be impaired when: (i) there's objective evidence of at least one loss event occurring after its initial recognition, and (ii) that event (or events) has an impact on the recoverable amount of the cash flows of such credit, or credit portfolio, which can be reasonably estimated.

Expected credit losses within 12 months: for financial instruments which haven't recorded a significant increase in credit risk, compared with their origination, the provisions are measured for a value equivalent to the expected loss within 12 months.

Expected credit losses throughout the lifetime of the instrument: Correspond to the expected credit losses resulting from all possible defaults throughout the expected duration of the financial instrument, provided that said instrument has recorded a significant increase in credit risk since its origination.

Concentration risk: corresponds to the likelihood of the occurrence of negative impacts on earnings or capital, arising from the concentration of exposure on individual clients, economic groups, customer aggregates operating in the same economic sector or in the same geographical area, or resulting from the concentration in an identical activity or asset, or in the guarantees accepted by the institution.

Credit Default: The definition is outlined in the '*Guidelines on the application of the definition of default under Article 178 of Regulation* (EU) No 575/2013' issued by the European Banking Authority (EBA) on 28/09/2016 (EBA/GL/2016/07).

Non-performing exposures: The definition is outlined in the document '*EBA FINAL draft Implementing Technical Standards On Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013*', issued by the EBA (EBA/ITS/2013/03).

As part of granting credit, the Credit Risk Division (DRC), with corporate duties, depending directly on the Executive Committee, is skilled in decision-making and analysing credit for Companies, Financial, Statutory and Private Institutions, segregating duties with the commercial field, which is tasked with presenting proposals with operating conditions.

In the segment companies/groups and institutions, as well as Financial Institutions, the assessment of credit risk, in addition to support for internal rating models (which incorporates both financial information and qualitative elements), individual analysis is undertaken by a team of analysts (per defined standard criteria), who produce credit risk analysis reports and issue independent advice on the inherent credit risk. This analysis is periodically undertaken and whenever there are changes in our relation with the client or if internal or external factors are identified where re-evaluating the risk is recommended.

Producing and deciding on credit proposals for businesses is supported by an application support (credit proposal workflow), which contributes to ensuring the integrated and uniform application of rules and procedures.

Additionally, to streamline and support short-term granting of credit to Corporates and standardise the analysis of these operations' risk, the CGD Group has developed and implemented a model to set forth short-term exposure limits for businesses (Small Businesses, SMEs and Large Companies) with parameters based on economic-financial and sector indicators and in risk rating, which provides guidance concerning the short-term exposure level recommended for each client. The model enables the use of a standardised set of clear-cut, objective rules to calculate reference limits, which are only indicative and serve as a basis for case-by-case analysis for attributing effective limits to the client.

In the case of the segment private clients, assessing credit risk is supported by the use of statistical risk assessment tools (scoring models), through a set of internal regulations which establish objective criteria to be observed when granting credit, as well as through delegating skills in accordance with, among other criteria, risk rating attributed to clients/transactions.

Regarding the segment financial institutions, for each institution, internal limits are approved. Setting limits takes into account the entity's framework in the financial sector and compared with its peers, their rating, their VaR (Value at Risk), as well as other relevant elements.

The fulfilment of these limits, credit exposures and the risk profiles of by counterparties and groups are regularly monitored by specialised analysts.

As part of credit portfolio follow-up and control and complying with IAS 39, the CGD Group developed a credit impairment model[6] that enables measuring impairment losses according to the borrowers' credit quality and meeting the level of existing collateral, encompassing granted credit to businesses and private clients, including Banking Guarantees Provided, Revocable and Irrevocable Commitments and Revocable and Irrevocable Credit Lines, and which is supported by the following macro risk segmentation for the purpose of determining collective impairment:

- Credit for large companies;
- Credit for medium and small companies;
- Credit for small businesses;
- Mortgage Credit;
- Consumer Loans;
- Credit Cards;
- Overdrafts.

[6] Information supplemented by the Notes to the consolidated financial statements of the Report and Accounts, item 6 – 'Nature of key judgements, estimates and hypotheses used to determine Impairment' and following.

In the impairment model, additional disaggregation of exposure is undertaken in accordance with the following criteria[7]:

- Performing Loans (*stage 1*): No indication of loss is recorded at the time of the analysis
- Performing Loans (*stage 2*): Significant increase in credit risk, including credit restructured by the client's financial difficulties;
- Defaulting Loans (*stage 3*).

The risk factors used in the credit impairment model (probability of default and loss given default) are updated annually, and are the subject of back testing and *point-in-time* adjustments to ensure they adequately reflect market conditions

Through the credit impairment model, the credit portfolio analysis and processing is undertaken, which is subdivided in compliance with the following approaches:

⇨ Collective Impairment Analysis – for exposure individually considered not significant, impairment provisions are determined by risk sub-segments, which encompass assets with similar risk characteristics (credit segment, collateral type, payment behaviour history, among others);

⇨ Individual Impairment Analysis – for clients with exposure individually considered significant, an individual evaluation is undertaken involving the CGD's commercial, monitoring and credit recovery areas, DGR and DRC.

The individual analysis of clients with great exposure is focused, essentially, on the following items:

- Fulfilment of contractual conditions agreed with the CGD Group;
- Existence of restructuring due to financial difficulties;
- Existence of litigation or insolvency procedures;
- Assessment of their economic-financial situation;
- Perspectives on the development of the client's activity or that of the economic group to which they belong;

[7] Information supplemented by the Notes to the consolidated financial statements of the Report and Accounts, item 7 – 'Description of methods to calculate impairment, including the way in which the portfolios are segmented, to reflect the different credit characteristics.'

- Verification of the existence of credit and overdue interest transactions in the CGD Group and/or the financial system;
- Adequacy of guarantees and collateral to mitigate credit granted;
- Analysis of historical information on the clients' proper payment behaviour.

For individually significant exposure or that which is the subject of special monitoring by the recovery bodies, an individual impairment assessment is periodically undertaken, supported by going concern and *gone concern* methods, aligning with the criteria for individual impairment estimates, published by the ECB, in the document 'Guidelines on non-productive credit aimed at credit institutions', in March 2017, also safeguarding the recommendations from the Bank of Portugal informed in the Circular Letter 62/2018/DSPD.

Moreover, as part of the credit portfolio follow-up and control, the consolidation of the client follow-up workflow process is undertaken, supported by credit recovery monitoring policy, consolidated in the definition of classification rules of clients according to criteria for credit quality, allocation of clients to monitoring bodies, and recovery measure standardisation. For follow-up workflow control, metrics and indicators, which are the subject of guaranteed close supervision by the DGR's monthly monitoring reports, were set forth.

CGD uses internal models to estimate Probabilities of Default (PDs) in the credit portfolios of private clients (housing and other purposes) and Corporates, also making use of metrics to assess estimates of Loss Given Default (LGDs) in the mortgage loan portfolio. These models are used to internally allocate capital and determine a price reference adjusted for risk.

As part of the CGD Group's risk coverage and reduction policies internal regulations concerning credit risk for businesses set forth that any credit transaction entails, as a rule, establishing guarantees.

Concerning Financial Institutions, the exposure may also take into account risk-mitigating elements that, by hedging the operation, contribute to reducing credit risk exposure. With this aim, CGD has established contracts with other Financial Institutions, the ISDA, where clauses enabling the netting of exposure values between counterparties are prescribed. These contracts may also prescribe Credit Support Annex (CSA) agreements, which can equally influence limit consumption.

Own fund requirements for credit risk

In regard to calculating own fund requirements for credit risk, the CGD Group has adopted the standardised approach, as set forth in Chapter 2, Title II, Part III of Regulation (EU) No. 575/2013.

This approach consists of the allocation of the original exposure amounts to the exposure classes established under article 112 of the aforementioned Regulation. Exposure amounts are the subject of value corrections for impairment to obtain net exposure figures.

Considering guarantees and collateral associated with the exposures, the aforementioned Regulation prescribes the application of risk reduction techniques to reclassify (personal protection) and/or reduce (actual protection) exposure values. Exposures are the subject of weighting in accordance with their final risk class (following potential reclassification), as set forth in Chapter 4, Title II, Part III of the aforementioned Regulation.

Exposure to Sovereigns, Public Sector Entities, Corporates, Institutions and Collective (Funds) Investment Organisations, regulation foresees that risk weight can be determined based on credit quality evaluations attributed by external credit assessment institutions (ECAIs) considered eligible (Regulation (CE) 1060/2009).

In 2019, the CGD Group maintained its use of public credit quality evaluations, attributed by the ECAIs: *Fitch Ratings* (Fitch) and *Moody's Investor Services* (Moody's).

The application of external credit quality assessments is governed by the stipulation in Subsection 3, Section 2, Chapter 2, Title II, Part III of Regulation (EU) No. 575/2013. In summary, when available, specific exposure/issue assessments are used; in the remaining situations, and if the degree of subordination allows, counterparty/issuer credit assessments are used.

Where two or more credit assessments are available, these are ordered from best to worst by credit quality step, and the second best is chosen. The same criterion is applied for both issue and issuer credit assessments.

It should be mentioned that the mapping between external assessments of each of the two ECAIs and the credit quality steps described in the CRR respect the standard relationship published by the EBA (Implementing Regulation (EU) 2016/1799).

V.2 Quantitative data

As part of calculating capital requirements for credit risk the exposure considered encompass asset exposures, from Group's consolidated balance sheet, as well as off-balance sheet exposures.

These exposures are associated with:

⇨ Concerning Assets:

Credit to customers, securities investments in the banking book, cash balances and loans and advances to credit institutions, Central Bank demand deposits, other borrowers, income tax assets, among other less relevant items in the Group's balance sheet;

⇨ Concerning off-balance sheet elements:

Undertaken revocable and irrevocable commitments, underwriting securities, guarantees provided, forward deposits, among others.

On 31 December 2019, the net exposure amount, net of value adjustments and provisions, not considering risk mitigation techniques and encompassing off-balance exposure, before applying credit conversion factors (CCF) amounted to EUR 94,620 million and was distributed by exposure classes set forth under article 112 of Regulation (EU) No. 575/2013 as outlined in the following table.

Table 18 | Total amount and average amount of net exposures (EU CRB-B)

Exposure classes	Net exposure	Net exposure (period average)
Central governments or central banks	22.854.990	21.161.856
Regional government or local authorities	1.487.774	1.469.291
Public sector entities	1.014.818	2.035.621
Multilateral development banks	0	0
International organisations	183.633	183.617
Institutions	3.680.284	3.790.503
Corporates	18.230.569	18.969.054
Retail	10.213.187	10.825.591
Exposures secured by mortgages on immovable property	26.921.642	28.268.445
Exposure in default	1.269.657	1.847.885
Exposures associated with particularly high risk	2.055.736	2.099.185
Exposures in the form of covered bonds	43.848	43.160
Institutions and corporates with a short-term credit assessment	0	0
Exposures in the form of units or shares in collective investment undertakings	680.937	892.885
Equity	686.853	673.291
Other items	1.665.853	1.691.037
Total	**90.989.780**	**93.951.421**

Values in thousand euros

Compared to 31 December 2018, net exposure fell by approximately 3.8% (EUR 3630 million). In the context of the sale of entities abroad, the risk categories Exposures Secured by Mortgages or Immovable Property, Retail and Corporates were the ones that recorded the sharpest decrease in exposure (EUR 4,035 million for the three classes combined). Similarly, there was a decrease in exposure to the risk class Public Sector Entities, of around EUR 2,360 million, with highlight to the amortisations of Parvalorem (a vehicle created within the scope of the reorganisation of the BPN debt) and Parpública.

With regard to the risk class of risk class Exposure in Default, the decrease in exposure, by approximately 43.7% (EUR 985 million) occurred due both to the effect of the sale of entities abroad and the implementation of the plan aimed at leveraging non-performing assets.

Structurally, there is a concentration of exposures in the risk classes Exposures Secured by Mortgages or Immovable Property, Corporates, Central Governments or Central Banks and Retail, which represent around 86% of the net exposure of the CGD Group.

The on-balance net exposure amount is mainly concentrated in the class of assets secured by mortgage on immovable property (32.8%), Central Governments or Central Banks (28%), Corporates (14.1%) and Retail (6.5%), which, combined, represent around 81.4% of the total on-balance sheet exposure.

For off-balance sheet items, the following exposure classes constitute 96.0% of the balance: Corporates (51%) and Retail (37.5%).

Regarding the geographical breakdown of exposures, apart from the reduction of exposure to counterparties based in Spain and South Africa, resulting from the restructuring of the CGD Group's international activity, there were no material fluctuations in the year under review. The CGD Group's portfolio remained unevenly segmented throughout different regions of the world, representing a large concentration in Europe and in the Portuguese ex-colonies, in Africa and Asia.

Concerning Europe, it should be noted that the exposure to counterparties based in Portugal, Spain and France which, together, represent around 79.4% of the CGD Group's exposure.

Table 19 | Geographic breakdown of exposures (EU CRB-C)

Exposure classes	Portugal	Spain	France	Remaining U.E.
Central governments or central banks	12.728.568	2.643.579	545.361	2.224.329
Regional government or local authorities	1.439.320	0	0	0
Public sector entities	588.379	0	255.230	0
Multilateral development banks	0	0	0	0
International organisations	0	0	0	183.633
Institutions	722.339	342.484	401.697	1.022.590
Corporates	13.995.543	229.103	561.974	905.469
Retail	7.687.172	37.763	1.197.061	46.314
Exposures secured by mortgages on immovable property	22.928.667	25.565	859.563	416.480
Exposure in default	965.913	48.152	53.484	11.679
Exposures associated with particularly high risk	1.349.601	11.313	370.409	292.705
Exposures in the form of covered bonds	34.683	0	0	9.165
Institutions and corporates with a short-term credit assessment	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings	632.723	0	655	1.156
Equity	616.263	0	0	2.703
Other items	894.915	6.056	52.995	2.705
Total	**64.584.085**	**3.344.015**	**4.298.429**	**5.118.929**

Exposure classes	EUA	PALOP	Macao	Others
Central governments or central banks	85.968	2.721.677	1.659.887	245.621
Regional government or local authorities	0	48.454	0	0
Public sector entities	0	171.209	0	0
Multilateral development banks	0	0	0	0
International organisations	0	0	0	0
Institutions	358.100	10.862	146.599	675.613
Corporates	112.817	724.315	1.346.253	355.095
Retail	4.225	604.630	555.554	80.468
Exposures secured by mortgages on immovable property	32.875	316.321	1.916.464	425.708
Exposure in default	516	133.597	24.991	31.325
Exposures associated with particularly high risk	592	29.946	0	1.168
Exposures in the form of covered bonds	0	0	0	0
Institutions and corporates with a short-term credit assessment	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings	1.409	0	0	44.993
Equity	51.549	8.860	1.343	6.135
Other items	0	385.734	298.786	24.662
Total	**648.051**	**5.155.606**	**5.949.877**	**1.890.788**

Values in thousand euros

The composition of the CGD Group's portfolio, measured by the exposure value, net of impairment, outlined in the previous tables, predicts the activity sectors in which there is a higher level of exposure concentration.

As such, around a third of the Group's exposures are associated with Private Clients and, of these, 98.4% are included in the Retail and Mortgage-Secured portfolios.

The Public Administration, Defence and Social Security sector, reflecting the exposure to Central Governments and Central Banks risk classes prevails as the second most representative of the Group's exposure values. The Services sector is the third most representative, with higher exposures in the Corporates, Public Sector and Retail Portfolio risk classes, which, together, represent around 88% of the sector's exposure.

Table 20 | Concentration of exposures by industry or counterparty types (EU CRB-D)

Exposure classes	Public administration, defense and social	Financial activities	Real estate activities and rentals	Construction	Education & health and social action	Services	Transport, storage and communications
Central governments or central banks	21.862.558	36.854	0	0	0	955.579	0
Regional government or local authorities	1.484.873	0	0	0	0	2.900	0
Public sector entities	330.881	168.664	10.630	166.710	13.411	51.367	212.233
Multilateral development banks	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0
Institutions	0	3.680.281	0	0	0	3	0
Corporates	11.360	485.221	840.517	1.709.536	123.354	7.180.889	1.060.987
Retail	6.439	26.604	733.663	520.684	183.177	2.563.405	194.085
Exposures secured by mortgages on immovable property	42.280	63.150	375.175	210.022	192.260	1.301.189	34.910
Exposure in default	9.008	18.270	60.617	135.627	29.730	427.412	18.445
Exposures associated with particularly high risk	0	694.263	878.040	425.251	870	49.906	1.996
Exposures in the form of covered bonds	0	43.848	0	0	0	0	0
Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings	0	680.936	1	0	0	0	0
Equity	0	484.687	213	0	0	4	244
Other items	0	0	0	0	0	0	0
Total	**23.747.400**	**6.382.776**	**2.898.857**	**3.167.829**	**542.803**	**12.532.653**	**1.522.900**
Of which PME:	11.209	159.085	2.503.410	1.542.101	490.448	5.681.866	558.591

Exposure classes	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing industries	Individuals	Electricity, gas and water production and	Other activities	Total
Central governments or central banks	0	0	0	0	0	0	22.854.990
Regional government or local authorities	0	0	0	0	0	0	1.487.774
Public sector entities	0	0	6.999	0	53.923	0	1.014.818
Multilateral development banks	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	183.633	183.633
Institutions	0	0	0	0	0	0	3.680.284
Corporates	218.585	94.932	4.362.467	63.213	2.079.507	0	18.230.569
Retail	221.409	21.045	915.787	4.783.701	43.187	0	10.213.187
Exposures secured by mortgages on immovable property	124.083	4.694	335.118	24.205.400	33.362	0	26.921.642
Exposure in default	27.993	1.987	129.844	407.542	3.181	0	1.269.657
Exposures associated with particularly high risk	608	0	911	3.891	0	0	2.055.736
Exposures in the form of covered bonds	0	0	0	0	0	0	43.848
Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings	0	0	0	0	0	0	680.937
Equity	0	0	6.931	0	194.775	0	686.853
Other items	0	0	0	0	0	1.665.853	1.665.853
Total	**592.678**	**122.658**	**5.758.056**	**29.463.748**	**2.407.936**	**1.849.486**	**90.989.780**
Dos quais PME:	553.375	65.778	2.330.784	0	256.482	0	14.153.129

Values in thousand euros

In compliance with Article 442(f), the following table presents the on-balance exposure, net of impairment, disaggregated by residual maturity and exposure class. It should be noted that, in global terms, there were no significant changes in the distribution of exposures across the several residual maturity buckets, maintaining the prevalence of exposures with a maturity period over 10 years, with particular emphasis on those secured by mortgage on immovable property.

Concerning risk classes Central Governments and Central Banks, the latter being the most significant in terms of exposure, exposures are distributed across the residual maturity buckets up to 10 years which, together, represent around 90% of the exposure values.

Table 21 | Residual maturity of exposures (EU CRB-E)

Exposure classes	On demand	RV <= 1 year	1 year < RV =< 5 years	5 years < RV =< 10 years	RV > 10 years	No stated maturity	Total
Central governments or central banks	7.187.216	4.104.017	2.636.011	6.711.977	1.919.133	261.594	22.819.949
Regional government or local authorities	33.097	20.559	342.212	656.679	343.835	14.090	1.410.472
Public sector entities	49.704	38.455	217.178	51.518	473.874	36.180	866.910
Multilateral development banks	0	0	0	0	0	0	0
International organisations	0	0	0	183.633	0	0	183.633
Institutions	507.031	542.605	673.078	133.300	1.663.174	0	3.519.189
Corporates	1.428.874	2.890.275	4.016.219	1.623.662	1.323.130	245.699	11.527.859
Retail	1.153.289	337.380	1.736.583	945.587	1.109.352	0	5.282.191
Exposures secured by mortgages on immovable property	123.604	103.056	1.349.494	2.431.466	22.693.466	0	26.701.087
Exposure in default	74.976	171.510	100.014	184.117	434.108	0	964.725
Exposures associated with particularly high risk	38.043	273.098	496.202	184.747	150.882	565.981	1.708.955
Exposures in the form of covered bonds	0	0	34.684	9.163	0	0	43.848
Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings	106.417	0	0	0	0	574.520	680.937
Equity	0	0	0	0	0	686.853	686.853
Other items	736.061	0	0	0	0	929.793	1.665.853
Total	11.438.311	8.480.957	11.601.676	13.115.850	30.110.955	3.314.710	78.062.460

Values in thousand euros

As previously mentioned, the definition of 'default' incorporates specificities prescribed in the EBA publication 'Final Report from the EBA - Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No. 575/2013 (EBA/GL/2016/07 of 28/09/2016)', supplementing what is specified in Articles 127 and 178 of Regulation (EU) No. 575/2013, which stipulates that a situation of default is confirmed, in reference to a given borrower, when at least one of the following situations is observed:

i) The obligor is late by more than 90 days in fulfilling a significant credit obligation to the institution, its parent company or any of its subsidiaries;

ii) The institution attributes to the credit obligation the status of non-performing credit;

iii) The institution recognises individual impairment resulting from the perception of an important deterioration in the borrower's credit quality;

iv) The resale or restructuring of a credit obligation in which the institution incurs in a significant economic loss is confirmed;

v) Insolvency declared as an Insolvency Application (including Special Revitalisation Processes) by the obligor or by CGD;

vi) Indicators of any ongoing legal proceedings.

Legislation adds that, regarding the non-retail sector, the measuring of default must depend on the client, such that the activation of default in an operation contaminates all of the client's exposure (*cross default*).

In compliance with Article 442(g) and (h), the institutions must disclose the disaggregation of default or non-default exposure values (on-balance and off-balance), by exposure class, activity sector and geographical area.

It should be noted that, in accordance with the hierarchy set forth when allocating exposures to exposure classes, elements associated with particularly high risks take precedence over the default exposure class. For this reason, there is a set of default exposures, whose on-balance and off-balance amounts total EUR 386,292 thousand, which, being classified as speculative immovable property financing, are not allocated to the default exposure class.

