Market Discipline

2014

June 30, 2015

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Foreword

This document uses regulatory reporting information in order to comply with the Bank of Portugal's Notice 10/2007, regarding public disclosure of information, bearing also in mind the Capital Requirements Directive IV - CRD IV 2013/36/UE and Capital Requirements Regulation - CRR n.º 575/2013, and considering that the information provided should adequately cover the risks incurred, taking into account strategic goals and the processes and assessment systems in place. All analyses are based on year-end 2014 data.

1. Declaration of Responsibility

With regards to the information presented in the document "Market Discipline", the board of directors of Caixa Económica Montepio Geral (CEMG) certifies:

- That all procedures deemed necessary were carried out and that, to the best of its knowledge, all information disclosed is true and accurate;
- The quality of all information disclosed;
- That any significant changes occurring during or after the preparation of this document will be promptly disclosed.

2. Scope and risk management policies

2.1 Scope

This report pertains to the consolidated accounts of the group Caixa Económica Montepio Geral, from a regulatory perspective, which includes:

- Caixa Económica Montepio Geral ("CEMG");
- Banco Montepio Geral Cabo Verde - Sociedade Unipessoal, S.A., ("MG Cabo Verde");
- Montepio Holding, SGPS, S.A., which includes the following participations:
  - Montepio Investimento, S.A., which includes the following entity:
    - Montepio – Capital de Risco, Sociedade Capital de Risco, S.A.;
  - Montepio Crédito, S.A.;
  - Montepio Valor - Sociedade Gestora de Fundos Mobiliários, S.A.;
  - Finibanco Angola, S.A.; e
  - Banco Terra, S.A.
- Montepio Recuperação de Crédito, ACE;
- Pelican Mortgages No.1 PLC;
- Pelican Mortgages No.2 PLC;
- Finipredial Fundo de Investimento Aberto;
- Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional;
- Montepio Arrendamento II – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional;
- Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional;
- Polaris – Fundo de Investimento Imobiliário Fechado;
- Portugal Estates Fund (PEF) – Fundo de Investimento Imobiliário Fechado; and
- Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto.

2.2 Risk management strategies, processes, structure and organization

Efficient risk control and management play an essential role in the balanced and sustained development of CEMG. It not only contributes to the return/risk optimization for the various business lines, but also assures the preservation of a conservative risk profile in terms of solvency and liquidity.
The risk management is based on the following goals:

- Identification, quantification and control of the different types of risk assumed, progressively adopting uniform principles and methodologies;
- Continuous contribution to the improvement of tools to support the structuring of operations and the development of internal techniques for performance appraisal and optimization of the core capital; and
- Consideration of the internationalization strategy of CEMG, collaborating in the design of organizational solutions and monitoring and reporting the risk assumed by the different international units.

Risk analysis and control at CEMG are the responsibility of the Risk Division (Direção de Risco - DRI), which advises the board of directors on subjects pertaining to risk management. The implementation of risk management and control mechanisms is, in general, the responsibility of the areas where the risks in question arise.

As recommended by the Basel Committee, DRI reports directly to the board of directors and is independent from the departments responsible for commercial decision-making. Additionally, and also independently, the Internal Audit and Inspection Division analyses the adequacy of processes and their implementation, from the standpoint of internal and external rules.

DRI encompasses three departments and one unit:

(i) **Risk Modeling Department** - responsible for developing internal credit risk analysis models and incorporating them in decision-making processes, and also for internal reports on credit risk;
(ii) **Global Risks Department** - performs analysis and regulatory and internal reporting on liquidity, market, interest rate and solvency risks, as well as the respective integration of that information into the decision-making processes;
(iii) **Business Risks Department** – responsible for the definition of policies related to analysis and origination of credit and for the operational risk management and quantification system and of the business continuity management cycle;
(iv) **Corporate Credit Ratings Unit** – responsible for the integration of financial statements in the CEMG's IT platforms, for the risk classification of corporate and business clients and for the development and application of methodologies for determining exposure limits to corporate clients.

CEMG is exposed to a set of risks, namely **credit, concentration, market, interest rate, liquidity, real estate and operational risks**. All the risks identified as substantial are subject to a regular control process and to risk mitigation actions, aiming at reducing the potential losses to the CEMG group. The monitoring of those risks is concentrated in DRI, which integrates the positions and interests of the board of directors.

Following the publication on the 26th of june 2013 of the European regulation on the new prudential framework for the banking sector, known as Basel III, with new rules and capital requirements, defined by the Capital Requirements Directive IV (Directive 2013/36/EU) and by the Capital Requirements Regulation (Regulation 575/2013) (CRD IV/CRR), CEMG has been adopting its methodologies for risk monitoring and controlling although the analyses referred in this document do not alter meaningfully with the introduction of the new regulation.

The main principle of **credit risk** analysis is independence from commercial decision-making, with direct reporting to the board of directors. In this analysis, different tools are used, and rules defined, according to the size of the exposure, the degree of familiarity with the type of risk in question (e.g. the capacity to model those risks) and the liquidity of the instruments in question.

The analysis of loans is based on the mandatory use of risk assessment models, developed in-house in accordance with the requirements of the Basel Committee.

Thus, in operations with individuals (typically smaller amounts), specific scoring models are used for the main credit portfolios (i.e. mortgages, personal loans and credit cards).

In the Small-Business segment, a scoring model is used to evaluate not only the creditworthiness of the business, but also of its promoters.

In the Corporate segment, customers are classified according to an internal rating model that includes four components:

- (i) quantitative (economic and financial information);
- (ii) qualitative (management quality and reputation);
- (iii) sector-oriented;
- (iv) behavioral (banking relationship).

The degree of scrutiny in credit risk analysis depends on the scale of the operations concerned. Limits have been defined, based on the amount of the operation, risk classification and total exposure, to identify when it is necessary for a report to be drawn up by credit analysts, who are independent from the commercial decision-making process.

These reports include the limits to exposure defined for the loan maturity, taking into account the client's capacity to generate cash flows and its financing costs.

CEMG's risk management strategies also take into account the capital requirements associated with its operations, via rules for decision-making and the pricing of credit.

The pricing of loans reflects the corresponding expected loss, along with the cost of borrowed capital and of own funds, as well as administrative costs. In quantifying the expected loss, the marginal probability of default for the loan maturity and the internal risk class is taken into consideration, as is the severity of the loss, quantified by market estimates, taking into account the type of credit and collateral. Pricing also reflects the strength of the commercial relationship with customers.

Overriding the response of scoring systems, internal ratings and internal pricing tables is allowed, though only with hierarchical approval, in accordance with principles of delegation established. Rejection criteria are defined to minimize the risk of adverse selection, meaning there is always at least one rejection class.

Thus, credit rejections are determined by the existence of credit events in the financial system, the breach of credit rules (e.g. borrowing capacity) and whenever the level of risk-adjusted pricing significantly increases adverse selection risk.

Thresholds for participation are also defined for the different decision-making levels, based on the size of the operation and overall customer exposure, type of operation/collateral and pricing/ ROE (Return on Equity). In this context, the guiding principle is that the authority to approve operations with a lower risk-adjusted ROE, or larger exposure, lies with the higher levels of management. These thresholds are approved by the board of directors, which is the highest decision level, exercising its authority through the Credit Committee. Participants in this decision-making forum also include the heads of the commercial departments, the Credit Analysis Department and the DRI.

The **concentration risk** is monitored at an individual level and at a business sector level, evidencing eventual diversification deficiencies.

The concentration risk management is performed at an aggregate level, with a regular monitoring by DRI of concentration indices. Besides that control, the levels of regional diversification and corporate portfolio quality diversification are monthly monitored by DRI.

CEMG has established single counterparty exposure limits for financial institutions. Exceptions to the internal limits, even if temporary, require approval from the board of directors.

In the field of **market risk**, Value-at-Risk (VaR) and stress testing using extreme scenarios are fundamental for analyzing and imposing limits on exposure. Financial activity is monitored through weekly reports on asset portfolios and also counterparty risk reports. Stop-loss and exposure limits are also defined (for each asset class, portfolio, counterparty, rating level and time period). There are also limits for products which require more complex analysis and for currency exposures.

These reports include monitoring of the different exposure limits and analysis of concentration, credit, interest rate and price-variation risk, among others. These analyses take into account scenario analysis, namely the sensitivity of securities portfolio to changes in interest rates, spreads, exchange rates and share and real estate market prices.

In addition to CEMG's exposures, DRI monitors market risks from Montepio Investimento (MI) portfolio, through daily exposure reports and weekly control of CEMG's combined exposure limits.

In terms of **liquidity and interest rate risks**:

- Static and dynamic 12-month gaps are regularly calculated, with monthly (in the case of liquidity) and bi-annual (in the case of interest rate risk) reports submitted to the Bank of Portugal. In this context, CEMG also performs simulations of potential adverse events.
- The liquidity position and its evolution are internally monitored on a daily basis and on a monthly basis by the ALCO Committee, where the medium and long term risks are also addressed. In addition to mismatches, the concentration of funding, principal repayments of liabilities expected, and existing and prospect funding sources are also analyzed.
- An analysis of interest rate risk, balance sheet characterization and a sensitivity analysis of the net interest income and earnings of various risk factors are also studied on a monthly basis by this committee.