Table 22 | Credit quality of exposures by exposure class and instrument (EU CR1-A)

Exposure classes	Defaulted exposures (a)	Non-defaulted exposures (b)	Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs	Net values (a + b - c - d)
Central governments or central banks	0	22.864.156	9.165	0		22.854.990
Regional government or local authorities	0	1.488.279	506	0		1.487.774
Public sector entities	0	1.019.458	4.640	0		1.014.818
Multilateral development banks	0	0	0	0		0
International organisations	0	183.650	17	0		183.633
Institutions	0	3.682.392	2.108	0		3.680.284
Corporates	0	18.838.173	607.605	0		18.230.569
Retail	0	10.295.985	82.799	0		10.213.187
Exposures secured by mortgages on immovable property	0	26.951.065	29.423	0		26.921.642
Exposure in default	2.872.286	0	1.602.630	0	4.124.353	1.269.657
Exposures associated with particularly high risk	386.292	1.920.099	250655,4398	0		2.055.736
Exposures in the form of covered bonds	0	43.879	32	0		43.848
Institutions and corporates with a short-term credit assessment	0	0	0	0		0
Exposures in the form of units or shares in collective investment undertakings	0	799.467	118.530	0		680.937
Equity	0	687.292	439	0		686.853
Other items	0	1.937.955	272.102	0		1.665.853
	3.258.578	**90.711.851**	**2.980.649**	**0**	**4.124.353**	**90.989.780**

Values in thousand euros

Table 23 | Credit quality of exposures by industry or counterparty types (EU CR1-B)

Exposures by economic sector	Defaulted exposures (a)	Of which: overdue	Of which: impaired	Non-defaulted exposures (b)	Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs	Net values (a + b - c - d)
Public administration, defense and social security	10.024	4.346	4.146	23.747.302	10.369	0	275	23.746.958
Financial activities	37.621	7.081	37.557	6.649.932	165.626	0	45.508	6.521.926
Real estate activities and rentals	341.554	304.485	334.346	2.944.606	281.089	0	100.025	3.005.071
Construction	539.727	456.768	528.169	3.072.964	440.036	0	1.017.780	3.172.655
Education & health and social action	55.196	39.574	54.057	513.165	30.185	0	23.647	538.176
Services	1.206.222	760.512	1.197.294	12.219.454	992.003	0	1.446.735	12.433.672
Transport, storage and communications	91.728	63.107	90.876	1.577.734	243.703	0	31.790	1.425.759
Agriculture, livestock, livestock and fishing	53.730	44.246	53.519	570.013	37.434	0	70.880	586.309
Extractive industries	4.588	4.520	4.580	124.101	7.312	0	4.326	121.377
Manufacturing industries	285.197	187.307	273.638	5.723.421	227.458	0	771.774	5.781.160
Private	615.063	575.862	612.852	28.977.539	216.621	0	608.695	29.375.981
Electricity, gas and water production and distribution	17.929	6.526	17.881	2.470.017	56.695	0	2.920	2.431.251
Other activities	0	0	0	2.121.605	272.119	0	0	1.849.486
	3.258.578	**2.454.333**	**3.208.914**	**90.711.851**	**2.980.649**	**0**	**4.124.353**	**90.989.780**

Values in thousand euros

Table 24 | Credit quality of exposures by geography (EU CR1-C)

Exposures by geographical area	Defaulted exposures (a)	Of which: overdue	Of which: impaired	Non-defaulted exposures (b)	Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs	Net values (a + b - c - d)
Portugal	2.653.462	2.133.363	2.617.336	64.519.189	2.588.566	0	3.821.905	64.584.085
Spain	99.326	56.831	98.553	3.300.556	55.866	0	24.897	3.344.015
France	86.663	65.688	86.028	4.263.002	51.235	0	2.473	4.298.429
Remaining E.U.	31.496	31.004	31.385	5.119.682	32.250	0	262.730	5.118.929
USA	724	705	722	648.576	1.248	0	111	648.051
PALOP	253.671	103.962	246.622	5.061.183	159.248	0	252	5.155.606
Macao	48.727	45.203	46.907	5.929.375	28.224	0	17	5.949.877
Others	84.511	17.576	81.361	1.870.289	64.012	0	11.968	1.890.788
	3.258.578	**2.454.333**	**3.208.914**	**90.711.851**	**2.980.649**	**0**	**4.124.353**	**90.989.780**

Values in thousand euros

The following table presents the disaggregation of overdue on-balance positions, regardless of whether they are classified as default. Compared to December 2018, a reduction of around 48% in the amount of overdue positions was observed. This development is framed in the context of the implementation of a strategy aimed at deleveraging and reducing NPLs, which was consolidated in the operationalisation of recovery methods by the specialised monitoring units, the Corporate Monitoring Division (DAE) and the Retail Business Monitoring Division (DAP) and which includes: i) settlement of arrears by customers and liquidation of their responsibilities, ii) restructuring and/or consolidation of debt, iii) structured processes to sell credit portfolios and iv) asset write-off.

Table 25 | Ageing of past-due exposures (EU CR1-D)

Term	Loans	Debt Securities	Total Exposures
≤ 30 days	428.887	0	428.887
> 30 days ≤ 60 days	213.052	0	213.052
> 60 days ≤ 90 days	137.557	0	137.557
> 90 days ≤ 180 days	163.087	0	163.087
> 180 days ≤ 1 ano	137.781	0	137.781
> 1 year	1.293.340	0	1.293.340

Values in thousand euros

The information provided in compliance with Article 442 (g) and (h) on impaired positions and overdue exposure (tables above) is further supplemented by information on non-performing exposures and forborne exposures, in accordance with the EU CR1-E model below.

Table 26 | Non-performing and forborne exposures (EU CR1-E)

	Debt securities	Loans	Off-balance sheet exposures
Gross carrying values of performing and non-performing exposures	17.257.954	56.816.173	12.886.769
Of which performing but past due > 30 days and <= 90 days	0	313.059	0
Of which performing forborne	0	2.268.503	74.977
Of which non-performing:	153.141	2.692.678	497.381
Of which defaulted	153.141	2.680.754	464.851
Of which impaired	153.141	2.625.496	0
Of which forborne	0	1.506.917	5.158
Accumulated impairment and provisions and negative fair value adjustments due to credit risk	116.302	2.093.186	202.603
On performing exposures	24.254	558.530	33.093
Of which forborne	0	144.050	0
On non-performing exposures	92.048	1.534.656	169.510
Of which forborne	0	874.945	0
Collaterals and financial guarantees received			
On non-performing exposures	0	926.241	1.552
Of which forborne exposures	0	2.313.906	0

Values in thousand Euros

The loan, securities and off-balance portfolios, accounted by the respective gross accounting value (gross of credit adjustments and application of credit conversion factors), amount to around EUR 86,960 thousand, of which 3.8% (EUR 3,344 thousand in 2019, EUR 6,083 thousand in 2018) are classified as non-performing. These transactions, of which 98.7% are also classified as defaulting, have an impairment coverage circa 45%.

Supplementing the information previously disclosed, pursuant to EBA Guidelines on the disclosing of non-performing and forborne exposures (EBA/GL/2017/11), all additional disclosures applicable to the CGD Group have been include in Appendix III to this document.

Additionally, the Notes to the consolidated financial statements in the Annual Report, in item '42. Disclosures relating to Financial Instruments', includes a set of specific qualitative and quantitative disclosures, which cover, among other, the most relevant aspects concerning non-performing positions and forborne positions, namely:

- details on the exposure and impairment between performing and non-performing transactions;
- details on the gross credit and impairment exposure values, by activity sector (including details of the positions with renegotiation measures and non-performing positions);
- details on the restructured portfolio by forborne measure;
- withdrawals and deposits in the forborne credit portfolio;
- details on the credit portfolio by LTV ratio (including details on non-performing positions);
- details on fair value and net book value of real estate received in lieu of payment or foreclosure, by type of asset and age.

Table below presents the conciliation of adjustments for the specific and general credit risk regarding positions that are the subject of impairment, as required by Article 442 (i) of the CRR. This information is further supplemented by a conciliation of defaulting positions.

Table 27 | Changes in the stock of general and specific credit risk adjustments (EU CR2-A)

	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	3.464.290	177.480
Increases due to amounts set aside for estimated loan losses during the period	2.682.899	78.554
Decreases due to amounts reversed for estimated loan losses during the period	-2.622.649	-30.088
Decreases due to amounts taken against accumulated credit risk adjustments	-804.760	-103.450
Transfers between credit risk adjustments	0	0
Impact of exchange rate differences	-7.399	-291
Business combinations, including acquisitions and disposals of subsidiaries	-82.492	-2.559
Other adjustments	-430.484	-485
Closing balance	2.199.405	119.161
Recoveries on credit risk adjustments recorded directly to the PnL statement	-109.727	0
Specific credit risk adjustments directly recorded to the PnL statement	0	0

Values in thousand euros

The credit adjustments above include line items referencing credit impairment, borrower impairment and impairment for investments in financial institutions. Due to the nature of the exposures, the balances referring to impairment for financial fixed assets and tangible fixed assets were not considered.

Table 28 | Changes in the stock of defaulted and impaired loans and debt securities (EU CR2-B)

	Gross carrying value for defaulted exposures
Opening balance	5.699.010
Loans and debt securities that are defaulted or impaired since the last reporting period	-500.739
Returned to non-defaulted status	-649.700
Amounts written off	-755.206
Other changes *	-534.786
Closing balance	3.258.578
Of which exposure classified as an Item associated with particularly high risk **	386.292

Values in thousand euros

* Includes selling portfolio, granting of funds and new defaults

** In the risk allocation hierarchy of positions, the high risk element class takes precedence over the overdue element class

In 2019 the gross book value of default assets decreased by EUR 2.440 million. As previously mentioned, aside from the impact resulting from the sale of BCG-Spain and Mercantile Bank, this evolution was driven by the implementation of a strategy aimed at reducing Non-Performing Loans, which was materialised in several initiatives, namely, the optimisation of the recovery process, the implementation and monitoring of a plan for the disposal of non-performing loans and the introduction of new processes and tools to measure performance and increase the efficiency of managers in recovery units.

Moreover, there was the write-off of exposures whose expected credit recovery was null or considerably residual after all possible negotiation and, when applicable, legal endeavours, with all parties involved in the credit contract, in compliance with the Write-offs Policy formalised in internal regulations.

VI. Credit risk mitigation

This chapter aims to comply with the duties to disclose information, as per Article 453 of the CRR.

VI.1 Qualitative data

In the context of healthy and careful credit risk management, CGD uses various techniques to mitigate risk, in order to safeguard against potential defaults on contracts concluded. In line with the eligibility requirements prescribed in Regulation (EU) No. 575/2013 (Chapter 4, Title II, Part III), the following collateral and guarantees are considered eligible:

- Guarantees and Sureties received from Sovereigns and Institutions (including Mutual Guarantee Companies), as well as Corporates, if subject to a credit assessment by an ECAI;
- Credit Derivatives, namely those set forth in Article 204 of Regulation (EU) No. 575/2013;
- Financial collateral, such as assets, debt securities or shareholding units in Investment Funds, if quoted in a recognised fund and with a protection level, highlighted in the haircut, applied to the security or shareholding unit value, determined according to its characteristics[8];
- Deposits made at CGD or other Institutions in the CGD Group, in which financial collateral from contracts with *Credit Support Annexes* (CSA) are included;
- Real collateral represented by Real Estate Mortgages intended for the Borrower's Housing or for multipurpose reasons such as Commerce and/or Offices.

With the application of personal guarantees and credit derivatives, there occurs a transfer of the risk associated with the client's exposure to the provider of the protection, when the latter is the subject of more favourable risk weighting. Personal guarantees are especially relevant in exposure values for Central Governments and Banks (Sovereigns) and Corporates, with these and Institutions, respectively, being the main providers of protection.

In the case of funded credit protection (collateral and deposits), the reduction of risk is calculated according to the method, with the following taking place: *i)* reduction of the exposure value, using the Comprehensive Approach on Financial Collateral or *ii)* transfer of risk, if the Simple Approach is used on Financial Collateral.

When applying the Comprehensive Approach, the one adopted by CGD, as well as haircuts to the value of securities (clarified above), the following, together with the indications of the Regulation,

[8] *Haircuts* applicable to the bond value, which reduces its ability to reduce risk, is determined by the Supervisor in Regulation (EU) No. 575/2013, taking into account its type, credit evaluation, counterparty, maturity, among other factors.

are also considered: exchange rate haircuts and haircuts for potential maturity mismatches between the contract and the respective guarantee (maturity mismatch).

It should be emphasised that the positions secured by Real Estate Mortgages (residential or commercial), which are not allocated to the exposure classes Defaults or Elements associated with particularly high risks, are classified in a distinct class, presented, for prudential purposes, in the Exposures secured by mortgage on immovable property risk class. This collateral is the Group's most representative, which is evidenced by the materiality of mortgage loans in CGD's total credit granted.

Given this segment's relevance in CGD's portfolio, it's important to present the main components of the real estate evaluation method:

- Verifying of the real estate: properties are inspected when all new mortgage lending operations are entered into, aiming to determine its most likely transaction price in a free market.

  The verification of the real estate value is documented and includes, among others, copies of floor plans, property number and description from the Land Registry Office, when provided. Moreover, individual analyses are undertaken (by observing the property directly);

- Updating real estate value evaluations by an expert appraiser: mortgage lending operations that are the subject of contractual amendments are, as a rule, liable to a new evaluation, conducted the same way as the new operations.

  Concerning Non-Performing Credit, the real guarantee values are subject to value checks and/or updates, in line with the frequency established under internal regulation; and,

- Revising indexed valuations: The revision of property prices is conducted by an internal expert real estate appraiser, registered at the CMVM, who draws on information from the previous evaluation report, without involving a personal visit to the property. This methodology is exclusively used for properties with residential purposes, with non-performing credit with a debit balance under EUR 300,000 and, in case of performing credit, a debit balance of more than EUR 500,000.

Property valuation procedures:

- CGD's evaluation area staff includes engineers and architects with significant experience in appraisals, and those responsible for additional technical inspections have completed additional real estate assessment courses, and are registered and certified as property appraisers with CMVM;

- CGD has a network of external service providers in its property valuation area, both Corporates and individuals registered with the CMVM, and distributed throughout Portugal, according to the area in which they exercise their professional activity. There are several appraisers for each municipality, in order to ensure adequate diversification and rotation;

- Digital evaluation requests are sent to CGD's property valuation area, containing essential documents for property valuation purposes. There is an internal technician responsible for the approval process for each assessment type and municipality where the property is located; and,
- The appraisers are listed, in which the priority operation municipalities are set forth, meeting efficiency criteria for visits and in-depth knowledge of the local market. The evaluation requests are sent to appraisers via the CGD's real estate management portal. In the portal, the appraiser records the visit date, as well as the assessment report, whose content is standardised, namely including relevant documents for the assessment and photographs of the property.

The remaining collateral is monitored by the Commercial Areas and the DGR, in line with its materiality. The respective valuing is at market prices, when available. In the remaining situations, when relevant, third-party valuations and/or internal models developed for this purpose are used.

Controlling and monitoring are particularly important to ensure the preservation of coverage ratios when contractually prescribed, or to pro-actively request the reinforcement of guarantees in the remaining situations.

As mentioned in the chapter on Credit Risk, any credit operation requires, as a rule, the constitution of guarantees. Given that loans secured by mortgage on immovable property is the Group's main portfolio, it is found that almost all collateral recognised for prudential purposes corresponds to residential real estate. The remaining real collateral is marginal for this purpose. Personal guarantees, though existing for most operations, do not fulfil eligibility criteria in most situations, due to being provided by individuals or businesses that are not subject to credit assessments by a recognised ECAI.

The table below presents the decomposition of the carrying amount for exposure values (net of impairment), according to their mitigation technique, regardless of its eligibility under Part III, Title II, Chapter IV of the CRR. For this purpose the following risk reduction techniques were considered: Collaterals (financial collateral such as deposits, debt securities and capital bonds – shares and shareholding units, real estate collateral) and Guarantees and Sureties received from sovereigns, institutions and businesses (guarantees provided by private clients and ENIs were not included in this analysis). On 31 December 2019, CGD had no positions hedged by credit derivatives.

Table 29 | CRM Techniques - Overview (EU CR3)

	Exposures unsecured - Carrying amount	Exposures secured - Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	18.122.437	36.554.086	32.540.577	4.013.509	0
Total debt securities	16.376.095	762.796	0	762.796	0
Total exposures	**34.498.532**	**37.316.882**	**32.540.577**	**4.776.305**	**0**
Of which defaulted	208.286	968.277	893.193	75.084	0

Values in thousand euros

Taking into account the materiality of mortgage loans, the positions secured by real estate mortgages (residential or commercial) represent around 74.1% of all secured loans.

Secured positions (by collateral or guarantee/surety) represent around 52% of the total loan and debt securities portfolios.

VI.2 Quantitative data

The table presents the impact of eligible mitigation techniques, pursuant to Part III, Title II, Chapter 4 of the CRR, on exposure values weighted by risk in accordance with the standardised approach.

Table 30 | Standardised approach - Credit risk exposure and CRM effects (EU CR4)

	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Exposure classes						
Central governments or central banks	22.819.949	35.041	23.367.309	2.316	4.627.684	19,8%
Regional government or local authorities	1.410.472	77.301	1.195.408	8.861	287.430	23,9%
Public sector entities	866.910	147.908	1.141.632	71.007	416.401	34,3%
Multilateral development banks	0	0	0	0	0	0,0%
International organisations	183.633	0	183.633	0	0	0,0%
Institutions	3.519.189	161.096	3.448.266	94.004	1.008.851	28,5%
Corporates	11.527.859	6.702.710	11.105.829	1.497.250	12.528.955	99,4%
Retail	5.282.191	4.930.995	4.960.659	345.087	3.437.367	64,8%
Exposures secured by mortgages on immovable property	26.701.087	220.556	26.677.438	49.940	9.457.080	35,4%
Exposure in default	964.725	304.932	954.986	95.285	1.165.971	111,0%
Exposures associated with particularly high risk	1.708.955	346.781	1.688.598	23.895	2.568.739	150,0%
Exposures in the form of covered bonds	43.848	0	43.848	0	7.347	16,8%
Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0,0%
Exposures in the form of units or shares in collective investment	680.937	0	680.937	0	680.937	100,0%
Equity	686.853	0	686.853	0	1.293.996	188,4%
Other items	1.665.853	0	1.665.853	0	909.074	54,6%
Total	78.062.460	12.927.320	77.801.248	2.187.646	38.389.831	

Values in thousand euros

Personal guarantees, where the substitution effect is applied, total EUR 2,054 million and are particularly relevant in exposures concerning Central Governments and Central Banks (Sovereigns) and Corporates, with the main protection providers being Central Governments and Central Banks (Sovereigns), as well as the Mutual Counter-Guarantee Fund (which falls within the Public Sector Entities class risk).

Concerning financial collateral, around 62% of the credit risk mitigation is affected by the risk classes Corporates and Retail.

As mentioned above, positions secured by Real Estate Mortgages (residential or commercial) are typically classed in a distinct risk class, as such, being presented in the previous table within the class Exposures secured by mortgage on immovable property. This collateral is the Group's most representative, which is evidenced by the materiality of mortgage loans in CGD's total credit granted.

The following table details, by exposure class and risk weight, the exposure amounts net of impairment before and after applying risk mitigation techniques and credit conversion factors (CCF) on off-balance elements. It should be noted that exposure classes Central Governments and Banks and Equity, include assets not deducted from own funds, namely assets by deferred taxes and investments in financial sector entities, respectively, both subject to a risk weight of 250%.

Table 31 | Standardised Approach - RWA breakdown (EU CR5)

	Risk weight												
Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	1250%	Total	Deducted to OF	Unrated
Central governments or central banks	20.219.309	0	39.185	0	15.528	0	1.556.423	792.290	746.890	0	23.369.625	142.660	0
Regional government or local authorities	0	0	1.157.106	0	0	0	29.473	17.691	0	0	1.204.270	0	1.204.270
Public sector entities	800.995	0	10.000	0	0	0	376.129	25.515	0	0	1.212.639	0	1.197.144
Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0	0	0
International organisations	183.633	0	0	0	0	0	0	0	0	0	183.633	0	183.633
Institutions	0	0	2.665.316	0	802.237	0	74.236	481	0	0	3.542.270	0	1.501.603
Corporates	0	0	0	0	185.717	0	12.103.324	314.038	0	0	12.603.079	0	11.291.234
Retail	0	0	0	0	0	5.305.746	0	0	0	0	5.305.746	0	5.305.746
Exposures secured by mortgages on immovable property	0	0	0	25.185.404	1.541.974	0	0	0	0	0	26.727.378	0	26.727.378
Exposure in default	0	0	0	0	0	0	818.871	231.400	0	0	1.050.271	0	1.050.271
Exposures associated with particularly high risk	0	0	0	0	0	0	0	1.712.493	0	0	1.712.493	0	1.712.493
Exposures in the form of covered bonds	0	14.224	29.623	0	0	0	0	0	0	0	43.848	0	0
Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment	0	0	0	0	0	0	680.937	0	0	0	680.937	0	680.937
Equity	0	0	0	0	0	0	282.091	0	404.762	0	686.853	25.894	686.853
Other items	714.548	0	53.283	0	0	0	897.231	791	0	0	1.665.853	75.167	1.665.853
Total	21.918.486	14.224	3.954.514	25.185.404	2.545.456	5.305.746	16.818.716	3.094.697	1.151.652	0	79.988.894	243.721	53.207.414

Values in thousand euros

In view of the weight of mortgage loans in CGD's credit portfolio, around a third of the CGD Group's exposure values are the subject of a weighting of 35% (applicable to positions secured by mortgage on residential real estate). The positions weighted at 100% (around 21%) correspond, for the most part, to exposures to Corporates, Central Governments or Central Banks whose credit quality level, measured according to an external rating, is above 3 and to deferred tax assets, defaults with an impairment coverage over 20%, shareholding units in investment funds and tangible fixed assets. Lastly, it is highlighted that exposure values weighted at 0% represent around 27% of the total portfolio and that they correspond to exposure on central administration or banks and equivalent entities (public sector entities to which, pursuant to Article 116(4) of the CRR, the weight applicable to the respective central administration is applied), as well as Cash and equivalent assets.

In relative terms, it should be noted that, year on year, there was a decrease in the weight of positions weighted at 100% (in risk classes Corporates, Defaults, Central Governments or Central Banks), in contrast with the increased weight of Sovereign and equivalent exposures, subject to a 0% risk weighting.

With regards to positions deducted from own funds, these are not subject to risk weight allocation and include, in particular, intangible assets, holdings in financial companies and deferred tax assets. Lastly, in most risk classes, positions that are not externally rated represent the vast majority, if not all, of the exposure subject to weighting. The exception is exposures to central governments or central banks and institutions, whose weight of externally rated positions exceeds 50%.

VII.1 Qualitative data

Counterparty credit risk arises due to the risk of default by a counterparty before the final liquidation of the respective financial flows, with derivative instruments, repurchase transactions or securities or commodities lending or borrowing, long settlement transactions and margin lending transactions being the subject of counterparty credit risk.

Regulation (EU) No. 642/2012, of the European Parliament and of the Council of 4 July 2012, referred to as 'EMIR" (European Market Infrastructure Regulation') came to establish rules aiming to limit risks associated with OTC derivatives and increase transparency in the unregulated market of these financial instruments, namely through the centralised clearing of some transactions, applying rules for mitigating risk in transactions that are not centrally cleared and requiring the production of business reports, also regulating the activity of Central Counterparties (CCP) and Transaction Repositories.

With respect to OTC Derivative transactions, which represent the vast majority of CGD's positions, the EMIR prescribes the obligation of centralised clearing (with a CCP) for certain OTC derivatives, as well as the implementation of methods to mitigate risk for derivatives not centrally cleared.

OTC derivative transactions require the prior conclusion of a contract for OTC Derivate financial instruments, which establishes the essential conditions of the relationship between CGD and each of its Counterparties. The contracts normally used by CGD to establish the rules of the relationship with Financial Counterparties in OTC Derivative transactions are the ISDA *Master Agreement* and the *Credit Support Annex* (CSA), for cases in which the exchange of collateral is agreed. These contracts may, while being carried out, be used in contracting with Non-Financial Counterparties.

Generally, with Non-Financial Counterparties (or Financial Counterparties that haven't signed ISDA contracts with CGD), the Framework Contract for OTC derivative instruments (CQIFD) and respective appendices is signed.

The collateral exchange agreements in derivative operations result from bilateral negotiation and, typically, assume the form of deposits with daily clearing, based on the exposure of the previous working day.

Credit risk management, including counterparty credit risk, of CGD is regulated by internal policies and standards, namely the Service Order (OS) on Credit Risk – Corporates and Institutions that consider OTC Derivative transactions as financial operations, framed in the sub-limit for financial credit and guarantees – Exposure value of exchange rate products and derivatives, which is the subject of approval in accordance with the delegation of competence for approvals, internally established.

The consumption of a derivative product's limit corresponds to the Exposure Value associated with said product at any given time, calculated according to the following formula:

Valor em Risco = Max {0;[Valor de Mercado + (Valor Nominal x Fator de Risco)]}

where the Market Value is set, at a given moment, as the value equivalent to the operation's replacement cost in the market, the Nominal Value is the theoretical amount or capital of the determined operation on the date it was contracted, and the Risk Factor is a weight applied to the nominal value representing the product's potential credit risk exposure. Risk factors are established for each product type and vary according to the product's specific attributes, for example, its residual maturity date, the price fluctuation of the underlying asset or the currency pair.

In the case of contracts signed pursuant to the “Framework Agreement for Derivative Instruments” or the 'ISDA Master Agreement', the total limit consumption is calculated in accordance with the principles prescribed in Article No. 298 (1c) of the CRR, according to which the reduction of the exposure value is allowed, due to effect of netting.

Periodically, CGD calculates credit valuation adjustments (CVA) for the derivatives portfolio, in line with the internal policy on Assessment of Own Positions in Bonds and Derivatives accounted at Fair Value, which is consolidated in a fair value adjustment, subsequently leading to a credit capital buffer. To determine the adjustment, various aspects are taken into consideration, namely: i) verifying the existence of periodic netting agreements or collateralisation mechanisms, ii) segmenting by rating/ credit quality assessment and iii) benchmarking the representative curve for the portfolio's counterparty credit risk.

Capital Requirements

Derivative instruments, repurchase transactions, securities or commodities lending or borrowing, long settlement transactions and margin lending transactions are the subject of prudential capital requirements for counterparty credit risk.

For these operations, the exposure value is determined through the market price assessment method (mark-to-market), as set forth in Article 274 of Regulation (EU) No. 575/2013, which consists of:

> Adding to the operation's market value, when positive, its potential future credit exposure, which results from multiplying the notional value by a prudential factor, according to the type of contract.

For calculating internal capital needs for positions subject to counterparty credit risk, derivatives and repurchase transactions, the exposure value is considered, calculated by the market price evaluation method – mark-to-market –, using the method set forth for quantifying capital needs for the remaining positions that are the subject of credit risk, supported, when possible, by risk factors - PD and LGD – both internal and in line with the IRB method prescribed in the CRR. The exception to this approach is a series of derivatives that, given the overlap with the quantifying method for internal capital requirements for Credit Value Adjustments (CVA), are the subject of capital requirements calculated using said method.

Wrong way risk

Wrong way risk entails the risk of a given exposure adversely correlating with the credit quality of the respective counterparty, namely by virtue of the received collateral for mitigating risk being related to that counterparty.

As for financial derivative instruments, these are perceived by the Bank as entailing low material risk. Regulation (EU) No. 648/2012, of the European Parliament and of the Council, (EMIR), introduced simple derivative clearing duties with qualified central counterparties, currently representing a significant component of this type of transaction at the Bank. Derivatives that are not centrally cleared are largely attributed to collateral agreements, almost exclusively reflected in the constitution of deposits calculated daily, based on the exposure of the previous working day. Risk not covered by collateral exchanges essentially results from derivatives associated with Project Finance operations which correlate neither with the underlying nor with any protection operation.

Concerning third-party counterparty credit risk by exposure to CGD, namely with respect to the amount of guarantees that the Institution should have provided in view of a downgrade of its own credit quality, sources of additional impact facing an event of this nature were not identified since the current CGD rating is still (despite the favourable outlook) lower than the investment grade, with all additional contractually established collateral appropriation thus having already been observed.

VII.2 Quantitative data

The following table presents the exposure values and the RWAs of instruments that are the subject of capital requirements for counterparty credit risk (excluding CVA requirements and exposure values cleared through a Central Counterparty (CCP)).

Table 32 | Analysis of CCR exposure by approach (EU CCR1)

	Notional	Substitution cost/ market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWA
Mark to market		706.322	117.113			641.430	326.767
Original exposure	0					0	0
Standardised approach		0			0	0	0
Internal Model Method (for derivatives and SFTs)				0	0	0	0
Of which: securities financing operations				*0*	*0*	*0*	*0*
Of which: derivatives and long settlement transactions				*0*	*0*	*0*	*0*
Of which: from contractual cross-product netting				*0*	*0*	*0*	*0*
Financial collateral simple method (for SFTs)						0	0
Financial collateral comprehensive method (for SFTs)						241.638	346.602
VaR (value at risk) for SFTs						0	0
Total							**673.369**

Values in thousand euros

As mentioned above, CGD determines the exposure value following the market price evaluation method *(mark-to-market)*, which consists of totalling the replacement cost (NPV, if positive) with the contract's potential future value. Exposure after applying risk reduction techniques (EAD) incorporates the effect of netting agreements and CSAs which contribute to reducing the exposure value subject to risk weighting.

It should be noted that the exposure value of repurchase transactions is calculated using the comprehensive method for financial collateral. The financial instruments acquired in these operations are not recognised in the balance sheet, with the purchase value recorded as a loan to credit institutions, which is valued at its respective amortised cost. These financial instruments, if eligible, are recognised as credit protection and contribute to the reduction in credit risk exposure.

The following table presents the total exposure value and the total risk-weighted exposure of positions subject to 'Credit Valuation Adjustment' or 'CVA'. In accordance with Article 381 of the CRR, CVA corresponds to a mid-market evaluation adjustment of the portfolio of transactions with a counterparty, as said adjustment reflects the current market value of counterparty credit risk for the institution.

CGD calculates the own funds requirements for CVA risk in its portfolio, in relation to each counterparty, through the Standardised Approach, pursuant to Article 384 of the CRR, having calculated the following positions:

Table 33 | CVA capital charge (EU CCR2)

	Exposure value	RWA
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3×multiplier)		-
(ii) Stressed VaR component (including the 3×multiplier)		-
Total portfolios subject to the standardised method	70.226	37.572
Based on the Initial Exposure method	-	-
Total subject to the CVA capital charge	**70.226**	**37.572**

Values in thousand euros

In compliance with Article 439 of the CRR, the table below shows the exposures on derivatives with Central Counterparties (CCP) and the respective associated exposure value totals.

Table 34 | Exposures to CCPs (EU CCR8)

	EAD (post-CRM)	RWA
Exposures to QCCPs (total)		2.931
Exposures for trades at QCCPs (excluding initial margin and protection fund contributions), of which:	98.853	1.977
(i) OTC derivatives	38.738	775
(ii) Exchange-traded derivatives	60.115	1.202
(iii) Securities financing transactions	0	0
(iv) Netting sets where netting between products has been contractually approved	0	0
Initial margin	33.870	677
Pre-funded default fund contributions	8.907	277
Exposures to non-QCCPs (total)		507
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions), of which:	912	507
(i) OTC derivatives	0	0
(ii) Exchange-traded derivatives	912	507
(iii) Securities financing transactions	0	0
(iv) Netting sets where netting between products has been contractually approved	0	0
Initial margin	3.414	0

Values in thousand euros

Within the context of positions subject to CRR, the table below presents the exposure value (net of impairment and after applying CCF and risk reduction techniques), sorted by exposure class and risk weight (attributed in line with the Standardised Approach).

Table 35 | - Standardised approach - CCR exposures by regulatory portfolio and risk (EU CCR3)

	Risk weight						Total	Of which unrated
Exposure classes	0%	2%	20%	50%	100%	150%		
Central governments or central banks	0	0	0	0	0	225.783	225.783	0
Regional government or local authorities	0	0	0	0	0	0	0	0
Public sector entities	285.902	0	0	0	0	0	285.902	0
Multilateral development banks	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0
Institutions	0	167.592	25.862	33.455	26.763	0	253.673	0
Corporates	0	60	0	0	285.564	0	285.624	256.292
Retail	0	0	0	0	0	0	0	0
Exposures secured by mortgages on immovable property	0	0	0	0	0	0	0	0
Exposure in default	0	0	0	0	0	650	650	650
Exposures associated with particularly high risk	0	0	0	0	0	0	0	0
Exposures in the form of covered bonds	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
Exposures in the form of units or shares in collective investment undertakings	0	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	0	0
Total original exposure amounts	285.902	167.653	25.862	33.455	312.327	226.433	1.051.632	256.942

Values in thousand euros

The effect of the netting agreements and received collateral in guarantees in the calculation of final exposure value subject to weighting, as well as the detail regarding the nature of given and received collateral, are presented in the following tables:

Table 36 | Impact of netting and collateral held on exposure values (EU CCR5-A)

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	991.999	168.510	823.489	13.495	809.994
SFTs	375.261	0	375.261	133.623	241.638
Cross-product netting	-	-	-	-	-
Total	1.367.261	168.510	1.198.750	147.118	1.051.632

Values in thousand euros

Table 37 | Composition of collateral for exposures to CCR (EU CCR5-B)

	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	13.495	482.290	0	0
Portuguese sovereign debt	0	0	0	0
Other sovereign debt securities	0	0	133.623	10.737
Corporate bonds	0	0	0	10.856
Other collaterals	0	0	0	0
Total	13.495	482.290	133.623	21.593

Values in thousand euros

VIII.1 Qualitative data

Positions where CGD Group is the lender

CGD, as the lender (or originator), maintains the process of asset securitisation for '*Nostrum Mortgages 2010-1*', maintaining its main aim of optimising its funding and a more adequate risk management. Assets transferred to the vehicle are composed of mortgage loans and, in accordance with the 'Mortgage Sale Agreement' of the transaction 'Nostrum Mortgages 2010-1', the assignment of credit is valid, complete and effective.

In the context of risk mitigation and hedging strategies, with respect to securitisation originated by CGD, it is important to mention the existence of a swap with the Santander Bank whose purpose is to hedge interest rate risk arising from the different frequency between securitised loans (per month) and the securitisation coupon payment period (per quarter).

The following table presents a summary of the existing traditional securitisation operations, noting that CGD has no involvement as a lender or as a sponsor in synthetic securitisation operations.

Table 38 | Securitisation Operations

Traditional securitisation	Nostrum Mortgages 2010-1
Originator	CGD
Sponsor(s)	
Operation's information:	
Origination date	2010-11-05
Maturity date	2065-05-20
Step-up call date	N/A
Revolving (years)	N/A
Securitised assets	5.429.950
Value in debt	3.075.126
of which defaulted values	46.571
Informations about originator	
Existence of "implicit support" situations	
Assigned assets (by institutions)/ Securitised assets (total)	100%
Initial capital gains/ First loss reacquired gains	
Observations	
Initial objective from securitised transaction	⇨ Source *funding* optimization ⇨ Source *funding* diversification
Degree of involvement in the securitization process	⇨ Creditor ⇨ Credit manager ⇨ Domiciliary of fund's DO account ⇨ "*Swap back-to-back*" Counterparty
Significant risk transfer	No

Concerning accounting, the CGD Group includes the Vehicle (SPV), the Fund and the Company created in the context of securitisation operations within its scope of consolidation and consolidates them using the Comprehensive Method, given that it exercises effective financial and operational control over them and takes on the majority of the risks and benefits associated with their activities.

As part of the mortgage loan securitisation operation, CGD did not derecognise it, as the requirements that would allow removing from the balance sheet were not met. As such, the securitised loans are still recorded in the balance sheet, under the line item 'Credit to customers,' in accordance with the same rules applicable to other credit exposures.

Securitised housing loan exposures in which the institution is the lender are subject to capital requirement for credit risk using the approach described in Chapter V. Credit Risk.

Positions in which the CGD Group is the investor

For operations in which CGD is the investor, never intending to negotiate them actively, the total risk-weighted exposure amount is calculated using the Standardised Approach, set forth in Chapter 5, Title II, Part III of Regulation (EU) No. 575/2013. In short, it results from applying the relevant risk weight to the exposure value accounted in the Balance Sheet. The risk weight is established according to the risk assessment attributed by an eligible external credit assessment institutions (ECAIs). The fair value assessment considers the specificity of the underlying elements, resulting in levels that are greatly in line with the output level. It should be emphasised that, in the last two years, the Bank has disposed of a significant percentage of its positions, maintaining only a residual percentage in securitisations of energy tariff deficits, without any identified asymmetries in the balance sheet as a result of these sales.

Concerning the perceived risk of these positions, the main focus is on legal amendments that may compromise the flow of payments of these assets, which is engrained into the valuing through the inclusion of the effect of Portuguese sovereign risk.

Regarding the calculation of capital requirements, the Credit Quality Step, required to apply the Standardised Approach, is determined based on the credit risk assessment assigned by any of the two eligible ECAIs used by CGD: *Fitch* and *Moody's*, respecting the standard mapping between ratings and credit quality steps established by the EBA.

It is important to emphasise that CGD does not have positions in securitisations in its trading book, nor exposure in re-securitisations in its trading or investment portfolios.

VIII.2 Quantitative data

The table below details the calculation, using the Standardised Approach, described above, of the total positions weighted for risk, segregating lender, investor and sponsor positions (parts A, B or C). CGD only calculates capital requirements for securitisation operations in which it acts as an investor.

As mentioned above, CGD only has a residual position, of EUR 12,001 thousand, of which only EUR 96 thousands are recorded in columns 4 to 10 of the table below, which emphasises the positions with higher risk: columns 4 to 6 show investments in securitisations with reduced Credit Quality Steps, while columns 9 and 10 show the totals referring to securitisations not rated by any of the two ECAIs used by CGD. The exposures recorded in these columns only correspond to 0.6% of the total investment in securitisations, which result in an implicit risk weight for this portfolio of 50%.

Table 39 | Securitised operations: Standardised Approach

Traditional securitisations	Original securitised exposure (originator)	Exposure value		Exposure value split by risk weight (2+3) for risk weights higher or equal than 100%							RWA	
				Notation position				1250%		Position not object of notation		
			Exposure value deducted from own funds	100%	225%	350%	650%	Notation position	Position not object of notation		31-12-2019	31-12-2018
	1	2	3	4	5	6	7	8	9	10	11	12
Total exposure (=A+B+C)	12.001	12.001	0	0	0	0	0	0	96	0	5.999	5.281
A. Originator: total exposure	0	0	0	0	0	0	0	0	0	0	0	0
B. Investor: total exposure	12.001	12.001	0	0	0	0	0	0	96	0	5.999	5.281
B.1 - Assets	12.001	12.001	0	0	0	0	0	0	96	0	5.999	5.281
Securitisation	12.001	12.001	0	0	0	0	0	0	96	0	5.999	5.281
Resecuritisation	0	0	0	0	0	0	0	0	0	0	0	0
B.2 - Off-balance sheet items and derivative instruments	0	0	0	0	0	0	0	0	0	0	0	0
Securitisation	0	0	0	0	0	0	0	0	0	0	0	0
Resecuritisation	0	0	0	0	0	0	0	0	0	0	0	0
C - Sponsor: total exposure	0	0	0	0	0	0	0	0	0	0	0	0

Values in thousand euros

Considering that the securitised assets underlying the operation in which CGD acts as an originator were not derecognised from the balance sheet being, for this reason, monitored in the context of credit risk management framework and considering the reduced materiality of the securitisation position in which CGD acts as an investor, CGD does not disclose, observing Article 432 of the CRR on non-relevant information, all requirements to disclose information on securitisation positions prescribed in Article 449 of the CRR.

The information disclosed in this chapter is further supplemented by what is noted in the 2019 Report and Accounts (item 20. Financial Liabilities Associated with Transferred Assets).

IX. Liquidity and Interest Rate Risks

The importance of balance sheet risk management, the liquidity situation and the allocation of capital as a scarce resource, whose application must obey strict return and security parameters, entails a balanced management of the risk/profit binomial in a context characterised by the uncertain behaviour of variables that critically affect financial performance.

The main aim of the Asset-Liability Management (ALM) process is contributing to the equilibrium of the Group's consolidated balance sheet and the sustainable attainment of positive financial results, maintaining a prudent management of the liquidity situation, consumption of capital and control of interest rate risk.

The CGD's Executive Committee (CE) is ultimately responsible for the global management of the ALM process. CGD's CE delegates responsibilities in this domain to the Capital, Asset and Liability Committee (CALCO), establishing the respective guidance framework and defining the Committee's scope, responsibilities, composition and functioning rules.

Within its strategic goals, CALCO has, in particular, the following responsibilities:

- ⇨ Regular assessment of the liquidity situation, in consolidated terms and on an individual basis for the CGD Group entities, taking the necessary measures to ensure that the strategic objectives and established guidelines, as well as the regulatory/supervisory requirements, are met;
- ⇨ Regular assessment of the interest rate risk, in consolidated terms and on an individual basis for the CGD Group entities, taking the necessary measures to ensure that the strategic objectives and established guidelines, as well as the regulatory/supervisory requirements, are met.

The centralised management of liquidity and interest rate in the banking book risks uses an Asset-Liability Management software tool, to measure the magnitude of the exposure to these risks for the set of entities included in the CGD Group's prudential banking perimeter.

In summary, the liquidity and interest rate risks measurement process encompasses two distinct steps: the identification and collection of the exposures associated with the various units of the Group and the subsequent calculation of the set of relevant indicators for the measurement of the two types of risks.

IX.1 Liquidity Risk

Liquidity risk entails the possibility of a mismatch or non-compensation between monetary payment flows and receipt occurring, leading to the inability to fulfil agreed commitments. In other words, in such a situation, the reserves and available cash of an institution would become insufficient to meet its obligations at the time they occur.

Liquidity risk in the banking business may arise when the following occur:

- Difficulties in raising funds to finance assets, normally leading to increases in funding costs, but potentially also entailing restrictions on asset growth;
- Difficulties in the timely settlement of obligations to third parties, prompted by significant mismatches between the residual maturities of assets and liabilities.

The management strategy and the liquidity risk tolerance are supported by the fundamental principles established in the Institution's Risk Appetite Statement, with the following aims:

- Maintaining a stable, solid and secure liquidity profile, guaranteeing adequate capacity to cope with situations of increased liquidity stress;
- Maintaining stable funding sources and an adequate liquidity buffer, through adopting a proactive, market-oriented approach that enables the Institution to adapt its balance sheet structure to existing conditions;
- Controlling the Group's international entities' exposure to risk, and maintaining their independence both in terms of fundraising and capital adequacy.

The principles presented are the result of the Institution's business strategy, and its perception of the involved risk/return trade-off, and are integrated into the organisation's culture and support the business processes and the organisational structures.

In this context, the Institution's Risk Appetite governance model guarantees the Group's adherence to the established principles and risk appetite limits and its permanent adequacy, reflecting the Institution’s strategic approach to liquidity risk exposure.

In accordance with the European Banking Authority's (EBA) Guidelines on Internal Governance (*EBA Guidelines on Internal Governance* – EBA/GL/2017/11), the management body of a banking group's parent company is globally responsible for the internal governance of the entire group and for ensuring the existence of a governance framework that is suited to the organisational structure, scale and complexity of the activities carried out and to the risks associated with the operations of the Group itself and, in particular, with the entities that are a part thereof.

In this respect, CGD's Board of Directors approved in June 2017 the 'Liquidity Risk Management Corporate Policy', which sets forth the responsibilities and establishes the principles applicable to liquidity risk management for Caixa Geral de Depósitos, S.A., as well as for all branches abroad and subsidiaries integrating the prudential supervision perimeter.

The full application of the Liquidity Risk Management Corporate Policy in the Group's branches and subsidiaries was ensured by the respective local transposition during the second semester of 2017, providing a complete harmonisation of the CGD Group's internal policies and guidelines and, subsequently, promoting clarity and transparency in the entire liquidity risk measurement and control process for the Group's entities, and developing an alignment within the Group of liquidity risk management principles and techniques.

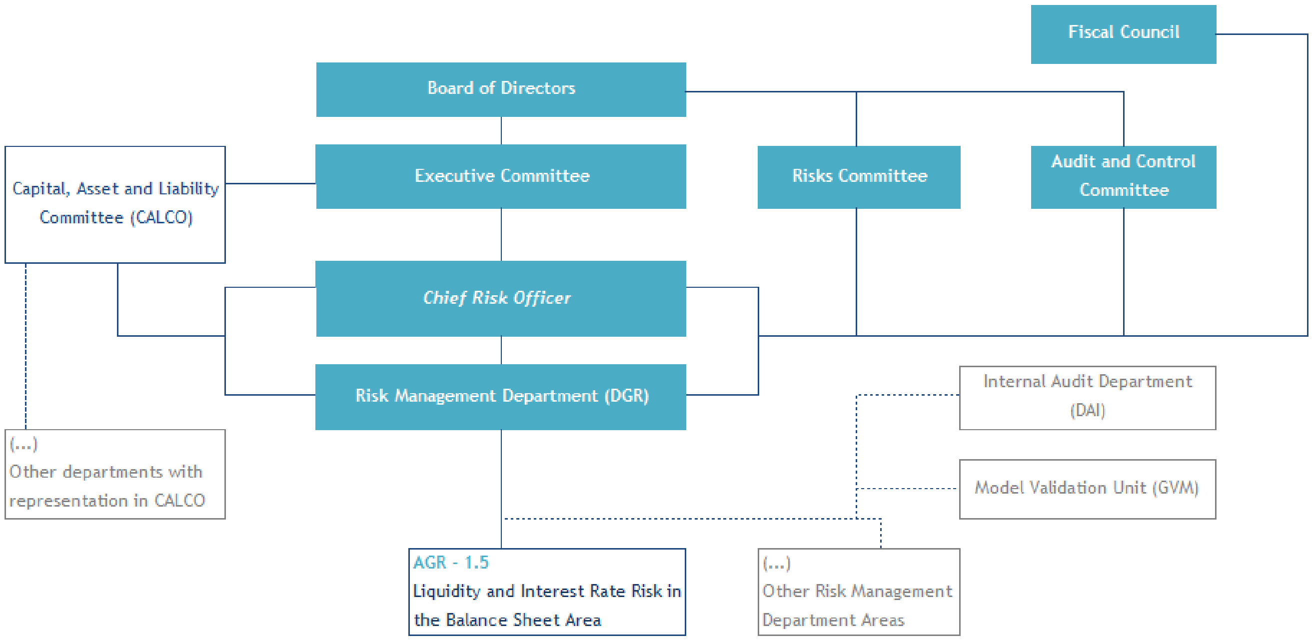
In this regard, 2019 was a year of consolidation of local practices with respect to liquidity risk measurement and monitoring, substantiated, *inter alia*, by the process aimed at identifying and resolving gaps in the fulfilment of the standards set out in the Liquidity Risk Management Corporate Policy.

Specifically in regard to organisational policies and procedures, CGD's Risk Management Division has the following responsibilities:

- Ensuring an adequate and effective liquidity risk management process for the Group, in coordination with the CGD's Chief Risk Officer;
- Developing specific proposals for the definition of policies and procedures that ensure a rigorous and robust risk management, guaranteeing its adequate documentation;
- Regularly evaluating the adequacy and efficiency of the provisions established in the previous items, and recommending necessary amendments whenever opportunities for improvement are perceived.

The Liquidity and Interest Rate Risk in the Balance Sheet Area of the Risk Management Division, while responsible for the liquidity and interest rate risks management, acts as a second line of defence in risk control (first line of defence comprised by the business areas), ensuring permanent risk monitoring processes and the evaluation of the effectiveness of the associated controls. Moreover, it contributes to outlining the strategy and implementing risk management policies and procedures within a framework of full compliance with applicable legal and statutory norms.

Figure 2 | Liquidity and interest rate risks management governance model



The figure above presents the main bodies accountable for the liquidity and interest rate risks management, whose responsibilities are detailed below.

The Board of Directors is ultimately responsible for defining and approving the CGD Group's Risk Appetite, whether at the level of the Governance Model or the Risk Appetite Statement. The Board of Directors' specific responsibilities are identified below:

- Aligning the Risk Appetite with the Bank's strategic priorities and objectives;
- Continually monitoring the development of risk metrics;
- Discussing exceeded limits/tolerance levels and, when applicable, revising and approving the proposed remediation plan.

The Board of Directors' Executive Committee is responsible for the CGD Group's global risk management. In particular, it has the following responsibilities:

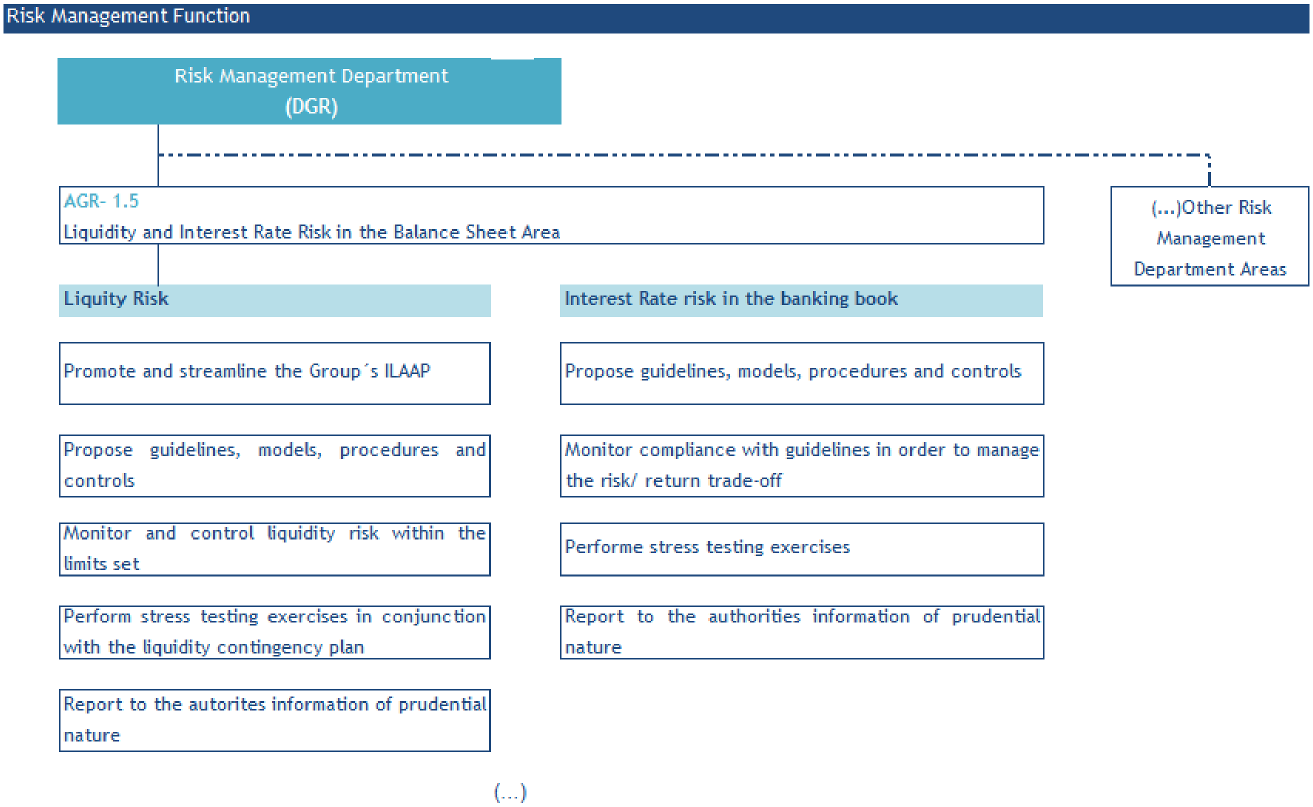
- Managing and enforcing the Risk Appetite approved for the CGD Group;
- Monitoring the development of risk metrics and the rationales underlying the observed development;
- Discussing exceeded tolerance limits or levels and, when applicable, revising and approving the proposed remediation plan;
- Guaranteeing coherence between the Risk Appetite and the Group's strategic undertakings, namely the Funding and Capital Plan, the Budget, and the ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process).

The Capital, Asset and Liability Management Committee (CALCO) is the deliberative body of the Executive Committee responsible for assessing and monitoring the integrated capital, asset and liability management process, aimed at ensuring a proactive management of the CGD Group's balance sheet and profitability. The ALM process comprises the set of actions and procedures designed to control the risks and financial position of the Group, focusing on the security and robustness of the balance sheet and recognising that obtaining an adequate return on the allocated capital implies a sound management of the risk/return combination, in a context characterised by the uncertain behaviour of variables that critically affect financial performance.

The Risk Management Division is a first-level body in Caixa Geral de Depósitos' organic structure with control functions, which aims to protect the CGD Group's capital, namely through the management of solvency, credit, market, liquidity and operational and non-financial risks incurred by the Group, as well as the inter-relations between them, and ensuring a coherent integration of its partial contributions.

The Liquidity and Interest Rate Risk in the Balance Sheet Area of the Risk Management Division (AGR-1.5) is responsible for managing and controlling the Group's liquidity and interest rate risks, striving to ensure a balance sheet structure geared towards an adequate risk/return ratio. The specific competencies of AGR-1.5 are illustrated in the figure below.

Figure 3 | Competencies of the Liquidity and Interest Rate Risk in the Balance Sheet Area



The Audit and Control Committee is responsible for monitoring the effectiveness of the internal control system, without prejudice to the responsibilities of the Supervisory Board in this respect.

The Financial Risks Committee, advisory body of the Board of Directors, oversees the process of identifying, measuring, monitoring and controlling the financial risks incurred by the CGD Group, in support of the Board of Directors.

From an operating point of view, liquidity risk management is supported by the measurement and monitoring of a set of key performance indicators (KPIs) and by a system of limits and early warning, intended to *i)* maintaining a stable funding structure in view of the liquidity characteristics of the Group's asset and off-balance positions, as well as their residual maturity terms, and *ii)* maintaining adequate liquidity levels to respond to stress scenarios.

The set of KPIs used originates from the analyses of the residual maturity terms of the assets and liabilities in the Group's balance sheet. The cash inflow and cash outflow volumes are allocated to time intervals according to their residual maturity terms and the respective liquidity gaps are subsequently determined (both the period liquidity gaps and the cumulative liquidity gaps).

For the purpose of analysing and setting exposure limits the Institution uses the concept of structural liquidity, which aims to incorporate, namely, the historical behaviour of depositors with respect to the management of their current, term and savings accounts, distributing their balances by the different time intervals considered in accordance with internally developed studies and models.

Liquidity gaps are calculated monthly and are subject to two short-term exposure limits set by the CALCO, which inform the Bank's Liquidity Contingency Plan.

The liquidity risk management also includes *stress testing* exercises in conjunction with the existing Liquidity Contingency Plan, in compliance with the principles and recommendations issued by the BCBS (Basel Committee on Banking Supervision) and the EBA (European Banking Authority).

The internally developed methodology for evaluating CGD's resilience facing potential liquidity difficulties includes measuring and monitoring the designated 'survival period' (the time up to the occurrence of liquidity difficulties if corrective measurements are not implemented in advance) in the face of three liquidity and funding stress scenarios. An additional scenario is considered (the base scenario) which assumes that CGD develops its activities in the conditions prescribed in its budget and, consequently, its funding plan.

The existing model also encompasses a set of minimum mandatory values for the survival periods determined in each of the aforementioned scenarios. Failure to comply with any of the established minimum values may lead to the implementation of the contingency measures provided for in CGD's Liquidity Contingency Plan, in accordance with the activation triggers established therein and the respective priority levels for using the different liquidity risk mitigation instruments.

The series of mechanisms and metrics for measuring and monitoring liquidity risk includes a general framework for monitoring the risks associated with collateral management and asset encumbrance, supported by the quarterly assessment and monitoring of *i)* the level, evolution and types of asset encumbrance and related sources of encumbrance, *ii)* the amount, evolution and credit quality of unencumbered but encumberable assets, and *iii)* the amount, evolution and types of additional encumbrance resulting from stress scenarios (contingent encumbrance).

The adoption of a general framework for monitoring the risks associated with asset encumbrance constitutes- one of the dimensions of the governance framework for asset encumbrance risk management, approved by CALCO at the end of the first semester of 2015, which aims to comply with the legislative references/recommendations of the European Systemic Risk Board (ESRB/2012/2), of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, the EBA guidelines on the disclosure of encumbered and non-encumbered assets (EBA/GL/2014/3) and Bank of Portugal Instructions No 28/2014 – *Divulgação de Informação sobre ativos onerados e não onerados* and No 29/2014 – *Gestão do risco de oneração de ativos*.

In this context, CGD discloses in the tables below the information required under the European Commission's Delegated Regulation (EU) 2017/2295 of 4 September 2017, which complements the Regulation (EU) no ° 575/2013 of the European Parliament and of the Council, with regard to technical regulatory standards for the disclosure of encumbered and unencumbered assets, namely reporting templates A – Encumbered and unencumbered assets, B – Collateral Received and C – Sources of encumbrance.

Table 40 | Template A – Encumbered and unencumbered assets

EUR

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally elligible EHQLA and HQLA		of which notionally elligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	8.945.997.588	3.337.026.804			81.105.873.799	15.618.028.550		
030	Equity instruments	0	0			1.487.656.707	0		
040	Debt securities	2.467.157.095	2.440.022.851	2.467.157.095	2.440.022.851	20.668.040.803	14.095.734.073	20.668.040.803	14.095.734.073
050	of which: covered bonds	4.611.355	0	4.611.355	0	51.141.601	42.653.410	51.141.601	42.653.410
060	of which: asset-backed securities	0	0	0	0	13.212.604	0	13.212.604	0
070	of which: issued by general governments	2.429.516.664	2.429.366.841	2.429.516.664	2.429.366.841	15.627.617.051	13.339.577.546	15.627.617.051	13.339.577.546
080	of which: issued by financial corporations	2.972.495	2.972.495	2.972.495	2.972.495	983.700.135	423.470.163	983.700.135	423.470.163
090	of which: issued by non-financial corporations	26.226.467	15.442.100	26.226.467	15.442.100	4.124.652.168	474.180.367	4.124.652.168	474.180.367
120	Other assets	6.364.614.797	839.172.197			58.741.866.659	1.418.654.178		

Table 41 | Template B – Collateral received

EUR

		Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally elligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
130	**Collateral received by the reporting institution**	0	0	259.274.350	214.167.256
140	Loans on demand	0	0	0	0
150	Equity instruments	0	0	0	0
160	Debt securities	0	0	180.834.153	180.834.153
170	of which: covered bonds	0	0	0	0
180	of which: asset-backed securities	0	0	0	0
190	of which: issued by general governments	0	0	180.834.153	180.834.153
200	of which: issued by financial corporations	0	0	0	0
210	of which: issued by non-financial corporations	0	0	0	0
220	Loans and advances other than loans on demand	0	0	45.201.645	0
230	Other collateral received	0	0	33.631.945	33.631.945
240	**Own debt securities issued other than own covered bonds or asset-backed securities**	0	0	0	0
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			4.943.153.080	4.277.469.322
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	8.945.997.588	3.337.026.804		

Table 42 | Template C – Sources of encumbrance

EUR

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	4.800.682.367	7.991.586.031

Additionally, in the following paragraphs, CGD discloses a set of descriptive information on the impact of its business model on the level of asset encumbrance, and on the importance of encumbrance in its business model, as provided for in reporting Template D – Accompanying narrative information, under Commission Delegated Regulation (EU) 2017/2295.

Credit institution's funding conditions were significantly affected by the crisis of 2007-08, when developments in wholesale and retail markets exposed the vulnerabilities inherent to some of the asset classes (e.g. 'sub-prime' residential mortgages) and to some business models (e.g. reliance on short-term wholesale funding), with the following impacts on banks' funding sources and structures:

- An increase in the relative importance of secured funding (including from public sector funding sources) as a consequence of investors' risk aversion and of regulatory developments, notably the Basel III framework;
- Tightening supply of quality collateral, at a time when banks need stable funding sources to maintain their lending into the real economy;
- Increasing reliance on, and competition for, customer deposits, risking potentially increased volatility;
- Extraordinary measures by central banks, including longer-term operations and extended lists of eligible collateral.
- In the particular case of the increasing importance of secured funding, the benefits of its use are evident, namely the promotion of a diversified set of funding sources, the reduction of counterparty risk, and its particular use in periods of stress, nevertheless the associated risks, listed below, should also be taken into account: Excessive encumbrance entails further subordination of other creditors, in particular depositors, with consequences in terms of the potential usage of funds from deposit guarantee schemes;
- It may negatively affect future access to the unsecured markets and create challenges in pricing risks correctly, with implications for efficient resource allocation;
- Contingent encumbrance tends to be pro-cyclical since it increases in stress periods as a result of automatic increases in collateralisation requirements.

In addition, asset encumbrance can have direct impacts on the real economy, namely:

- Limit overall bank balance sheet growth and bank lending activity, given that the amount of encumberable collateral is finite, so a shortfall in secured funding directly affects banks' credit supply and, *ceteris paribus*, the growth of the real economy;
- Lead to a distortion in credit allocation given the greater likelihood that banks will invest in encumberable assets, including government bonds and commercial and residential mortgages, to the detriment of loans to small and medium-sized enterprises, considered of lower quality and normally not eligible as collateral;
- Increase the pro-cyclicality of credit intermediation, since the values of collateral usually tend to increase in economic upturns and decrease in economic downturns, automatically increasing banks' credit supply in good times and decreasing it in bad times. At high levels of encumbrance, the financial system might be riskier because it is more sensitive to pro-cyclical 'swings' in the underlying value of assets.

Against this background, and within CGD's general framework for monitoring the risks associated with asset encumbrance, the asset encumbrance ratio (the ratio of encumbered assets to total assets) is one of the metrics included in the close monitoring of asset encumbrance risks, not only from a perspective of realised values but also at the level of the estimates underlying the Group's Funding and Capital Plan.

As such, the table below presents the value of the asset encumbrance ratio for the reference date 31/12/2019, as well as the respective estimates for the 2020-2022 time horizon.

Table 43 | Asset encumbrance ratio

	2019	2020				2021				2022
	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Dec
Encumbrance ratio	9%	8%	8%	8%	8%	8%	8%	8%	7%	5%

The encumbrance ratio is, on average, at 7% over the projection time horizon, which represents a reduction of around 2 percentage points compared to December 2019, maintaining particularly low levels, which show *i)* an adequate reliance on secured funding and a significant capacity to manage adverse situations in the wholesale funding markets due to the ability to resort to secured funding, and *ii)* little probability of inducing an adverse effect on the 'market appetite' for the Institution's unsecured debt.

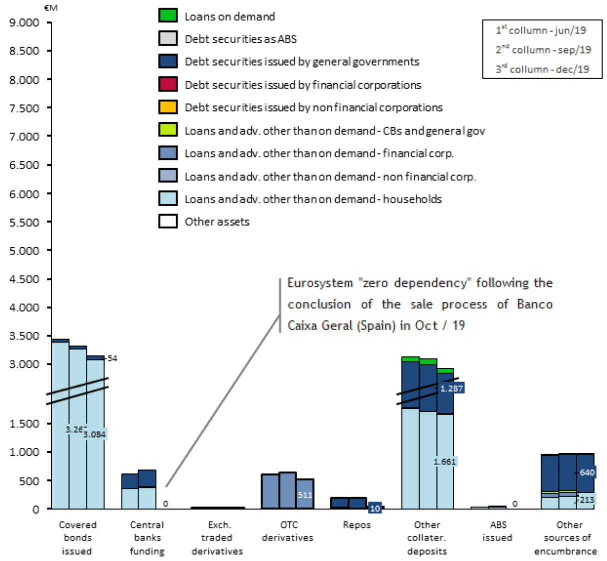
The development of the Group's asset encumbrance ratio is positively impacted, essentially, by the maturity of some issuances of covered bonds throughout the projection time horizon.

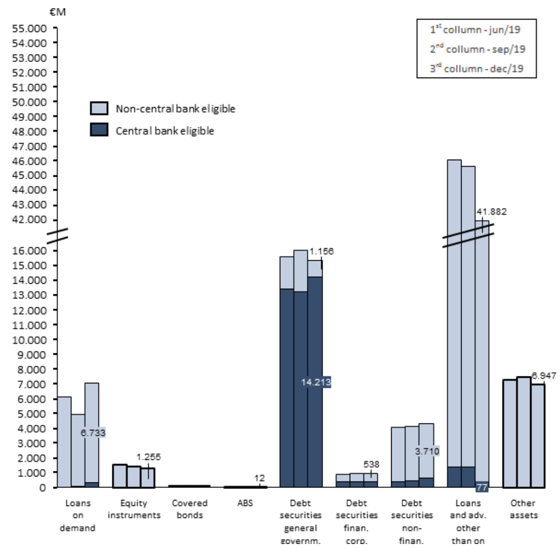
In fact, the structural composition of the Group's balance sheet plays a crucial role in the low levels of asset encumbrance ratio, namely the low reliance on wholesale funding, with highlight to the goal of 'zero dependency' on Eurosystem funding, following the conclusion of the sale of Banco Caixa Geral (Spain) in October of 2019, and the broad and stable customer deposit base, the latter representing around 87% of the Group's total liabilities on 31/12/2019.

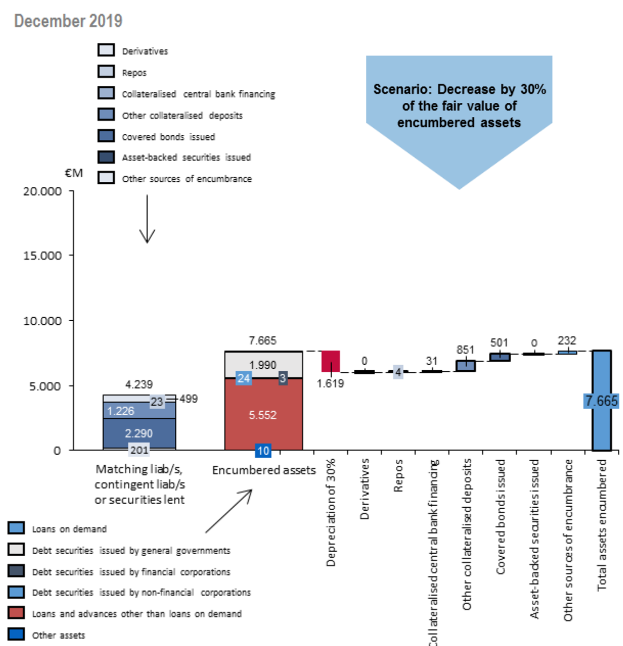
With respect to wholesale funding, the main markets used by the Group for this purpose are the mortgage obligation market and the repurchase agreement ('repo') market. This funding strategy is supported by *i)* low reliance on wholesale funding, *ii)* the comfortable profile of debt issuance reimbursements, *iii)* the current liquidity surplus, *iv)* the significant mortgage credit portfolio, *v)* the low level of asset encumbrance, and *vi)* the reduced depth of the unsecured interbank money market still observed, allowing an adequate management of the maturity profile and the level of diversification of funding sources, a periodic presence in the wholesale markets and the optimisation of funding costs.

The framework presented for the Group's funding strategy is the product of the characterisation presented in the figures below, of *i)* the level, evolution and types of asset encumbrance and connected sources of encumbrance, *ii)* the amount, evolution and credit quality of unencumbered but encumberable assets, and *iii)* the amount, development and types of additional encumbrance resulting from stress scenarios (contingent encumbrance).

Figure 4 | CGD Group's asset encumbrance







In the context of the regulatory liquidity risk reporting commitments, in 2019, the various levels of scrutiny and complexity of 2018 were maintained, as presented below:

- ⇨ *Liquidity Risk Monitoring Tool* (quarterly) –liquidity risk monitoring methodology developed by the ECB which includes the calculation of *i)* liquidity ratios, *ii)* survival periods, and *iii)* liquidity gaps;
- ⇨ *Additional Liquidity Monitoring Metrics (*monthly*)* – a set of additional liquidity monitoring metrics in accordance with Article 415(3)(b) of Regulation (EU) No. 575/2013, which includes quantitative data with respect to i*)* the breakdown of assets, liabilities and counterbalancing capacity by residual maturity terms of principal and interest, *ii)*concentration of funding by counterparty and product type, *iii)cost of funding*, *iv)* roll-over of funding, and *v)* concentration of counterbalancing capacity (net assets) by issuer/counterparty;
- ⇨ *Short-Term Exercises* (quarterly) –short-term data collection geared at providing essential information to the ECB's Supervisory Review and Evaluation Process, which, with regard to liquidity, includes information relating to the prudential liquidity ratio *Net Stable Funding Ratio* (NSFR);
- ⇨ *Downgrade Exercise of the Portuguese Sovereign* (annual frequency) – ECB monitoring exercise to assess the potential impact of the loss of eligibility of the Portuguese Sovereign debt for Eurosystem funding on the following dimensions: *i)* collateral available for Eurosystem funding, and *ii)*funding outflows, taking also into consideration the contagion effect on other Portuguese related instruments and of Caixa's rating and debt instruments issued by any of the Caixa Group's entities following the respective downgrade of its credit quality by 1-*notch* by the four ECB-approved rating agencies;
- ⇨ *Internal Liquidity Adequacy Assessment Process* (yearly frequency) –self-assessment exercise of the adequacy of the liquidity levels of credit institutions, that in compliance with Article 86 of Directive 2013/36/EU shall have robust strategies, policies, processes and systems for *i)* the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, and *ii)* the management and monitoring of funding positions, so as to ensure that institutions maintain adequate levels of liquidity buffers and an adequate funding structure;
- ⇨ *Liquidity Exercise* (yearly frequency) – daily monitoring model (five consecutive days) developed by the ECB for temporary use in real crisis situations, focusing on the most relevant liquidity data in such situations: *(i)* changes in the stock of customer deposits, wholesale funding, Eurosystem funding and liquid assets, *(ii)* breakdown of assets, liabilities and counterbalancing capacity by residual maturity terms of principal and interest, *(iii)* collateral

information, namely assets eligible for funding from the Eurosystem, *(iv)* top ten customer deposits and repurchase agreements counterparties, and *(v)* top ten intragroup funding transactions.

In addition to the Supervisor's close monitoring of banks' liquidity situations, the Liquidity Coverage Ratio (LCR) - liquidity standard stemming from the CRR/CRD IV (regulatory framework) - completed its fourth year of application in 2019, the following transitional provision applying:

- 60% of the liquidity coverage requirement as from 1 October 2015;
- 70% as from 1 January 2016;
- 80% as from 1 January 2017;
- 100% as from 1 January 2018.

In compliance with the Guidelines of the European Banking Authority on LCR disclosure to complement the disclosure of liquidity risk management under Article 435º of Regulation (EU) No.º 575/2013 (*EBA Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013* – GL-2017-01), the LCR disclosure template on LCR quantitative information is presented below, which aims to disclose the level and components of the Group's Liquidity Coverage Ratio.

Table 44 | Liquidity Coverage Ratio level and components

MAPPING TEMPLATE: LCR DISCLOSURE TEMPLATE - LCR SUPERVISORY TEMPLATES

Scope of consolidation (consolidated) / Currency and units (EUR million)		Total unweighted value				Total weighted value			
Quarter ending on (DD Month YYY)		31 March 019	30 June 019	30 September 019	31 December 019	31 March 019	30 June 019	30 September 019	31 December 019
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					16.213,08	17.358,80	18.478,20	19.611,19
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	57.693,65	56.360,16	56.064,20	55.445,64	4.240,27	4.063,49	3.959,23	3.843,51
3	*Stable deposits*	31.140,78	32.494,49	34.405,37	35.813,31	1.557,04	1.624,72	1.720,27	1.790,67
4	*Less stable deposits*	26.524,03	23.811,51	21.583,07	19.537,69	2.654,38	2.384,60	2.163,21	1.958,20
5	Unsecured wholesale funding	8.872,26	11.557,22	12.889,60	13.460,67	4.993,46	5.436,02	5.499,28	5.301,50
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	864,39	2.721,34	3.833,34	4.774,58	174,59	543,09	786,33	1.000,00
7	*Non-operational deposits (all counterparties)*	7.872,10	8.620,72	8.817,61	8.466,35	4.683,10	4.677,77	4.474,30	4.081,77
8	*Unsecured debt*	135,78	215,16	238,65	219,74	135,78	215,16	238,65	219,74
9	Secured wholesale funding					4,83	7,87	10,91	12,61
10	Additional requirements	2.525,03	2.860,14	6.052,03	8.698,36	778,30	1.095,09	1.686,00	1.997,55
11	*Outflows related to derivative exposures and other collateral requirements*	849,57	1.180,17	1.429,33	1.438,55	402,97	728,38	979,12	994,97
12	*Outflows related to loss of funding on debt products*	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
13	*Credit and liquidity facilities*	1.675,46	1.679,98	4.622,70	7.259,81	375,33	366,71	706,89	1.002,58
14	Other contractual funding obligations	1.026,98	949,61	866,83	715,89	922,76	840,88	749,96	600,63
15	Other contingent funding obligations	518,80	2.124,26	2.149,06	2.173,02	12,99	68,43	87,83	107,71
16	**TOTAL CASH OUTFLOWS**					10.952,63	11.511,79	11.993,21	11.863,51
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	182,21	214,84	279,41	291,26	164,52	185,02	248,96	229,57
18	Inflows from fully performing exposures	3.356,13	3.628,17	4.009,28	3.941,24	2.442,40	2.675,75	3.011,06	3.008,61
19	Other cash inflows	1.567,58	1.920,33	2.179,80	2.207,37	1.567,57	1.920,31	2.129,78	2.107,34
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0,00	0,00	0,00	0,00
EU-19b	(Excess inflows from a related specialised credit institution)					0,00	0,00	0,00	0,00
20	**TOTAL CASH INFLOWS**	5.105,93	5.763,34	6.468,49	6.439,87	4.174,49	4.781,08	5.389,81	5.345,53
EU-20a	***Fully exempt inflows***	1,03	1,03	1,03	1,03	0,97	0,97	0,97	0,97
EU-20b	***Inflows Subject to 90% Cap***	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
EU-20c	***Inflows Subject to 75% Cap***	5.104,90	5.762,30	6.467,46	6.438,83	4.173,52	4.780,10	5.388,84	5.344,55
						TOTAL ADJUSTED VALUE	TOTAL ADJUSTED VALUE	TOTAL ADJUSTED VALUE	TOTAL ADJUSTED VALUE
21	**LIQUIDITY BUFFER**					**16.213,08**	**17.358,80**	**18.478,20**	**19.611,19**
22	**TOTAL NET CASH OUTFLOWS**					**6.778,13**	**6.730,71**	**6.603,40**	**6.517,98**
23	**LIQUIDITY COVERAGE RATIO (%)**					241,85%	262,65%	285,51%	307,52%

The internally used method to determine the minimum level necessary for net assets is reflected in the Group's Risk Appetite Statement, namely in the appetite limits established for the liquidity hedging ratio.

As such, for the established/desired level of risk appetite for the LCR, the CGD Group's minimum net asset buffer amounted, on average, to EUR 8.6 billion during 2019, well below its observed value, despite the solid and stable retail deposit base and reduced dependence on wholesale funding, reflecting the Group's comfortable liquidity position.

With respect to the composition of the stock of liquid assets, it has historically included fundamentally cash and cash equivalents, central bank deposits and reserves (in excess of minimum mandatory reserves) and securities issued by sovereigns, showing the quality of the Group's liquid assets buffer also as regards its composition.

In summary, the measurement, monitoring and control of liquidity risk by CGD is materialised in a set of comprehensive metrics and serves various stakeholder objectives and reporting purposes, notably the Board of Directors, the Supervisor, the Risk Appetite (*Risk Appetite Statement/Risk Appetite Framework* – RAS/RAF) and the Liquidity Contingency Plan. All metrics are presented to and discussed with top management bodies prior to their use.

The table below shows the liquidity metrics currently used by CGD, as well as their reporting scopes and frequencies.

Table 45 | Liquidity risk monitoring metrics

Frequency	Metric	Management	RAS/RAF	Prudential Reporting	Liquidity Contingency Plan
Daily	Minimum cash reserve account stock gap	✓			
	Daily liquidity position	✓			
Monthly	Balance sheet structure by product type	✓			
	Credit to deposits ratio	✓	✓		✓
	Wholesale activity maturity profile	✓			
	Collateral available for ECB funding	✓	✓		✓
	Contractual liquidity Gaps	✓			
	Structural liquidity gaps	✓			✓
	Financing concentration	✓			✓
	Liquidity Coverage Ratio (LCR)	✓	✓	✓	✓
	Liquidity Coverage Ratio - Prospective	✓			
	Liquidity Coverage Ratio - Stressed	✓	✓		
	Buffer concentration and composition of HQLA	✓	✓		
	Intraday liquidity - Stress test	✓			
	Cost of wholesale funding	✓			✓
	Additional liquidity monitoring metrics (ALMM)	✓		✓	
Quarterly	Net Stable Funding Ratio (NSFR)	✓	✓	✓	✓
	Asset encumbrance	✓	✓	✓	✓
	Liquidity risk monitoring tool	✓		✓	
	Short term exercise - Liquidity	✓		✓	
	Survival period	✓			✓
Semi-annual	Funding and capital plan	✓		✓	
Yearly	Downgrade by rating agencies of PT sovereign instruments	✓		✓	
	Crisis management liquidity exercise	✓		✓	
	Funding plan - EBA	✓		✓	

Notwithstanding the problems observed in the money and capital markets since 2008, 2019 reinforced the trend towards stabilisation of the levels of confidence in the financial system experienced since 2013, enabling the strengthening of CGD's funding conditions. In particular, Caixa finalised the issue of senior non-preferred debt in the amount of EUR 500 million, as the market showed a high appetite for the name 'Caixa Geral de Depósitos' –and demand was more than 7 times higher than the available supply. This issue was part of the funding plan defined to ensure compliance with MREL (Minimum Requirements for own funds and Eligible Liabilities) established by Banco de Portugal, as decided by the Sole Resolution Board, also providing the institution with additional comfort in terms of liquidity position. It should also be noted that this was the first issue of this type of debt by a Portuguese bank, following the approval of its legal framework.

Throughout 2019, CGD pursued, as usual, a fund raising policy aimed at guaranteeing a sustainable funding structure for its activity, based on the liquidity and residual maturity term characteristics of its assets and off-balance sheet exposures.

IX.2 Interest Rate Risk

Interest rate risk is the risk incurred by a financial institution whenever it enters into transactions with financial flows sensitive to interest rate changes in the course of its activity. In other words, it is the risk that interest rate changes occur driving the decrease in the institution's profitability or the increase of its financial cost.

Interest rate risk falls within the broader category of market risks. In analytic terms, it is useful to distinguish different typologies of interest rate risk in order to more precisely isolate the source of the risk in the balance sheet structure of institutions. The types/sources of interest rate risk most frequently analysed are as follows:

- Repricing risk: arises from timing differences in the financial instruments' interest rate residual maturity and/or repricing. The transformation of maturities is at the heart of traditional bank activities: borrow short, lend long. Assuming as a typical situation a positive slope in the yield curve, this transformation, when assets and liabilities pay fixed rates, tends to be a relevant source of income for banks. In this context, in the case of sharp repricing mismatches, the bank's income and economic value are exposed to adverse movements as a result of interest rate changes and may compromise the profitability of institutions and their stability;
- Yield curve risk: refinement of the repricing risk approach in the sense that it allows for the possibility of non-parallel shifts in the yield curve;
- Basis risk: related to the lack of perfect correlation between rates received and paid on different instruments. Even on the assumption that the other characteristics of the financial instruments are similar, in particular repricing, movements in interest rates lead to non-anticipated changes in cash flows and in the income of assets, liabilities and off-balance sheet elements;
- Option risk: results from option clauses embedded in balance sheet or off-balance sheet instruments. Formally, an option provides the owner the right, but not the obligation, to buy, sell or in some manner alter the financial flow of an instrument. Many times this option is exercised as a response to changes in interest rates, with impact on the amount of interest rate risk to which a bank is exposed.

To measure this type of risk, the methodology adopted in CGD encompasses the accounting (or short-term) and economic value (or long-term) perspectives, and resorts either to simplified models of interest rate gaps (difference between assets, liabilities and off-balance sheet items sensitive to interest rate in each time band of a maturity/repricing schedule) and effective duration gaps (approximate percentage change in the price of a financial instrument for a 100 basis point change in rates), or to robust models of simulation techniques including the *Earnings at Risk* and the

Economic Value of Equity at Risk metrics (measurement techniques of the interest rate effects on the profit and loss account and on the economic value of banks, respectively).

The *Earnings at Risk* and *Economic Value of Equity at Risk* metrics support the CGD Group's stress testing programme in the context of the measurement of the interest rate risk in the banking book, which includes a variety of idiosyncratic and market adverse scenarios (individually and in combination) with a view to identifying sources of potential aggravated situations of interest rate risk exposure, and ensuring that the current exposure remains in compliance with the Institution's risk tolerance.

The range of different interest rate scenarios takes into account the nature, scale and complexity of the interest rate risk arising from the Group's activity as well as its risk profile, as listed below:

- ⇨ Sudden up and down parallel shifts in the yield curve of different magnitudes, namely± 50, ± 100, ± 200, ± 300 and ± 400 bps;
- ⇨ Sudden tilts and changes in the shape of the yield curve (for example short-term interest rates increasing/decreasing/remaining unchanged while medium-term and/or long-term interest rates move at a different pace or even in opposite direction. Additionally, even within the categories of short, medium and long term interest rates, shocks that diverge at different points of the yield curve must also be considered);
- ⇨ Basis risk (including that arising from changes in the relationships between key market rates);
- ⇨ Potential changes to the behaviour of different types of asset or liability under the chosen scenarios;
- ⇨ Specific interest rate scenarios for exposures in different currencies;
- ⇨ Scenarios based on the analysis of past behaviour of interest rates.

In this context, the results of the Group's net interest income and economic value sensitivities to the range of parallel and non-parallel interest rate scenarios included in the internal stress testing programme are presented in the figures below.

Figure 5 | Net interest income estimated sensitivity to interest rate changes

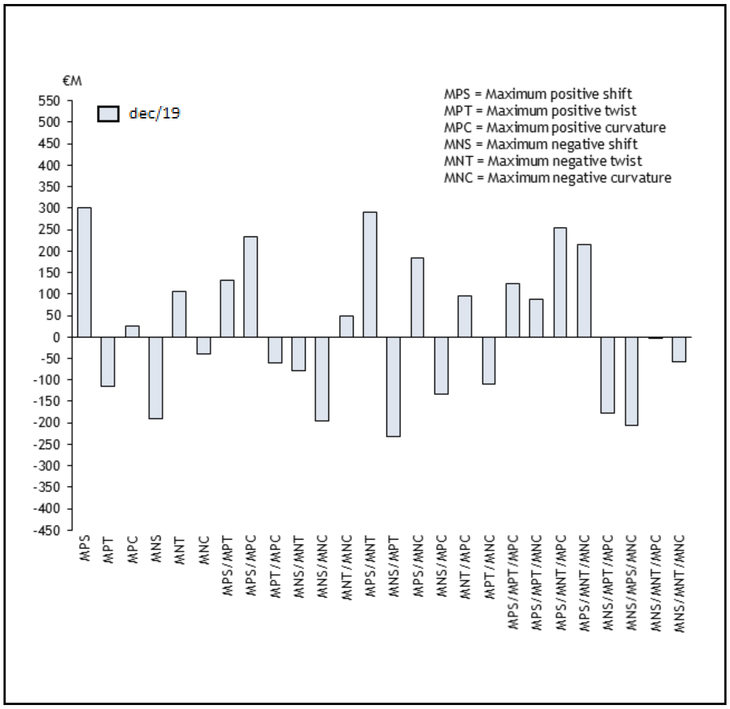
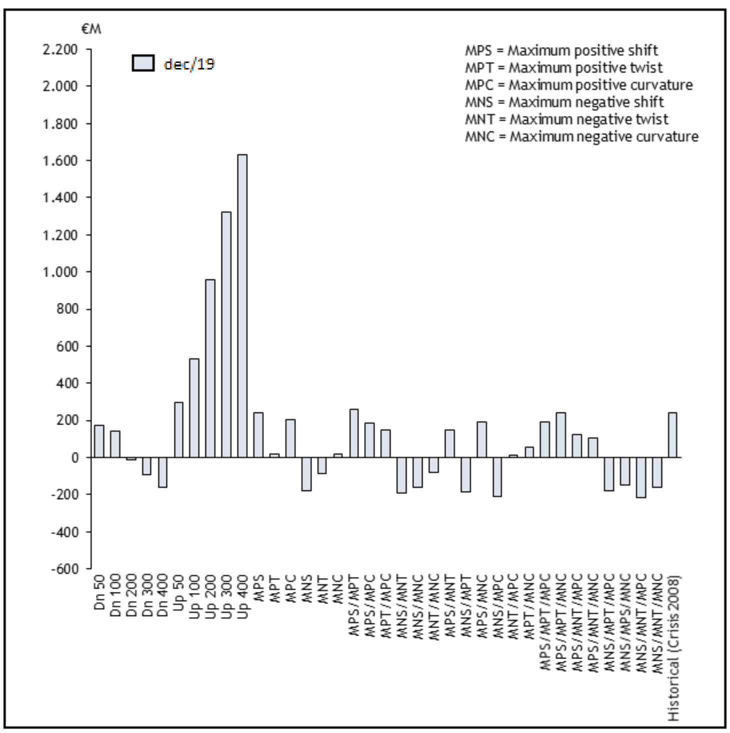
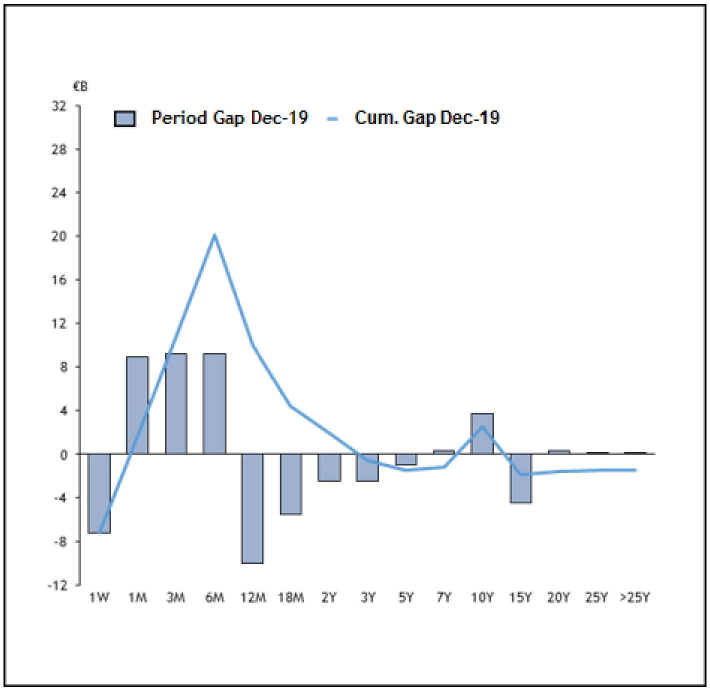


Figure 6 | Economic value of equity estimated sensitivity to interest rate changes



The analysis of the sensitivity graphs presenting the sensitivities of the net interest income and the economic value of equity to changes in interest rates particularly highlights the Group's exposure to falling rates, as evidenced by the Institution's repricing gap, below.

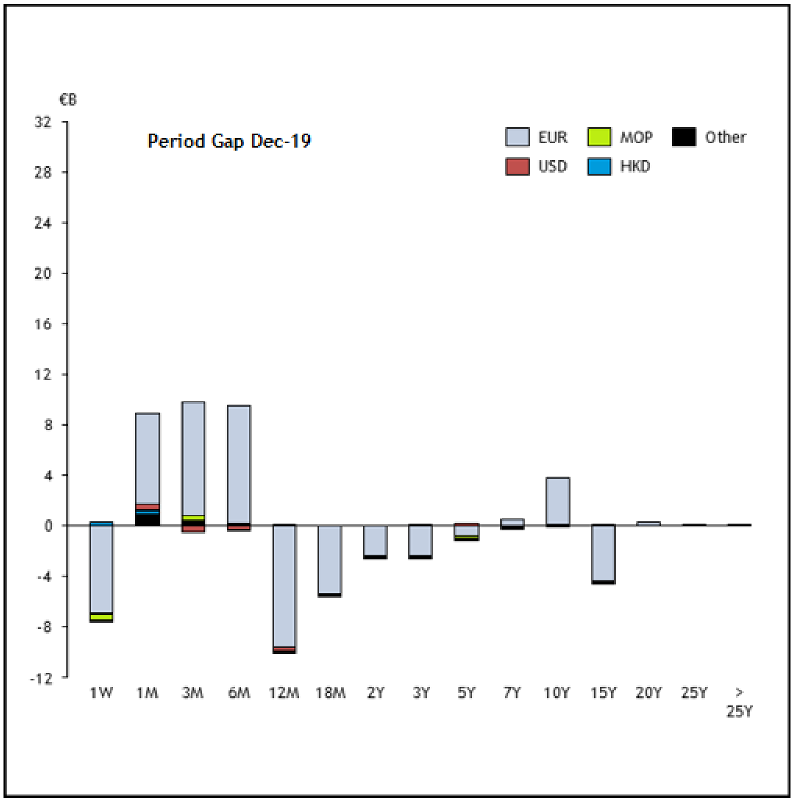
Figure 7 | Repricing gap – Direction of the impact of interest rate changes



The Group is essentially positively sensitive to the rise in interest rates up to the time interval of 2 years, recording a positive 12-month cumulative gap in line with the commercial policy of indexing a very significant part of the asset portfolio, namely the credit portfolio, to market rates, namely Euribor rates.

In addition, the contribution of the main currencies to which the Group is exposed to its interest rate risk exposure profile is reduced, as presented in the figure below.

Figure 8 | Repricing gap – Direction of the impact of interest rate changes by currency



The results presented in Figures 5, 6, 7 and 8 are 'sensitive' to the behavioural assumptions used to measure the CGD Group's interest rate risk, which are subject of a back testing framework that informs potential revisions to the models supporting the treatment of on and off-balance sheet items that have embedded options that could affect either the interest rate charged or the behavioural repricing date (as opposed to the contractual interest rate fixing date) of the relevant balances.

Specifically, the assumptions used by CGD relating to customer behaviour give particular consideration to the following:

- Mortgage loans prepayment assumptions driven by their residual maturity;
- Assumptions regarding products without contractually defined repricing dates, with highlight to the approximately 52% of retail deposits repricing in the time bands between 12 and 60 months.

The management and control of the interest rate risk in the banking book are supported by a set of *guidelines* that include the establishment of limits for the variables considered significant to the measurement of the exposure to the risk. The aim of complying with the guidelines is to ensure that CGD has, at all times, a means of managing the risk/return trade-off regarding balance sheet management and that, simultaneously, is able to secure the level of appropriate exposure and to control the results of the different policies and risk positions taken.

The table of internal limits for the level of exposure to interest rate risk in the banking book in force at the CGD Group (on a consolidated basis) includes the following metrics:

a) Impact on the results of the *repricing gap* accumulated at 12 months for an instantaneous parallel shift in the yield curve of a magnitude of ±50 *basis points*;

b) Impact on the economic value of capital of an instantaneous parallel shift in the yield curve of a magnitude of ±50 *basis points*, measured as a percentage of the Group's Own Funds;

c) Impact on the economic value of capital of an instantaneous parallel shift in the yield curve of a magnitude of ±200 *basis points*, measured as a percentage of the Group's Own Funds ('EBA outlier test');

d) Impact on the economic value of capital of the yield curve shifts provided for in Annex III of the European Banking Authority's Guidelines – EBA/GL/2018/02 (*Guidelines on the management of interest rate risk arising from non-trading book activities*), measured as a percentage of the Group's Own Funds (*Tier* 1) ('EBA outlier test');

e) Internal capital allocated to the interest rate risk in the banking book.

Compliance with the interest rate risk appetite of the CGD Group's banking book substantiates the respective interest rate risk management strategy, as revised and approved by CALCO in June of 2019. In the context of the banking book, the following risk factors and their mitigation strategies (when applicable) stand out:

1) In terms of business activity:

Loans granted to customers represent the largest component of assets sensitive to interest rate changes. The predominance of floating-rate or short-term transactions implies that the proportion of credit included in the 12-month accumulated repricing gap is extremely significant.

Repricing risk is mitigated by the volume, also significant, of liabilities also at floating rates or with short maturities, which contribute to mitigate the size of the 12-month accumulated repricing gap. These liabilities include customer deposits, and also typically include resources from central banks and other credit institutions, as well as issues of liabilities securitised at a floating rate or with a residual maturity under 12 months.

However, the high weight of the component of demand deposits or savings deposits with no defined maturity in the Institution's liabilities translates into the setting of a date for a behavioural interest rate, which is extended for medium- and long-term *tenors*.

The combination of the characteristics described in terms of credit level and deposits is reflected in a positive 12-month accumulated repricing gap. A fall in interest rates is, therefore, an unfavourable scenario for the evolution of the net interest income.

The extremely low, even negative, levels of Euro interest rates accentuate the potential negative impact of possible rate drops, in a context of asymmetric legal treatment in terms of adjustments to rates in force for credit and deposits. This risk is mitigated by the introduction of the contractual clause that sets a zero floor for the value of the market index, in the context of credit granted to companies in Portugal.

In turn, medium- and long-term fixed-rate loans, with maturities over 12 months, have a smaller weight on the Group's balance sheet, with an impact on the metrics of the economic value of capital, depending on their duration. The associated interest rate risk is mitigated by the existence of fixed-rate liabilities with maturities also exceeding 12 months, both in contractual terms, as is the case with term deposits, securitised debt issues or dedicated financing lines, and in terms of the date of setting a behavioural interest rate, as in the case of demand deposits or savings deposits without defined maturities. Thus, the management of the interest rate risk implicit in medium- and long-term fixed-rate credit operations is carried out in the context of the aggregate balance sheet, i.e. considering the mitigating effect associated with the existence of 'natural hedges' in the balance sheet.

However, it is possible to decide to contract specific hedges for the interest rate risk associated with a loan (micro-hedging) or a set of loans (macro-hedging) either at the time of contracting or at a later time, using derivative instruments. The decision shall be supported by a case-by-case analysis to that effect, which shall take into account *i)* the overall management of the interest rate risk inherent to the Institution's balance sheet, and *ii)* in the case of loans to businesses, the intrinsic characteristics of the operations contracted, considering the interest rates in force and the expectations for their evolution.

It should be noted that loans are recorded in CGD's balance sheet at amortised cost, whereas derivatives are recorded at fair value, so fluctuations in market interest rates have an impact on the results of financial operations in terms of hedging, but have no impact on the value of the hedged assets.

Market risk resulting from the contracting of derivative instruments to hedge assets at amortised cost is monitored by CGD's Risk Management Division, as part of the monitoring of the market risk incurred by the CGD Group, whether or not those assets are part of the Group's banking book.

The offering of structured deposits is a particular case in terms of interest rate risk hedging, as it provides a remuneration indexed to the performance of an underlying asset, namely *i)* the evolution of market interest rates (e.g. Euribor), *ii)* the behaviour of the equity segment (indexes, baskets of shares, or company shares), or *iii)* the evolution of foreign exchange rates, and may or may not guarantee a minimum remuneration equal to zero. Due to the nature of the product, structured deposits are subject to specific hedging with instruments that are appropriate to the risks underlying their remuneration, which include interest rate risk.

2) In terms of the shareholding activity:

Debt securities held in the balance sheet constitute the second largest component of sensitive assets. The securities included in the perimeter of the banking book are mostly medium--long term and essentially fixed rate.

The balance sheet exposure to this type of assets is subject to the Group's risk appetite, which establishes limits to the holding of sovereign debt, as well as on its duration, which reduces the interest rate risk incurred in longer maturity tenors, and, consequently, the sensitivity of the capital and the economic value of capital to adverse changes in interest rates.

The interest rate risk inherent to these positions must also be framed within the respective risk appetite metrics in the context of the banking book.

Debt securities included in the banking book may be classified at amortised cost, or at fair value through reserves (*FVTOCI – Fair Value Through Other Comprehensive Income*).

The portfolios of securities in the banking book at fair value through reserves are additionally regulated by guidelines which establish, among other rules, limits to the interest rate risk in which the Institution may incur, measured in terms of Value at Risk (VaR) and Basis Point Value (BPV) metrics. In these cases, interest rate risk management is subject to a specific active strategy and hedging operations are carried out to ensure compliance with the limits established in the guidelines, without prejudice to the inherent risk being considered for the balance sheet's total exposure and, therefore, for metrics of exposure to the interest rate risk of the banking book, and the respective risk appetite.

The hedging of the interest rate risk associated with securities portfolios at fair value through reserves allows limiting the impact on capital resulting from depreciation in the value of assets in a scenario of rising market interest rates, as well as on the economic value of capital. The purpose of such hedging is solely to manage interest rate risk and, therefore, does not mitigate the issuer's credit risk. Adverse oscillations in the spread (risk premium) between the return on the asset and the base interest rate associated with the hedging instrument translate into a deterioration in the market value of the asset and/or the value of the respective hedge.

In addition, if 'hedge accounting' is not used in the context of the hedged item (security)/hedging instrument (derivative) relationship, changes in interest rates, even if synchronous between the asset and the hedge (i.e. the spread between the asset's rate of return and the base interest rate associated with the hedging instrument remaining constant), may induce volatility in terms of the results of financial operations, an item that reflects changes in the value of hedges, with changes in the value of securities being recognised in reserves.

Debt securities classified at amortised cost with a shorter term or with a variable interest rate type, due to their short duration, are not subject to specific hedging.

Medium-long term, fixed interest rate debt securities classified at amortised cost contribute to the exposure to interest rate risk, as per their duration. The risk incurred is controlled by the duration limits set for the sovereign debt portfolios. These portfolios are not usually hedged against interest rate risk, but are instead managed in the context of the aggregated balance sheet, i.e., considering the mitigating effect associated with the existence of 'natural hedging' in the balance sheet..

However, the Institution may decide to contract specific hedging for the interest rate risk associated with a given security or *portfolio*, either at the time of their acquisition or at a later time. The decision shall be supported by a case-by-case analysis to that effect, which shall take into account *i)* the overall management of the interest rate risk inherent to the institution's balance sheet, and *ii)* the current interest rate environment and the expectations for its evolution. It should be noted that, in this case, securities are recognised in CGD's balance sheet at amortised cost, while hedges using derivative instruments are recognised at fair value, so fluctuations in market interest rates have an impact on the results of financial operations in terms of the hedging, but have no impact on the value of the hedged assets.

Market risk resulting from the contracting of derivative instruments to hedge assets at amortised cost is monitored by CGD's Risk Management Division, as part of the monitoring of the market risk incurred by the CGD Group, whether or not those assets are part of the Group's banking book.

Assets relating to investments with central banks or in the interbank market, given their usual short maturity, are not usually subject to interest rate risk hedging. However, a decision to hedge on a case-by-case basis may be taken in the context of the overall management of the institution's balance sheet interest rate risk.

Issues of securitised liabilities made by CGD that include some type of structuring, namely the indexation of the respective coupon to an instrument other than an interbank market rate (for example, Euribor), are subject to specific hedging.

Securitised liability issues by CGD of the 'plain vanilla'" type are not usually hedged against interest rate risk, but are managed in the context of the aggregated balance sheet, i.e. taking into account that such issues are 'natural hedges' of fixed-rate assets on the balance sheet. The same is true of the dedicated financing lines obtained by CGD, for example from the EIB.

However, the Institution may decide to contract specific hedges for the interest rate risk associated with an issue or dedicated financing line either at the time of its origination/contracting or at a later time. The decision shall be supported by a case-by-case analysis to that effect, which shall take into account *i)*the overall management of the interest rate risk inherent to the institution's balance sheet, and *ii)* the current interest rate environment and the expectations for its evolution.

Liabilities obtained from central banks or in the interbank market, given their usual short maturity, are not usually subject to interest rate risk hedging. However, a decision to hedge on a case-by-case basis may be taken in the context of the overall management of the institution's balance sheet interest rate risk.

In order to ensure the pursuit of the interest rate risk management strategy, and to mitigate interest rate risk through hedging, the level of exposure to balance sheet interest rate risk may be adjusted using, in general terms, the set of available interest rate risk management instruments, including , -, interest rate swaps, cross-currency interest rate swaps, interest rate futures, interest rate forwards, caps, floors or swaptions, to the extent that they are necessary to manage the interest rate risk resulting from the Institution's commercial and shareholding activities.

The change in the constitution of the proprietary components of the balance sheet is another approach that can be implemented in the management of interest rate risk, namely through changes in the size or profile of the portfolio of securities held, or in the interest rate typology selected when contracting wholesale liabilities.

The information suite supporting the measurement and monitoring of the interest rate risk in the banking book is appraised monthly by the Executive Committee and at CALCO meetings. Therefore, and in compliance with the guidelines of the European Banking Authority regarding the management of interest rate risk resulting from activities not included in the trading book (EBA/GL/2018/02), namely paragraph 68, the systematic reporting to CALCO of the banking book interest rate risk includes the following contents:

1) From the point of view of income, short-term or accounting:
    a. Evolution of the CGD Group's profile of exposure to interest rate (repricing risk) , showing the contribution of each Group entity, as well as the main currencies to which the Group is exposed;
    b. Evolution of the impact on the Group's net interest income of its profile of exposure to interest rate repricing risk;
    c. Projection of the Group's net interest income for the next 12 months (extended until the end of the 'management' year, whenever relevant) in a base scenario of business and interest rate evolution, respectively supported by the Financing and Capital Plans of the Group's entities and by the forward rates implicit in the spot interest rate curve, showing the contribution of each Group entity;

d. *Back testing* of the Group's net interest income projections for the next 12 months (extended until the end of the 'management' year, whenever relevant), comparing the figures projected in various simulation exercises with the actual figures;

e. Evolution of the sensitivity of the net interest income for the next 12 months to 37 interest rate stress tests, in order to identify sources of potential aggravated exposure to interest rate risk, and ensure that the current exposure remains in line with the Group's risk tolerance. Evaluation of the test scenarios that cause the three worst impacts on the net interest income, in view of the Group's risk exposure profile;

   Interest rate scenarios take into consideration the nature, scale and complexity of the exposure to interest rate risk arising from the Group's activity, as well as its risk profile, and include *i)* parallel shifts in the yield curve of ±50 bps, ±100 bps, ±200 bps, ±300 bps and ±400 bps, *ii)* basis risk, including that arising from changes in the ratio between the main market rates, *iii)* specific interest rate scenarios for exposures to different currencies, *iv)* a historic scenario that intends to reflect the sharp drop in interest rates during the global financial crisis of 2007-2008, specifically the maximum change observed in the period from January 2008 to December 2009, and *v)* interest rate scenarios supported by a statistical analysis of their historic behaviour.

   It should be noted that interest rate scenarios for Euro curves that result in values below -0.50% when the maturities of those curves are greater than or equal to 18 months are subject to an interest rate floor of -0.50%, assuming that there is no financial rationale for the application of surplus liquidity by market agents at prices below the European Central Bank's liquidity absorption rate. In view of the volatility underlying the short terms of yield curves, it is considered, from a conservative point of view,that the value of interest rates at those maturities may occasionally fall below the said rate of liquidity absorption;

f. Evaluation of the impact of the various sources of interest rate risk on the sensitivity of the net interest income financial margin, namely index risk (basis risk) and option risk (materialised in the early repayment of variable-rate housing loans);

g. Assessment of potential changes in the behaviour of different types of assets or liabilities *vis-à-vis* the interest rate scenarios chosen, namely the right of a depositor to withdraw/transfer his deposit into higher yield products.

2) From the perspective of economic value, or long-term:

   a. Evaluation of the effective duration gap, highlighting the contribution of each Group entity;

   b. Evolution of the economic value of capital and its components;

c. Evolution of the sensitivity of the economic value of capital to 37 interest rate stress test scenarios, in order to identify sources of potential aggravated exposure to interest rate risk, and ensure that the current exposure remains in line with the Group's risk tolerance. Evaluation of the test scenarios that cause the three worst impacts on the economic value of capital, in view of the Group's risk exposure profile. The set of interest rate scenarios corresponds to that used from an accounting perspective to measure the interest rate risk of the banking book;

d. Assessment of the impact of option risk (materialised in the early repayment of variable-rate housing loans) in the economic value of capital.

3) Monitoring of the Group's compliance with the policies and limits established for interest rate risk in the banking book.

In the context of interest rate risk regulatory reporting requirements, the European Central Bank's supervision model, within of the Single Supervisory Mechanism (SSM) framework, the European Central Bank conducts quarterly 'Short-Term Exercises' encompassing short-term data collection geared at providing essential information to the Supervisory Review and Evaluation Process (SREP). With regard to the interest rate risk in the banking book, the Supervisor's requirements include *i)* the breakdown of assets, liabilities and off-balance sheet positions by residual maturity and/or repricing dates, and *ii)* analyses of the net interest income's and the economic value of equity's sensitivity to parallel shocks in interest rates of ±200*bps*, as well as to non-parallel shocks.

X. Market Risk

This chapter aims to comply with the duties to disclose information, as per Article 445 of the CRR.

X.1 Qualitative data

On 31 December 2019, the CGD Group applied exclusively the Standardised Approach to all sub-portfolios considered in the trading book, when determining the Own Funds requirements for hedging general and specific risk stemming from debt and capital instruments, as well as for trading financial derivatives.

For debt instruments, the own funds requirements for general market risk – which measures the risk of loss caused by unfavourable interest rate fluctuations –, were calculated using the method based on the maturity date, in accordance with Subsection 2, Section 2, Chapter 2, Title IV, Part III of Regulation (EU) No. 575/2013. Concerning specific risk, which measures the risk of losses as a result of factors associated with its issuer (e.g. solvency, declining profitability, etc.), the own funds requirements were calculated according to the method described in Subsection 1, Section 2, Chapter 2, Title IV, of the same regulation.

With regard to equity instruments, the calculation of capital requirements for general risk, which measures unfavourable developments in the equity market, is based on the method described in Section 3, Chapter 2, Title IV, Part III of Regulation (EU) No. 575/2013. For these instruments, specific risk is determined in accordance with Article 343 of the same regulation.

Regarding Own Funds requirements referring to foreign exchange risk, the CGD Group applied the Standardised Approach prescribed in Chapter 3, Title IV, Part III of Regulation (EU) No. 575/2013. This method consists of applying a weighting of 8% (or 4% for strictly correlated currencies[9]) to the sum of the overall net foreign exchange position and the net position in gold if this sum exceeds 2% of the total Own Funds.

At the end of 2019, the CGD Group's portfolio had no positions subject to Own Funds requirements for commodity risk.

X.2 Quantitative data

In quantitative terms, the amount of Own Funds requirements determined for the trading book, by applying the Standardised Approach to debt, equity and foreign exchange rate instruments amounted to EUR 107 million on 31 December 2019. Compared to December 2018, a decrease in own funds requirements of around 10% was recorded, justified by the reduction in capital requirements of debt instruments and the exchange rate position.

With respect to foreign exchange rate risk, the CGD Group determines own funds requirements, as its global net position (EUR 805 million) is above the 2% threshold of the Group's total Own Funds (around EUR 173 million).

[9] The currencies considered strictly correlated are, among others, the Hong Kong Dollar, the Macau Pataca and the US Dollar, according to the list published on the EBA website (https://www.eba.europa.eu/documents/10180/529426/ITS+Annex+1+updated.pdf)

Table 46 | Market risk under the standardised approach (EU MR1)

	RWA	Capital requirements
Outright products		
Interest rate risk (general and specific)	655.150	52.412
Equity risk (general and specific)	27.099	2.168
Foreign exchange risk	642.946	51.436
Commodity risk	0	0
Options		
Simplified approach	0	0
Delta-plus method	8.499	680
Scenario approach	0	0
Securitisation (specific risk)	0	0
Total	**1.333.695**	**106.696**

Values in thousand euros

XI.1 Qualitative data

Operational risk corresponds to the risk of negative impacts on earnings or capital resulting from failures in the analysis, processing or settlement of operations, internal and external fraud, use of outsourced resources, ineffective internal decision-making processes, insufficient or inadequate human resources and situations of infrastructure downtime.

This is a transversal risk to the various processes developed, and is mitigated through the implementation of adequate control and mitigating procedures.

The CGD Group's operational risk management is based on a process view (end-to-end) and is supported by a series of guidelines, methodologies and regulations recognised as best practices on a national and international level.

In terms of calculating own funds requirements for hedging operational risk, the CGD Group adopts the standardised approach on a consolidated basis. On an individual basis, this method is also adopted by Caixa Geral de Depósitos, Caixa Banco de Investimento and Caixa Leasing and Factoring.

The methodology adopted by the Group for operational risk management incorporates a series of components, namely:

- ⇨ Setting and monitoring tolerance limits and risk appetite;
- ⇨ Identifying operational risks supported by process, risk and control mapping, the analysis of new products and services, and the monitoring of subcontracted activities;
- ⇨ Decentralised collection of operational risk events, losses and recoveries, reinforced and supported by control procedures;
- ⇨ Self-assessment of potential operational risks and the respective controls;
- ⇨ Setting and monitoring of key risk indicators;
- ⇨ Streamlining training and information disclosure programmes through an internal reporting system which includes the regular holding of Committees and the disclosure of regular reports for the Group's various structures;
- ⇨ Identifying, setting forth and implementing action plans as a corollary of the remaining components of the methodology. With regard to mitigating operational risk, each CGD Group entity must ensure the development and implementation of mitigation plans that are appropriate to the significance of the operational risks identified.
- ⇨ Existence of an internal reporting system for the various levels of the organisation, that includes operational and management information and is properly documented.

At an organisational level, the CGD's operational risk management is ensured by the following structures and roles with specific responsibilities in this process:

- ⇨ Executive Committee of the Board of Directors (global coverage of risk management);
- ⇨ Risk Committee, responsible for monitoring the fulfilment of the corporate policy for operational risk and risk appetite limits;
- ⇨ Business Continuity, Operational Risk and Internal Control Executive Board (CDCRC)[10], a body responsible for coordinating, assessing and discussing issues relating to operational risk and Group-wide internal control deficiencies;
- ⇨ Unit exclusively dedicated to operational risk management, part of the DGR, responsible for developing and implementing strategy and policies, ensuring that operational risk is being adequately managed, coordinating with the other Divisions, Branches and Subsidiaries in order to ensure that the Group's entities' practices are harmonised; This area is also responsible for guaranteeing the implementation of CGD's Business Continuity strategy, through global coordination and planning of activities relating to Business Continuity Management and ensuring the supervision of these issues in the Group's Entities;
- ⇨ Process Owners, who are tasked with facilitating and streamlining the operational risk management process in their respective scopes of intervention;
- ⇨ The following structures are also involved:
    1. Organisational and Quality Division (DOQ) (process management and documentation, cataloguing/mapping the Group's processes);
    2. Compliance Division (compliance risk management);
    3. Accounting, Consolidation and Financial Information Division (calculating and reporting capital requirements);
    4. Information Systems Division (information systems risk management and evaluating the internal control of information systems supported by the Cobit method);
    5. Internal Audit Division (evaluating internal control procedures and revising the measuring system and management process).

This methodology is adopted by CGD and the respective Branches, Domestic Subsidiaries (Caixa Gestão de Ativos, Caixa Banco de Investimento and Caixa Leasing e Factoring) and Foreign

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[10] In 2020, the Operational Risk Committee (CROP) was replaced by the Business Continuity, Operational Risk and Internal Control Executive Board (CDCRC).

Subsidiaries (Banco Nacional Ultramarino, Banco Comercial e de Investimentos, Banco Comercial do Atlântico, Banco Interatlântico, BCG Brasil and BCG Angola).

Given the consolidation stage of the Business Continuity Management System (SGCN), in January of 2019, CGD completed its certification under international standard ISO 22301:2012 Business Continuity Management System. This certification was already renewed at the end of 2019, following an audit conducted by the British Standards Institution (BSI), a specialised entity.

With the renewal of this certification, CGD confirms that Business Continuity principles and best practices are assured and implemented and that it, thus, remains resilient and able to respond to potential threats to its business.

In terms of the Group, Caixa continues to monitor and develop projects of supporting/executing the framework of best practices produced by the Bank of Portugal (circular letter No. 75/2010) with its Foreign Entities, having focused, in the current financial year, on remotely supporting its Entities and its respective report to the regulator.

With regard to own funds requirements for operational risk, regulatory provisions, namely Regulation (EU) No. 575/2013 of the European Parliament and of the Council, set forth that Credit Institutions must determine own funds requirements for operational risk, in accordance with one of three distinct approaches: The Basic Indicator Approach, the Standardised Approach or the Advanced Measurement Approach.

On 31 December 2019, the CGD Group calculated its own fund requirements for operational risk following the Standardised Approach, which, as set forth in the aforementioned Regulation, is the result of the three-year average of the relevant indicator, weighted by risk, calculated each year relating to one of the following activity segments:

- ⇨ Corporate finance (weight of 18%);
- ⇨ Trading and sales (weight of 18%);
- ⇨ Payment and settlement (weight of 18%);
- ⇨ Commercial banking (weight of 15%);
- ⇨ Agency services (weight of 15%);
- ⇨ Retail banking (weight of 12%);
- ⇨ Retail brokerage (weight of 12%);
- ⇨ Asset management (weight of 12%).

The relevant indicator is determined as follows:

(+) Interest and similar income

(-) Interest payments and similar expenses

(+) Share revenue and other variable/fixed payment bonds

(+) Commissions earned

(-) Commissions paid

(+/-) Result of financial operations

(+) Other Operating Income

The nature of the costs and income and respective account line items that contributed to calculating the relevant indicator, in compliance with the parameters established in Chapter 3 Title III of Regulation (EU) No. 575/2013, were:

Line Item	Nature
66	Interest and similar costs
67	Commissions paid from items carried at amortised cost
68	Other commissions paid
69	Losses on financial transactions
79	Interest and similar income
80	Commissions received from items carried at amortised cost
81	Other commissions received
82	Income from equity instruments
83	Gains on financial transactions
84	Other income and operational revenues

Regarding the attribution criteria by segment, the following should be noted:

- All activities are distributed into previously identified activity segments, so that each activity corresponds to just one segment and that none are excluded;
- Any activity that cannot be directly incorporated in any of the established activity segments, but represents an auxiliary role in an activity included in one of said segments, is incorporated in that segment;

- If an activity cannot be incorporated into a specific activity segment, it is incorporated into the one to which the highest percentage corresponds;
- The distribution of activities into segments, for the purpose of determining own funds requirements for operational risk hedging, is consistent with the categories used for credit and market risks;
- The distribution of activities between the 'Commercial Banking' segment and the 'Retail Banking' segment is based on the commercial network criterion that manages clients (the 'Retail Banking' segment is encompassed within the activity of Individuals and Business Banking; the segment 'Commercial Banking' is encompassed as part of the activity of Corporate Banking, Large Corporate Banking and Institutional Banking);
- Clients managed by Individuals and Business Banking, with gross exposure (total credit, gross of provisions + unused credit limits + other off-balance sheet balances) greater than or equal to EUR 1 (one) million, are integrated into the “Commercial Banking” segment;
- The institution turns to internal methods to determine the funding cost, with opportunity costs and income generated by its operations being reflected in the net interest income-generating segments.

XI.2 Quantitative data

The calculation of own funds affecting operational risk, on a consolidated basis, following the Standardised Approach is as follows:

Table 47 | Capital requirements for Operational Risk

Activities	2017	2018	2019	Own funds requirements
Standardised approach				
Corporate financing	127.641	127.302	135.473	
Trading and sales	1.039.005	618.396	579.002	
Retail brokerage	21.479	24.968	32.518	
Commercial banking	284.233	334.314	281.174	310.416
Retail banking	556.277	595.979	529.082	
Payment and settlement	130.251	168.188	172.998	
Agency services	13.640	17.355	16.317	
Asset management	54.540	52.588	61.798	

Values in thousand euros

XII.1 Qualitative data

Equity exposures in the Banking Book are segmented in accordance with three macro-objectives, namely: divestment positions; strategic investments, and other financial participations. These are essentially positions in variable-income securities or investment funds, without access to any trading platform and characterised by low or no market liquidity. Investments in shares or financial assets whose value depends on the price of an Investment Portfolio share are not authorised, as set forth in the internal guidelines.

The Group's Banking Book includes equity exposures accounted as 'Financial assets designated at fair value through profit or loss (Fair Value Option)', 'Financial assets mandatorily at fair value through profit or loss' and 'Financial assets at fair value through other comprehensive income'. In view of the illiquidity of the securities, the application of fair value to equity positions in the banking book is subject to case-by-case criteria for the acceptance of valuations, which includes a critical intervention on the valuations obtained using the model and on the net asset value disclosed by management companies and explicit top management approval of the valuation of any material positions.

Equity exposures classified as 'Financial assets designated/mandatorily at fair value through profit or loss' are accounted at fair value, with the earnings and losses generated by the subsequent valuing being reflected in the income for the financial year, under 'Net trading income'.

Equity exposures classified as 'Financial assets at fair value through other comprehensive income' are measured at fair value, but the earnings and losses resulting from reassessment are accounted directly in capital, under 'Fair Value Reserves'.

When sold, or if impairment is recognised, the accumulated changes in the fair value are transferred to the financial year's revenue and costs, and accounted under 'Net trading income' or 'Impairment of other assets (net of reversals)', respectively.

Dividends are recorded as revenue under 'Income from equity instruments' when the Group's right to its payment is established.

Equities' fair value is determined by an internal regulation, under the responsibility of a CGD division that independent from the management function, based on:

- ⇨ Closing price at the reporting date, for instruments traded on active markets;
- ⇨ Prices charged by independent entities on materially relevant transactions during the last six months;
- ⇨ Multiples of comparable companies in terms of operating sector, dimension and profitability;
- ⇨ Asset value;

⇨ Case-by-case analysis.

XII.2 Quantitative data

In compliance with the provisions in Article 447 of the CRR, the table below presents the types, nature and amounts of equity exposure values not included in the trading book on 31 December 2019.

Table 48 | Equity exposures not included in the trading book

Equity exposure (banking book)	Quoted shares		Unquoted shares Private Equity		Other capital instruments		TOTAL	
	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018
Acquisition Cost / Notional Value	8.018	7.676	191.738	197.213	0	0	199.756	204.890
Fair value	43.123	33.216	207.226	211.883	0	0	250.349	245.100
Market value	43.123	33.216	0	0	0	0	43.123	33.216
Income from sales and settlements	0	6.170	820	-30	0	0	820	6.141
Total unrealized gains or losses	35.105	22.016	15.488	14.691	0	0	50.593	36.706
Total gains or losses inherent to latent revaluations	0		0	0	0	0	0	0

Note: Shares issued by the institution itself and derivatives of such shares are not included. *Values in thousand euros*

XIII. Remuneration

In terms of remuneration, the Remuneration Committee of the General Meeting (CRAG) is responsible for setting the remuneration of the members of the company's corporate bodies, in its fixed and variable components, in compliance with the Remuneration Policy for Members of Management and Supervisory Bodies (Remuneration Policy)[11].

This committee is also tasked with [12]ensuring compliance with legal and regulatory requirements, particularly with regard to the definition and implementation of the remuneration policy.

In turn, the Appointments, Assessment and Payment Committee (CNAR) is tasked with supporting and advising the CA on appointing and setting remuneration for the corporate bodies of the other companies belonging to the CGD Group and CGD employees with a directive status which report directly to the CA or any of its committees (including the Executive Committee).

This special committee is also responsible for issuing opinions to be submitted to the Payment Committee of the General Assembly with regard to the setting of the variable component of payment to members of the Executive Committee[13].

In the course of 2019, CRAG and CNAR held 6 and 17 meetings, respectively.

In compliance with the provisions of Article 450 of the CRR, CGD discloses, in the 2019 Annual Report and Accounts (Item 3.7 - REMUNERATIONS), information concerning its remuneration policies and practices applicable to staff categories whose professional activities have a significant impact on its risk profile.

Complementing this information, the tables below present quantitative data on the payment of senior management and staff members whose shares have a significant impact on the institution's risk profile (Holders of Relevant Functions). The process of identifying Relevant Functions Holders complies with Executive Regulation (EU) No. 604/2014, and the Human Resources Division is responsible for undertaking the annual process of identifying Holders of Relevant Functions at CGD.

On this date, the variable remunerations of CGD's relevant function holders have not yet been approved and it is, therefore, not possible to disclose this information.

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[11]The Remuneration Policy is disclosed on the CGD website: https://www.cgd.pt/Institucional/Governo-Sociedade-CGD/Remuneracoes/Documents/Politica-de-Remuneracoes-Orgaos-Sociais-CGD.pdf

[12] For more information on the competencies of this Committee, please refer to Chapter 3.5. – Corporate Bodies and Committees, item 'General Assembly Remuneration Committee' of the Annual Report and Accounts..

[13] For more information on the competencies of this Committee, please refer to Chapter 3.5. – Corporate Bodies and Committees, item 'Appointments, Assessment and Remunerations Committee (CNAR)' of the Annual Report and Accounts.

Table 49 | Remuneration of Identified Persons

	Non-Executive Directors	Executive Directors	Investment banking	Retail banking	Asset management	Corporate functions	Independent management functions	Other areas	Total identified
No. Of beneficiaries	**52**	**48**	**28**	**33**	**9**	**18**	**56**	**89**	**333**
Fixed remuneration in 2019	**1.540**	**10.627**	**3.072**	**4.049**	**688**	**2.229**	**4.096**	**8.479**	**34.780**
Cash	1.540	10.611	3.022	4.040	679	2.225	4.084	8.453	34.655
Shares or related instruments	0	0	0	0	0	0	0	0	0
Other instruments	0	16	50	9	9	4	12	25	125
Variable remuneration	**0**	**96**	**132**	**30**	**0**	**9**	**110**	**310**	**687**
Cash	0	96	132	30	0	9	110	310	687
Shares or related instruments	0	0	0	0	0	0	0	0	0
Other instruments	0	0	0	0	0	0	0	0	0
Variable remuneration attributed and deferred in the period (2019)	**0**	**136**	**12**	**17**	**0**	**0**	**3**	**9**	**178**
Cash	0	136	12	17	0	0	3	9	178
Shares or related instruments	0	0	0	0	0	0	0	0	0
Other instruments	0	0	0	0	0	0	0	0	0
Total amount of deferred variable remuneration, unpaid and attributed in periods prior to 2019	**0**	**1.907**	**83**	**189**	**50**	**141**	**149**	**350**	**2.870**
Non-acquired parts	0	1.907	83	189	50	141	149	350	2.870
Acquired parts	0	0	0	0	0	0	0	0	0
Ajuste explícito de exposição para desempenho aplicado no ano para os pagamentos acumulados em exercícios anteriores	0	0	0	0	0	0	0	0	0
Number of beneficiaries of severance pay due to end of functions	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total amount of severance pay	0	0	0	0	0	0	0	0	0
Maximum amount paid to a single person	0	0	0	0	0	0	0	0	0
Number of beneficiaries of sign on payments due to start of functions	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total amount of sign on payments	0	0	0	0	0	0	0	0	0
Maximum amount paid to a single person	0	0	0	0	0	0	0	0	0

Values in thousand euros

Table 50 | Remunerations greater than or equal to EUR 1 million

Número de pessoas que recebem uma remuneração superior a 1 milhão de euros	Número de beneficiários
> 1 milhão de euros ≤ 1,5 milhões de euros	0
> 1,5 milhões de euros ≤ 2 milhões de euros	0
> 2 milhões de euros ≤ 2,5 milhões de euros	0
> 2,5 milhões de euros ≤ 3 milhões de euros	0
> 3 milhões de euros ≤ 3,5 milhões de euros	0

XIV. Appendices

XIV.1 Appendix I - Detail of Capital Base composition

thousands euros

	Common Equity Tier 1 capital: instruments and reserves (1)	31.12.2019 (Transitional)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013	Fully implemented	Notes
1	Capital instruments and the related share premium accounts	3.844.144	26 (1), 27, 28, 29,		3.844.144	(a)
	of which: Instrument type 1	0	EBA list 26 (3)		0	
	of which: Instrument type 2	0	EBA list 26 (3)		0	
	of which: Instrument type 3	0	EBA list 26 (3)		0	
2	Retained earnings	3.797.432	26 (1) (c)		3.797.432	(b)
3	Accumulated other comprehensive income (and any other reserves, to Include unrealised gains and losses under the applicable accounting standards)	-614.226	26 (1)	0	-614.226	(c)
3a	Funds for general banking risk	0	26 (1) (f)		0	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	486 (2)		0	
	Public sector capital injections grandfathered until 1 january 2018	0	483 (2)		0	
5	Minority interests (amount allowed in consolidated CET1)	51.241	84, 479, 480	0	51.241	(d)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	469.093	26 (2)		469.093	(e)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**7.547.685**		**0**	**7.547.685**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments					
7	Additional value adjustments (negative amount)	-11.438	34, 105	0	-11.438	(f)
8	Intangible assets (net of related tax liability) (negative amount)	-75.167	36 (1) (b), 37, 472 (4)	0	-75.167	(g)
9	Empty set in the EU	11.438			11.438	m)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-12.294	36 (1) (c), 38, 472 (5)	0	-12.294	(h)
11	Fair value reserves related to gains or losses on cash flow hedges	0	33 (a)		0	
12	Negative amounts resulting from the calculation of expected loss amounts	0	36 (1) (d), 40, 159, 472 (6)		0	
13	Any increase in equity that results from securitised assets (negative amount)	0	32 (1)		0	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	33 (1) (b) (c)		0	
15	Defined-benefit pension fund assets (negative amount)	0	36 (1) (e), 41, 472 (7)	0	0	(i)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0	36 (1) (f), 42, 472 (8)		0	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negatvie amount)	0	36 (1) (g), 44, 472 (9)		0	
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)		0	
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)		0	

thousands euros

	Common Equity Tier 1 capital: instruments and reserves (1)	31.12.2019 (Transitional)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013	Fully implemented	Notes
20	Empty set in the EU	0			0	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	36 (1) (k)		0	
20b	of which: qualifying holdings outside the financial sector (negative amount)	0	36 (1) (k) (i), 89 to 91		0	
20c	of which: securitisation positions (negative amount)	0	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258		0	
20d	of which: free deliveries (negative amount)	0	36 (1) (k) (iii), 379 (3)		0	
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-84.531	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	0	-84.531	(j)
22	Amount exceeding the 15% threshold (negative amount)	-71.729	48 (1)	0	-71.729	(k)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-25.894	36 (1) (i), 48 (1) (b), 470, 472 (11)		-25.894	(l)
24	Empty set in the EU	0			0	
25	of which: deferred tax assets arising from temporary difference	0	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		0	
25a	Losses for the current financial year (negative amount)	0	36 (1) (a), 472 (3)		0	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	36 (1) (l)	0	0	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0			0	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	0			0	
	Of which: ...filter for unrealised loss 1	0			0	
	Of which: ...filter for unrealised loss 2	0			0	
	Of which: ...filter for unrealised gain 1	0			0	
	Of which: ...filter for unrealised gain 2	0			0	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-183.311	481	183.311	-183.311	(m)
	Of which:...	0			0	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	0	36 (1) (j)	0	0	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-427.032**		**183.311**	**-427.032**	
29	**Common Equity Tier 1 (CET1) capital**	**7.120.653**		**183.311**	**7.120.653**	
	Additional Tier 1 (AT1) capital: instruments					
30	Capital instruments and the related share premium accounts	500.000	51, 52		500.000	
31	of which: classified as equity under applicable accounting standards	500.000			500.000	(n)
32	of which: classified as liabilities under applicable accounting standards	0			0	

thousands euros

	Common Equity Tier 1 capital: instruments and reserves (1)	31.12.2019 (Transitional)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013	Fully implemented	Notes
33	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)		0	
	Public sector capital injections grandfathered until 1 january 2018	0	483 (3)		0	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	8.630	85, 86, 480	0	8.630	(o)
35	of which: instruments issued by subsidiaries subject to phase-out	0	486 (3)		0	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**508.630**		**0**	**508.630**	
	Additional Tier 1 (AT1) capital: regulatory adjustments					
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0	52 (1) (b), 56 (a), 57, 475 (2)		0	
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	56 (b), 58, 475 (3)		0	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56 (c), 59, 60, 79, 475 (4)		0	
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56 (d), 59, 79, 475 (4)		0	
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)	0			0	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0	472, 473(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)		0	
	Of which items to be detailed line by line, e.g. Material Net Interim losses, Intangible, Shortfall of Provision expected losses, etc.	0			0	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	477, 477 (3), 477 (4) (a)		0	
	Of which items to be detailed line by line, e.g. Reciprocal cross holding in Tier 2 Instruments, direct holdings of non significant investment in Capital of other financial sector entities, etc	0			0	
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	0	467, 468, 481	0	0	
	Of which: possible filter for unrealised losses	0	467		0	
	Of which: possible filter for unrealised gains	0	468		0	
	Of which:....	0	481		0	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0	56 (e)		0	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0**		**0**	**0**	
44	**Additional Tier 1 (AT1) capital**	**508.630**		**0**	**508.630**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**7.629.283**		**183.311**	**7.629.283**	
	Tier 2 (T2) capital: instruments and provisions					

thousands euros

	Common Equity Tier 1 capital: instruments and reserves (1)	31.12.2019 (Transitional)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013	Fully implemented	Notes
46	Capital instruments and the related share premium accounts	600.000	62, 63		600.000	(p)
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	0	486 (4)	0	0	
	Public sector capital injections grandfathered until 1 january 2018	0	483 (4)		0	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by	36.949	87, 88, 480	0	36.949	(q)
49	of which: instruments issued by subsidiaries subject to phase-out	0	486 (4)		0	
50	Credit risk adjustments	0	62 (c) & (d)		0	
51	**Tier 2 (T2) capital before regulatory adjustment**	**636.949**		**0**	**636.949**	
	Tier 2 (T2) capital: regulatory adjustments					
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0	63 (b) (i), 66 (a), 67, 477 (2)		0	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	0	66 (b), 68, 477 (3)		0	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	0	66 (c), 69, 70, 79, 477 (4)		0	
54a	Of which new holdings not subject to transitional arrangements	0			0	
54b	Of which holdings existing befor 1 January 2013 and subject to transitional arrangements	0			0	
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	0	66 (d), 69, 79, 477 (4)		0	
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0			0	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)		0	
	Of which items to be detailed line by line, e.g. Material Net Interim losses, Intangible, Shortfall of Provision expected losses, etc.	0			0	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	475, 475 (2) (a), 475 (3), 475 (4) (a)		0	
	Of which items to be detailed line by line, e.g. reciprocal cross holding in AT1 Instruments, direct holdings of non significant investment in Capital of other financial sector entities, etc	0			0	
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR	0	467, 468, 481	0	0	
	Of which: possible filter for unrealised losses	0	467		0	
	Of which: possible filter for unrealised gains	0	468		0	
	Of which:....	0	481		0	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0**		**0**	**0**	
58	**Tier 2 (T2) capital**	**636.949**		**0**	**636.949**	

thousands euros

	Common Equity Tier 1 capital: instruments and reserves (1)	31.12.2019 (Transitional)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013	Fully implemented	Notes
59	**Total capital (TC = T1 + T2)**	**8.266.232**		**183.311**	**8.266.232**	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	44.185.050		0	44.185.050	
	Of which:... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)	0	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	0	0	
	Of which:...items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	0	475, 475 (2) (b), 475 (2) ®, 475 (4) (b)	0	0	
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	0	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	0	0	
60	**Total risk-weighted assets**	**44.185.050**		**0**	**44.185.050**	
	Capital ratios and buffers					
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	**16,1%**	**92 (2) (a), 465**		**16,1%**	
62	**Tier 1 (as a percentage of total risk exposure amount**	**17,3%**	**92 (2) (b), 465**		**17,3%**	
63	**Total capital (as a percentage of total risk exposure amount**	**18,7%**	**92 (2) (c)**		**18,7%**	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus	3,000%	CRD 128, 129, 140		4,50%	
65	of which: capital conservation buffer requirement	2,500%			2,50%	
66	of which: countercyclical buffer requirement	0,00%			0,00%	
67	of which: systemic risk buffer requirement	0,00%			1,00%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0,50%	CRD 131		1,00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6,37%	CRD 128		5,87%	
69	[non-relevant in EU regulation]	0,00%			0,00%	
70	[non-relevant in EU regulation]	0,00%			0,00%	
71	[non-relevant in EU regulation]	0,00%			0,00%	
	Amounts below the thresholds for deduction (before risk-weighting)					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 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)	0	0	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below	0	36 (1) (i), 45, 48, 470,	0	0	
74	Empty set in the EU	0		0	0	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	746.022	36 (1) (c), 38, 48,	0	746.022	(i)

thousands euros

	Common Equity Tier 1 capital: instruments and reserves (1)	31.12.2019 (Transitional)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013	Fully implemented	Notes
	Applicable caps on the inclusion of provisions in Tier 2					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	62	0	0	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0	62	0	487.139	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	0	62	0	0	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0	62	0	0	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)					
80	- Current cap on CET1 instruments subject to phase-out arrangements	0	484 (3), 486 (2) & (5)	0	0	
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484 (3), 486 (2) & (5)	0	0	
82	- Current cap on AT1 instruments subject to phase-out arrangements	0	484 (4), 486 (3) & (5)	0	0	
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	484 (4), 486 (3) & (5)	0	0	
84	- Current cap on T2 instruments subject to phase-out arrangements	0	484 (5), 486 (4) & (5)	0	0	
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484 (5), 486 (4) & (5)	0	0	

Description of the restrictions, prudential filters and deductions to which these restrictions apply

a) The amount of Share Capital set out in the prudential Balance Sheet (item with Key 1) that fulfils all conditions of Article 28 to be qualified as Common Equity Tier 1.

b) Amount of 'Other Reserves and Retained Earnings' (item identified with Key 3 of the prudential Balance sheet) corrected considering the contributions of post-employment benefits and the medical plan, of around EUR 895 million.

c) The total of subparagraphs b), above, and c) amount to the value of Keys 2 and 3 of the prudential Balance Sheet.

d) The amount of minority interests is included in the prudential balance sheet in the aggregate 'Non-controlling Interests' and is identified with Key 5. The amount of minority interests in the balance sheet that, due to Regulatory restrictions, is not considered in the Common Equity Tier 1 becomes, under the conditions prescribed in Regulation No. 575/2013, eligible for Additional Tier 1 and/or Tier 2.

e) The consolidated net income attributable to the shareholder (item identified with Key 4 of the prudential Balance Sheet) was included in the own funds calculations, fulfilling the regulatory conditions for this purpose (the Inclusion of the positive result in the prudential Own Funds pursuant to Article 26(2) of Regulation No. 575/2013, namely, being certified and having the approval of the relevant authority).

f) The deduction from Common Equity Tier 1 of the 'Additional Value Adjustment' resulting from the prudent evaluation of the trading book, as prescribed in Article 34 of Regulation 575/2013. This adjustment has no accounting impact.

g) The deduction from Common Equity Tier 1 of intangible assets (net of the corresponding taxes). This deduction benefited from the transitional scheme until 2017 and its impact in 2019 corresponds to 100% of the balance sheet value (item identified with Key 9 of the Prudential Balance Sheet).

h) Deduction from Common Equity Tier 1 of deferred income tax assets resulting from reportable tax losses and net liabilities. This deduction benefited from the transitional scheme until 2017 and its impact in 2019 corresponds to 100% of the balance sheet value (item identified with Key 8 of the Prudential Balance Sheet).

i) Deduction from Common Equity Tier 1 of the asset value of the set contribution to pension funds, resulting from the application of Article 36(1)(e) of the CRR.

j) It concerns the deduction of the amount of deferred tax assets arising from time differences, net of deferred tax liabilities, which exceed 10% of Own Funds prior to certain deductions. The value of Deferred Tax Assets arising from time differences and liabilities are both included in the item identified by Key 10 of the Prudential Balance Sheet. The net amount considered for the purposes of comparison with the 10% limit (EUR 746,022 thousand) is EUR 830,553 thousand. The impact of the component that exceeds the 10% threshold (EUR 84,531 thousand) is deducted from Own Funds. The portion not deducted from deferred taxes arising from time differences is weighted at 250%.

k) Deferred taxes arising from time differences, net of deferred tax liabilities, lead to a further deduction. This deduction is calculated based on the comparison with an aggregate resulting from a sum total [sum of deferred taxes arising from time differences, net of deferred tax liabilities, and the amounts of direct holdings (about EUR 45,835 thousand) and indirect holdings by the Institution of CET1 instruments of financial entities in which the Institution has a significant investment (around EUR 25,894 thousand)] against 15% of Common Equity before certain deductions. The deducted amount should be excluded from the total amount found in this subparagraph as described in the previous subparagraph.

l) The amount of the institution's direct and indirect participation in CET1 instruments of financial entities in which the institution has a significant investment amounts to around EUR 421,456 thousand (included in the item with Key 11 of the Prudential Balance Sheet). The application of the deduction mechanism outlined in the previous subparagraph entailed a deduction of around EUR 25,894 thousand from Common Equity Tier 1. The non-deducted portion is weighted at 250%.

m) The deduction of irrevocable commitments with the Deposit Guarantee Fund and Resolution Fund are the result of the obligation prescribed in *SREP Decision 2017*.

n) Instruments for Additional Common Equity Tier 1 that arose from an issuance to the amount of 500 million euros by Caixa Geral de Depósitos, S.A. in 2017 and that meet all regulatory conditions for that classification (item 'Other capital instruments' identified with Key 6 of the Prudential Balance Sheet).

o) Amount of minority instruments included in the Prudential Balance Sheet in the aggregate 'Non-controlling Interests' identified with Key 5, excluding the eligible portion of Common Equity Tier 1 and which Regulation 575/2013 allows considering Additional Common Equity Tier 1.

p) This concerns subordinate debts (*ISIN* PTCGHFOM0006 and PTCGDKOM0037) issued by Caixa Geral de Depósitos, S.A., which meet all conditions for their qualification as Common Equity

Tier 2 Instruments. The characteristics of the issuance can be consulted in Table 10 | Capital instruments. In the Prudential Balance, they are included in the item identified with Key 7.

q) Amount of minority interests included in the Prudential Balance Sheet, in the aggregate 'Non-controlling Interests' identified with Key 5, excluding portions eligible for Common Equity Tier 1 and Additional Common Equity Tier 1, and which Regulation 575/2013 allows considering as Common Equity Tier 2.

XIV.1Appendix II – Disclosure of non-performing and forborne exposures

In compliance with the provisions of the EBA Guidelines on the disclosure of non-performing and forborne exposures (EBA/GL/2018/10) Annex I – Disclosure templates: forbearance – Template 1: Credit quality of forborne exposures, the table below provides an overview of the quality of forborne exposures in accordance with Commission Implementing Regulation (EU) No 680/2014.

	ü: Eur Thousands	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
1	**Loans and advances**	**2.268.503**	**1.506.917**	**1.501.986**	**1.506.917**	**-144.050**	**-874.945**	**2.313.906**	**546.197**
2	*Central banks*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
3	*General governments*	*350.299*	*2.746*	*2.746*	*2.746*	*-224*	*-31*	*326.537*	*2.369*
4	*Credit institutions*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
5	*Other financial corporations*	*70.596*	*364*	*364*	*364*	*-5.061*	*-236*	*65.653*	*118*
6	*Non-financial corporations*	*886.022*	*973.680*	*970.146*	*973.680*	*-131.427*	*-597.561*	*763.115*	*300.305*
7	*Households*	*961.586*	*530.128*	*528.730*	*530.128*	*-7.338*	*-277.117*	*1.158.601*	*243.405*
8	**Debt Securities**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
9	**Loan commitments given**	**74.977**	**5.158**	**4.628**	**5.158**	**0**	**0**	**0**	**0**
10	***Total***	**2.343.480**	**1.512.075**	**1.506.614**	**1.512.075**	**-144.050**	**-874.945**	**2.313.906**	

In compliance with the provisions of the EBA Guidelines on the disclosure of non-performing and forborne exposures (EBA/GL/2018/10) Annex II – Disclosure templates: non-performing exposures - Template 3: Credit quality of performing and non-performing exposures by past due days, the table below provides an overview of the credit quality of non-performing exposures in accordance with Commission Implementing Regulation (EU) No 680/2014.

	ü: Eur Thousands	Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1	**Loans and advances**	**54.123.495**	***53.810.436***	***313.059***	**2.692.678**	***1.142.480***	***146.892***	***133.166***	***250.937***	***654.714***	***158.902***	***205.587***	**2.680.754**
2	*Central banks*	7.637.786	*7.637.786*	*0*	0	*0*	*0*	*0*	*0*	*0*	*0*	*0*	0
3	*General governments*	2.787.454	*2.787.015*	*439*	21.819	*7.188*	*0*	*0*	*0*	*3.604*	*0*	*11.026*	21.819
4	*Credit institutions*	3.020.254	*3.020.254*	*0*	0	*0*	*0*	*0*	*0*	*0*	*0*	*0*	0
5	*Other financial corporations*	327.671	*327.400*	*270*	2.256	*285*	*47*	*261*	*155*	*688*	*144*	*677*	2.256
6	*Non-financial corporations*	12.725.346	*12.567.579*	*157.767*	1.778.883	*846.577*	*98.949*	*87.473*	*162.207*	*371.215*	*106.557*	*105.906*	1.771.188
7	*Of which SMEs*	7.715.605	*7.602.697*	*112.909*	1.210.583	*479.938*	*77.015*	*70.713*	*116.716*	*298.157*	*84.390*	*83.654*	1.207.318
8	*Households*	27.624.984	*27.470.402*	*154.582*	889.719	*288.431*	*47.896*	*45.432*	*88.575*	*279.207*	*52.201*	*87.978*	885.490
9	**Debt securities**	**17.104.432**	***17.104.432***	***0***	**153.618**	***152.364***	***1.253***	***0***	***0***	***0***	***0***	***0***	**153.141**
10	*Central banks*	19.186	*19.186*	*0*	0	*0*	*0*	*0*	*0*	*0*	*0*	*0*	0
11	*General governments*	11.796.317	*11.796.317*	*0*	0	*0*	*0*	*0*	*0*	*0*	*0*	*0*	0
12	*Credit institutions*	916.767	*916.767*	*0*	0	*0*	*0*	*0*	*0*	*0*	*0*	*0*	0
13	*Other financial corporations*	71.453	*71.453*	*0*	0	*0*	*0*	*0*	*0*	*0*	*0*	*0*	0
14	*Non-financial corporations*	4.300.710	*4.300.710*	*0*	153.618	*152.364*	*1.253*	*0*	*0*	*0*	*0*	*0*	153.141
15	**Off-balance-sheet exposures**	**12.389.388**			**497.381**								**464.851**
16	*Central banks*	0			0								0
17	*General governments*	234.391			655								655
18	*Credit institutions*	255			0								0
19	*Other financial corporations*	364.482			3.321								3.319
20	*Non-financial corporations*	8.986.171			475.716								447.065
21	*Households*	2.804.088			17.690								13.813
22	***Total***	**83.617.315**	***70.914.869***	***313.059***	**3.343.677**	***1.294.845***	***148.145***	***133.166***	***250.937***	***654.714***	***158.902***	***205.587***	**3.298.746**

In compliance with the provisions of the EBA Guidelines on the disclosure of non-performing and forborne exposures (EBA/GL/2018/10) Annex II – Disclosure templates: non-performing exposures - Template 4: Performing and non-performing exposures and related provisions, the following table provides an overview of the credit quality of non-performing exposures and their impairment, provisions and valuation adjustments by portfolio and exposure class.

	ü: Eur Thousands	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
1	**Loans and advances**	**54.123.495**	***49.825.717***	***4.297.778***	**2.692.678**	***11.924***	***2.680.754***	**-558.530**	***-148.440***	***-410.091***	**-1.577.481**	***-6.408***	***-1.571.073***	**217.084**	**34.180.834**	**927.263**
2	*Central banks*	7.637.786	*7.637.786*	*0*	0	*0*	*0*	0	*0*	*0*	0	*0*	*0*	0	0	0
3	*General governments*	2.787.454	*2.579.524*	*207.930*	21.819	*0*	*21.819*	-7.656	*-1.328*	*-6.328*	-12.954	*0*	*-12.954*	0	2.327.892	7.943
4	*Credit institutions*	3.020.254	*3.006.885*	*13.369*	0	*0*	*0*	-1.382	*-1.024*	*-358*	0	*0*	*0*	0	0	0
5	*Other financial corporations*	327.671	*209.900*	*117.771*	2.256	*0*	*2.256*	-18.580	*-968*	*-17.611*	-1.472	*0*	*-1.472*	0	155.201	610
6	*Non-financial corporations*	12.725.346	*10.713.239*	*2.012.107*	1.778.883	*7.695*	*1.771.188*	-418.988	*-128.595*	*-290.394*	-1.144.393	*-3.696*	*-1.140.697*	104.817	6.101.285	473.972
7	*Of which SMEs*	7.715.605	*6.194.195*	*1.521.410*	1.210.583	*3.265*	*1.207.318*	-265.595	*-118.202*	*-147.392*	-746.149	*-1.925*	*-744.225*	1.191	4.435.713	382.833
8	*Households*	27.624.984	*25.678.384*	*1.946.600*	889.719	*4.229*	*885.490*	-111.924	*-16.525*	*-95.399*	-418.662	*-2.712*	*-415.950*	112.267	25.596.456	444.738
9	**Debt securities**	**17.104.432**	***17.002.542***	***101.891***	**153.618**	***0***	***153.618***	**-26.908**	***-20.465***	***-6.442***	**-92.251**	***0***	***-92.251***	**0**	**0**	**0**
10	*Central banks*	19.186	*19.186*	*0*	0	*0*	*0*	0	*0*	*0*	0	*0*	*0*	0	0	0
11	*General governments*	11.796.317	*11.796.317*	*0*	0	*0*	*0*	-6.467	*-6.467*	*0*	0	*0*	*0*	0	0	0
12	*Credit institutions*	916.767	*915.217*	*1.550*	0	*0*	*0*	-360	*-334*	*-26*	0	*0*	*0*	0	0	0
13	*Other financial corporations*	71.453	*70.609*	*844*	0	*0*	*0*	-58	*-33*	*-25*	0	*0*	*0*	0	0	0
14	*Non-financial corporations*	4.300.710	*4.201.213*	*99.497*	153.618	*0*	*153.618*	-20.023	*-13.631*	*-6.391*	-92.251	*0*	*-92.251*	0	0	0
15	**Off-balance-sheet exposures**	**12.389.388**	***11.400.488***	***988.900***	**497.381**	***32.531***	***464.851***	**33.093**	***8.828***	***24.265***	**169.510**	***3.536***	***165.973***		**0**	**1.552**
16	*Central banks*	0	*0*	*0*	0	*0*	*0*	0	*0*	*0*	0	*0*	*0*		0	0
17	*General governments*	234.391	*233.856*	*535*	655	*0*	*655*	109	*100*	*9*	4	*0*	*4*		0	0
18	*Credit institutions*	255	*255*	*0*	0	*0*	*0*	0	*0*	*0*	0	*0*	*0*		0	0
19	*Other financial corporations*	364.482	*315.785*	*48.697*	3.321	*3*	*3.319*	1.274	*136*	*1.138*	452	*0*	*452*		0	2
20	*Non-financial corporations*	8.986.171	*8.149.365*	*836.806*	475.716	*28.651*	*447.065*	30.193	*7.354*	*22.839*	167.312	*3.477*	*163.835*		0	934
21	*Households*	2.804.088	*2.701.226*	*102.861*	17.690	*3.877*	*13.813*	1.518	*1.239*	*279*	1.742	*59*	*1.682*		0	616
22	***Total***	**83.617.315**	***78.228.747***	***5.388.568***	**3.343.677**	***44.455***	***3.299.222***	**-552.345**	***-160.077***	***-392.268***	**-1.500.223**	***-2.872***	***-1.497.351***	**217.084**	**34.180.834**	**928.816**

In compliance with the provisions of the EBA Guidelines on the disclosure of non-performing and forborne exposures (EBA/GL/2018/10) Appendix V – Disclosure templates: foreclosed assets – Template 9: Collateral obtained by taking possession and execution processes, the following table provides an overview of foreclosed assets executed obtained from non-performing exposures.

	ü: Eur Thousands	Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
1	**Property, plant and equipment (PP&E)**	**0**	**0**
2	**Other than PP&E**	**539.554**	**-241.420**
3	*Residential immovable property*	*189.925*	*-44.945*
4	*Commercial Immovable property*	*348.323*	*-195.920*
5	*Movable property (auto, shipping, etc.)*	*1.305*	*-555*
6	*Equity and debt instruments*	*0*	*0*
7	*Other*	*1*	*0*
8	***Total***	**539.554**	**-241420**

XIV.2Appendix III - Mapping of CRR tables

Table		EBA Reference	Section
EBA GL/2016/11			
Table 3	Differences between accounting and regulatory scopes of consolidation	EU LI1	III.2 Reconciliation between accounting and regulatory consolidation elements
Table 4	Main sources of differences between regulatory amounts and carrying values in financial statements	EU LI2	III.2 Reconciliation between accounting and regulatory consolidation elements
Table 2	Outline of the differences in the scopes of consolidation	EU LI3	IV.3 Regulatory Capital
Table 13	Overview of Risk-Weighted Assets (RWA)	EU OV1	IV.4Capital requirements
N/A	Non-deducted participations in insurance companies	EU INS1	IV.4 Capital Requirements
Table 18	Total amount and average amount of net exposure values	EU CRB-B	V.2 Quantitative data
Table 19	Geographic breakdown of exposures	EU CRB-C	V.2 Quantitative data
Table 20	Concentration of exposures by industry or counterparty type	EU CRB-D	V.2 Quantitative data
Table 21	Maturity of exposures	EU CRB-E	V.2 Quantitative data
Table 22	Credit quality of exposures by exposure class and instrument	EU CRA1-A	V.2 Quantitative data
Table 23	Credit quality of exposures by industry or counterparty types	EU CR1-B	V.2 Quantitative data
Table 24	Credit quality of exposures by geography	EU CR1-C	V.2 Quantitative data
Table 25	Ageing of past-due exposures	EU CR1-D	V.2 Quantitative data
Table 26	Non-performing and forborne exposures	EU CR1-E	V.2 Quantitative data
Table 27	Changes in the stock of general and specific credit risk adjustments	EU CR2-A	V.2 Quantitative data
Table 28	Changes in the stock of defaulted and impaired loans and debt securities	EU CR2-B	V.2 Quantitative data
Table 29	CRM Techniques - Overview	EU CR3	VI.2 Quantitative data
Table 30	Standardised Approach – Credit Risk exposure and CRM effect	EU CR4	VI.2 Quantitative data
Table 31	Standardised approach – Exposures by asset classes and risk weights	EU CR5	VI.2 Quantitative data
Table 32	Analysis of CCR exposure by approach	EU CCR1	VII.2 Quantitative data
Table 33	Credit valuation adjustment (CVA) capital charge	EU CCR2	VII.2 Quantitative data
Table 34	Exposures to CCPs	EU CCR8	VII.2 Quantitative data
Table 35	Counterparty credit risk exposures by exposure classes and risk weight under the standardised approach	EU CCR3	VII.2 Quantitative data
Table 36	Impact of netting and collateral held on exposure values	EU CCR5-A	VII.2 Quantitative data
Table 37	Composition of collateral for exposures to CCR	EU CCR5-B	VII.2 Quantitative data
Table 46	Market risk under standardised approach	EU MR1	X.2 Quantitative data
Asset encumbrance and Commission Delegated Regulation (EU) 2017/2295			
Table 40	Encumbered and unencumbered assets	Template A	IX.1Liquidity Risk
Table 41	Collateral received	Template B	IX.1Liquidity risk
Table 42	Sources of encumbrance	Template C	IX.1Liquidity risk
Table 43	Disclosure of asset encumbrance		IX.1Liquidity risk

Table		EBA Reference	Section
EBA/GL/2017/01			
Table 44	LCR disclosure template, on LCR quantitative information, complementing Article 435(1)(f) of Regulation (EU) No 575/2013.		IX.1Liquidity risk
IMPLEMENTING REGULATION (EU) 2016/200 – Disclosing leverage ratio			
Table 15	Common rules on disclosure of leverage ratio		IV.5 Leverage ratio
Table 16	Leverage - Breakdown of on-balance sheet exposures (excluding derivatives, SFT and risk exempt exposures)		IV.5 Leverage ratio
Table 17	Reconciliation of account assets and leverage ratio exposures		IV.5 Leverage ratio
DELEGATED REGULATION (EU) 2015/1555 - Countercyclical capital buffer			
Table 5	Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer		IV.2 SREP and Capital Buffers
IMPLEMENTING REGULATION (EU) No. 1423/2013 – Disclosure of own funds			
Table 10	Main characteristics of own funds instruments		IV.3 Regulatory Capital
Table 11	Reconciliation of accounting and prudential balance sheets		IV.3 Regulatory Capital
Table 12	Reconciliation of regulatory capital to balance sheet		IV.3 Regulatory Capital

XIV.3 Appendix IV – Mapping of CRR articles

Article/Description	Reference to the Market Discipline Report	Reference to Report and Consolidated Accounts
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 under this Title. These disclosures shall include:		
(a) the strategies and processes to manage those risks; (b) the structure and organisation of the relevant risk management function including information on its authority and statute, or other appropriate arrangements; (c) the scope and nature of risk reporting and measurement systems;	II. Governance model Chapters V to X, dependent on the risk type	
(d) the policies for hedging and mitigating risk, nad the strategies and processes for monitoring the continuing affectiveness of hedges and mitigants;	Chapters V to X, dependent on the risk type	
(e) a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy;	I. Responsability declaration	
(f) a concise risk statement approved by the management body succintly describing the institution's overall risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk profile of the institution interacts with the risk tolerance set by the management body.	II.4 RAS	1.2 Highlights in 2019
2. Institutions shall disclose the following information, including regular, at least annual updates, regarding governance arrangements:		
(a) the number of directorships held by members of the management body;	II.1 Governance Model	Accumulation of functions by members of the Board of Directors Annex III – Curricula Vitae of members of the Statutory Bodies as of 31.12.2019
(b) the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise;	II.1 Governance Model	
(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 these objectives and targets have been achieved;	II.1 Governance Model	Gender equality and non-discrimination practices
(d) whether or not the institution has set up a separate risk committee and the number of times the risk committee has met;	II.1 Governance Model	1.3.2 Governance Model
(e) the description of the information flow on risk to the management body.	II.1 Governance Model	1.3.2 Governance Model
Article 436 - Scope of application		
Institutions shall disclose the following information regarding the scope of application of the requirements of this Regulation in accordance with Directive 2013/36/EU:		
(a) the name of the institution to which the requirements of Regulation apply;	Introductory note	
(b) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: (i) fully consolidated; (ii) proportionally consolidated; (iii) deducted form own funds; (iv) neither consolidated nor deducted;	III. Regulatory framework's scope of application	
(c) any current or forseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries;	III. Regulatory framework's scope of application	
(d) the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries;	NA	
(e) if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9.	NA	

Article/Description	Reference to the Market Discipline Report	Reference to Report and Consolidated Accounts
Article 437 - Own funds		
1. Institutions shall disclose the following information regarding own funds:		
(a) a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and balance sheet in the audited financial statements of the institution;	IV.3 Regulatory Capital Table 11 | Reconciliation of prudential and accounting balance sheet Table 11 | Reconciliation of the Prudential Balance Sheet and Regulatory Own Funds	
(b) a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instuments issued by the institution;	IV.3 Regulatory Capital Table 10 | Capital instrument's main features	
(c) the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;	IV.3 Regulatory Capital	
(d) separate disclosure of the nature and amounts of the following: (i) each prudential filter applied pursuant to Articles 32 to 35; (ii) each deduction made pursuant to Articles 36, 56 and 66; (iii) items not deducted in accordance with Articles 47, 48, 56, 66 abd 79;	Appendix I – Detail of Capital Base composition	
(e) a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and instruments, prudential filters and deductions to which those restrictions apply;	Appendix I – Detail of Capital Base composition	
(f) where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	NA	
Article 438 - Capital requirements		
Institutions shall disclose the following information regarding the compliance by the institution with the requirements laid down in Article 92 of this Regulation in Article 73 of Directive 2013/36/EU:		
(a) a summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities;	IV.4 Capital Requirements	
(b) upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessement process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU;	IV.4 Capital Requirements	
(c) for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112;	IV.4 Capital Requirements Table 13| Overview of Risk-Weighted Assets (RWA) (EU OV1) VI. CRM Table 30 | Standardised Approach – Credit risk exposure and CRM effects (EU CR4)	
(d) for institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147. For the retail exposure class, this requirement applies to each of the categories of exposures to which the different correlations in Article 154(1) to (4) correspond. For the equity exposure class, this requirement applies to: (i) each of the approaches provided in Article 155; (ii) exchange traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures; (iii) exposures subject to supervisory transition regarding own funds requirements; (iv) exposures subject to grandfathering provisions regarding own funds requirements;	NA(IRB)	
(e) own funds requirements calculated in accordance with points (b) and (c) of Article 92(3);	IV.4 Capital Requirements Table 13| Overview of Risk-Weighted Assets (RWA) (EU OV1)	
(f) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.	Table 46 | Market risk under the standardised approach (EU MR1)	
The institutions calculating the risk-weighted exposure amounts in accordance with Article 153(5) or Article 155(2) shall disclose the exposures assigned to each category in Table 1 of Article 153(5), or to each risk weight mentioned in Article 155 (2).	NA(IRB)	

Article/Description	Reference to the Market Discipline Report	Reference to Report and Consolidated Accounts
Article 439 - Exposure to counterparty credit risk		
Institutions shall disclose the following information regarding the institution's exposure to counterparty credit risk as referred to in Part Three, Title II, Chapter 6:		
(a) a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;	VII. Counterparty Credit Risk	
(b) a discussion of policies for securing collateral and establishing credit reserves;		
(c) a discussion of policies with respect to Wrong-Way risk exposures;		
(d) a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating;		
(e) gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements;	VII. Counterparty Credit Risk Table 36 | Impact of netting and collateral held on exposure values (EU CCR5-A) Table 37 | Composition of collateral for exposures to CCR (EU CCR5-B)	
(f) measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable;	VII. Counterparty Credit Risk Table 32 | Analysis of CCR exposure by approach (EU CCR1)	
(g) the notional value of credit derivatives hedges, and the distribution of current credit exposure by types of credit exposure;	NA, without credit derivative operations VI. Credit risk mitigation	
(h) the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group;		
(i) the estimate of α if the institution has received the permission of the competent authorities to estimate α.	NA	
Article 440 - Capital Buffers		
1. An institution shall disclose the following information in relation to its compliance with the requirement for a countercyclical capital buffer referred to in Title VII, Chapter 4 of Directive 2013/36/EU:		
(a) the geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer;	IV.2 SREP and capital reserves Table 5 | Geographical breakdown of credit exposures relevant to the calculation of the own funds Countercyclical Buffer	
(b) the amount of its institution specific countercyclical capital buffer.	IV.2 SREP and Capital Buffers	
Article 441 - Indicators of global systemic importance		
1. Institutions identified as G-SIIs in accordance with Article 131 of Directive 2013/36/EU shall disclose, on an annual basis, the values of the indicators used for determining the score of the institutions in accordance with the identification methodology referred to in that Article.	NA	
Article 442 - Credit risk adjustments		
Institutions shall disclose the following information regarding the institution's exposure to credit risk and dilution risk:		
(a) the definitions for accounting purposes of "past due" and "impaired";	V. Credit risk	Notes attached to the consolidated financial statements, paragraph 42. Disclosures relating to financial instruments
(b) a description of the approaches and methods adopted for determining specific and general credit risk adjustments;		
(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;	V. Credit risk Table 17 | Total amount and average amount of net exposure values (EU CRB-B)	
(d) the geographic distribution of the exposures by industry or counter-party type, broken down by exposure classes, and further detailed if appropriate;	V. Credit risk Table 19 | Geographical breakdown of exposures (EU CRB-C)	
(e) the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate;	V. Credit risk Table 20 | Concentration of exposures by sector or by counterparty type (EU CRB-D)	
(f) the residual maturity breakdown breakdown of all exposures, broken down by exposure classes, and further detailed if appropriate;	V. Credit risk Table 21 | Residual maturity of exposures (EU CRB-E)	
(g) by significant industry or counterparty type, the amount of: (i) impaired exposures and past due exposures, provided separately; (ii) specific and general credit risk adjustments; (iii) specific and general credit risk adjustments during the reporting period;	V. Credit risk Table 22 | Credit quality of exposures by exposure class and instrument (EU CR1-A)	
(h) the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area;	V. Credit risk Table 24 | Credit quality of exposures by geography (EU CR1-C)	
(i) the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately. The information shall comprise: (i) a description of the type of specific and general credit risk adjustments; (ii) the opening balances; (iii) the amounts taken against the credit risk adjustments 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 subsidiaries, and transfers between credit risk adjustments; (v) the closing balances.	V. Credit risk Table 27 | Changes in the stock of general and specific credit risk adjustments (EU CR2-A)	
Specify credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately.		

Article/Description	Reference to the Market Discipline Report	Reference to Report and Consolidated Accounts
Article 443 - Unencumbered assets		
Overall, the bank shall be compliant with the EBA guidelines (EBA/GL/2014/03 - Disclosure of encumbered and unemcumbered assets - Título II e Anexo)/(Instrução 28/2014).	IX.1 Liquidity risk	2.2.1. Information on asset encumbrances
Article 444 - Use of ECAIs		
For institutions calculating the risk-weighted exposure amounts in accordance with Part Three, Title II, Cahpter 2, the following information shall be disclosed for each of the exposure classes specified in Article 112:		
(a) the names of the nominated ECAIs and ECAs and the reasons for any changes;	V.1 Qualitative information	
(b) the exposure classes for which each ECAI or ECA is used;		
(c) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;		
(d) the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA;		
(e) the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescrebed in Part Three, Title II, Chapter 2 as well as those deducted from own funds.	VI.2 Quantitative information Table 31 |Standardised Approach – RWA breakdown (EU CR5)	
Article 445 - Exposure to market risk		
The institutions calculating their own funds requirements in accordance with points (b) and (c) of Article 92(3) shall disclose those requirements separately for each risk referred to in those provisions. In addition, the own funds requirement for specific interest rate risk of securitisation positions shall be disclosed separately.	X. Market risk	
Article 446 - Operational risk		
Institutions shall disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2), if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used.	XI. Operational risk	
Article 447 - Exposures in equities not included in the trading book		
Institutions shall disclose the following information regarding the exposures in equities not included in the trading book:		
(a) the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices;	XII. Equity Exposures in the Banking Book	
(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;	XII.2 Quantitative information Table 48 | Equity exposures not included in the trading book	
(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; and		
(e) the total unrealised gains and losses, the total latent revaluation gains and losses, and any of these amounts included in Common Equity Tier 1 capital.		
Article 448 - Exposure to interest rate risk on positions not included in the trading book		
Institutions shall disclose the following information on their exposure to interest rate risk on positions not included 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;	II.3 Key risks to which the bank is exposed IV.4 Capital Requirements IX.2 Interest Rate Risk	
(b) the variation in earnings, economic value of other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.	IX.2 Interest Rate Risk	

Article/Description	Reference to the Market Discipline Report	Reference to Report and Consolidated Accounts
Article 449 - Exposure 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 Article 337 or 338 shall disclose the following information, where relevant, separately for their trading and non-trading book:		
(a) a description of the institution's objectives in relation to securitisation activity;	VIII. Securitisation Positions	PT annual report (individual notes) 20. Financial liabilities associated with transferred assets
(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 those latter securitisation positions assumed and retained with resecuritisation 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 referred to in point (d);		
(f) a description of the processes in place to monitor changes in the credit and market risk of securitisation exposures including how the behaviour of the underlying assets impacts securitisation exposures and a description of how those processes differ for re-securitisation exposures;		
(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 exposures, including identification of material hedge counterparties by relevant type of risk 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 SSPE that the institution, as sponsor, uses to securitise third-party exposures including whether and in what form and to what extent the institution had exposures to those SSPes, separately for on- and off-balance sheet exposures, as well as a list if the entities that the institution manages or advises and that invest in either the securitisation positions that the institution has securitised or in SSPEs that the institution sponsors;	NA	
(j) a summary of the institution's accounting policies for securitisation activities, including: (i) whether the transactions are treated as sales or financings; (ii) the recognition of gains on sales; (iii) the methods, key assumptions, inputs and changes from the previous period for valuing securitisation positions; (iv) the treatment of synthetic securitisations if not covered by other accounting policies; (v) how assets awaiting securitisation are valued and whether they are recorded in the institution's nontrading book or the trading book; (vi) policies for recognising liabilities on the balance sheet for arrangements that could require the institution to provide financial support for securitised assets;	VIII. Securitisation Positions	
(k) the names of the ECAIs used for securitisations and the types of exposure for which each agency is used;	VIII. Securitisation Positions	
(l) where applicable, a description of the Internal Assessment Approach as set out in Part Three, Title II, Chapter 5, Section 3, including the structure of the internal assessment process and relation between internal assessment and external ratings, the use of internal assessment other than for Internal Assessment Approach 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;	NA (Internal Assessment Approach)	
(m) an explanation of significant changes to any of the quantitative disclosures in points (n) to (q) since the last reporting period;	VIII. Securitisation Positions	
(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 institution acts only as sponsor; (ii) the aggregate amount of on-baance sheet securitisation positions retained or purchased and off-balance sheet securitisation exposures; (iii) the aggregate amont of assets awaiting securitisation; (iv) for securitised facilities subject to the early amortisation treatment, the aggregate drawn exposures attributed to the originator's and investor's interests respectively, the aggregate capital requirements incurred by the institution and undrawn lines; (v) the amount of securitisation positions that are deducted from own funds or risk-weighted at 1250%; (vi) a summary of the securitisation activity of the current period, including the amount of exposures securitised and recognised gain or loss on sale;	(i) NA (ii) VIII. Securitisation Positions Table 39 | Securitised operations: Standardised Approach (iii) - (vi) NA	
(o) separately for the trading and the non-trading book, the following information: (i) the aggregate amount of securitisation positions retained or purcahsed and the associated capital requirements, broken down between securitisation and re-securitisation exposures and further broken down into a meaningful number of risk-weight or capital requirement bands, for each capital requirements approach used; (ii) the aggregate amount of re-securitisation exposures retained or purchased broken down according to the exposure before and after hedging/insurance and the exposure to financial guarantors, broken down according to guarantor credit worthiness categories or guarantor name;	(i) VIII.Securitisation Positions Table 39 | Securitised operations: Standardised Approach (ii) NA	
(p) for the non-trading book and regarding exposures securitised by the institution, the amount of impaired/past due assets securitised and the losses recognised by the institution during the current period, both broken down by exposure type;	VIII. Securitisation Positions Table 38 | Securitisation Operations	
(q) for the trading book, the total outstanding exposures securitised by the institution and subject to a capital requirement for market risk, broken down into traditional/synthetic and by exposure type;	NA	
(r) where applicable, whether the institution has provided support within the terms of Article 248(1) and impact on own funds.	NA	

Article/Description	Reference to the Market Discipline Report	Reference to Report and Consolidated Accounts
Article 450 - Remuneration policy		
1. Institutions shall disclose at least the following information regarding the remuneration policy and practices of the institution for those categories of staff whose professional activities have a material impact on its 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 oversseing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;	XIII. Remuneration	3.7 Remuneration 3.5 Statutory Bodies and Committees: - General Meeting's Remuneration Committee (CRAG) - Nomination, Assessment and Remuneration Committee (CNAR) - Composition and Term of office
(b) information on link between pay and performance;		
(c) the most important design characteristics of the remuneration system, including 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;		
(f) the main parameters and rationale for any variable component scheme and any other non-cash benefits;		
(g) aggregate quantitative information on remuneration, broken down by business area;	XIII. Remuneration Table 49 | Remuneration of Identified Persons	
(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 for the financial year, split into fixed and variable remuneration, and the number of beneficiaries; (ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types; (iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions; (iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments; (v) new sign-on and severance payments made druing the financial year, and number of beneficiaries of such payments; (vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person;		
(i) the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and remunerations of EUR 5 million and above broken down into pay bands of EUR 1 million;	XIII. Remuneration Table 50 | Remunerations greater than or equal to EUR 1 million	
(j) Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.	XIII. Remuneration	3.7 Remuneration
2. For institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information referred to in this Article shall also be made available to the public at the level of members of the management body of the institution.	XIII. Remuneration	
Article 451 - Leverage		
1. Institutions shall disclose the following information regarding their leverage ratio calculated in accordance with Article 429 and their management of the risk of excessive leverage:		
(a) the leverage ratio and how the institution applies Article 499(2) and (3);	IV.5 Leverage ratio	
(b) a breakdown of the total exposure measure as well as a reconcilication of the total exposure measure with the relevant information disclosed in published financial statements;	IV.5 Leverage ratio Table 16| Leverage - Breakdown of on-balance sheet exposures Table 17| Reconciliation of account assets and leverage ratio exposures	
(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;	IV.5 Leverage ratio	
(e) a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.		