The **real estate risk** arises from the exposures in properties that are received through credit recovery processes and is monitored regularly by the institution. An accurate independent revaluation of the properties is performed with a maximum time interval of 3 years and the risk of extreme events are controlled though stress tests exercises (sensitivity and scenario analyses). The scenario analysis takes into consideration extreme losses based on hypothetical price scenarios for property investment funds, investment properties and properties received as a recovery of non-performing loans.

The **operational risk** management system is based on identifying, assessing, monitoring, measuring, mitigating and reporting risks of this type. In terms of CEMG's organizational structure, the Business Risks Department assures the operational risk management, complemented by operational risk partners in the different companies and business units of the group.

The evaluation of the operational risk profile of new products, processes and activities and subsequent follow-up have allowed the earlier identification and mitigation of operational risk situations.

Regarding the risk monitoring, the main activities included the process of loss event capture and analysis, Key Risk Indicators (KRI) analysis, evaluating the Operational Risk exposure at a Committee and developing periodic reports on the institution's operational risk profile.

Within the "mitigating" phase, Action Plans were suggested for the most significant risks identified by the operational risk tools mentioned above.

The Operational Risk Measurement System, which was adopted by CEMG, is being implemented in the other entities of the group. The entities that currently report capital requirements using the Standardized Approach are the following:

Entity	Method
CEMG	TSA
MG-Cabo Verde	TSA
PMI	TSA
PMII	TSA
Montepio Investimento	BIA
Finibanco Angola	BIA
Montepio Crédito	TSA
Banco Terra	BIA

The **business continuity plan** is supported for a set of evaluation activities, design, implementation and monitoring, integrated into a continuous improvement cycle. This process is critical to risk mitigation, making business processes more resilient, ensuring the continuity of operations in case of a disruptive event, considering the defined Recovery Time Objectives (RTO).

In 2014 the systems recovery solutions were strengthened and business recovery exercises were executed.

Internal committees focusing on risk management issues also meet regularly, namely the Risk Committee and ALCO (monthly), where DRI plays an active role and is responsible for the presentation of the relevant risk indicators and information.

In addition, DRI is part of the Investment Committee of Futuro (in charge of Montepio's Pension Fund management) and the Monitoring Committee of Montepio's Pension Fund.

2.3 Scope and nature of risk measurement and information systems

The risk analysis procedures at CEMG include regular reports on the main types of risk to the board of directors and the business areas involved. Regarding **credit risk**, monthly internal reports are produced, with information broken down by commercial department, the main credit portfolio risk indicators and metrics on the use of risk models. The major credit exposures, evolution trends for credit portfolio quality, non-performing loans ratios and a watchlist summarizing exposures that deserve closer supervision and action are identified monthly at the Risk Committee. A weekly report on exposures to counterparty risk is also produced.

The **concentration risk** is followed monthly through reports that are produced by DRI, which reflect the regional diversification level and the corporate portfolio quality.

In the area of **market risk**, in addition to a weekly risk report on CEMG and Montepio Investimento's total portfolio, reports are prepared on a weekly basis for the trading book, as well as for the proprietary portfolio of available for sale assets and a monthly report on the pension fund portfolio. These reports contain information on market risk (e.g. Value-at-Risk), credit risk (external ratings and *Credit*VaR), compliance with limits on exposure and risk, stop-loss and portfolio composition by rating, country, type of security and issuer. DRI also produces daily reports with the details of the daily bond trades done by CEMG and Montepio Investimento and with the portfolio individually managed by Montepio Investimento, including exposures to other counterparties that consolidate with CEMG.

Regarding the **liquidity and interest rate risks**, the monthly report of balance sheet risks monitors those risks' evolution, complementing that control with diverse analyses on the characteristics of the balance sheet. Regarding the liquidity risk, it is also monitored in daily and weekly reports.

The **real estate risk** is followed monthly and quarterly stress tests are performed in order to measure the impact of changes in the real estate market on property investment funds, investment properties and properties received as a recovery of non-performing loans.

At the **operational risk** level, a quarterly report concerning the loss data collection is prepared and, additionally, an annual report regarding the Operational Risk Management Cycle implemented at CEMG is issued.

Risk control techniques and models are based on econometric modeling using CEMG's own experience in granting different types of credit and also, wherever possible, in terms of recovery.

Thus, internal rating models are used for the corporate segment and application scoring models are used for loans to individuals and small businesses. The models used for corporate and small business clients distinguishes between the construction sector and other economic sectors, while in loans to individuals specific models are used for each of the main credit portfolios — mortgage loans, personal loans and credit cards — and a distinction is made between individuals who have been customers of CEMG for more than a year and others.

Internal rating models classify companies into 7 "performing" risk classes and a final class which corresponds to default[1].

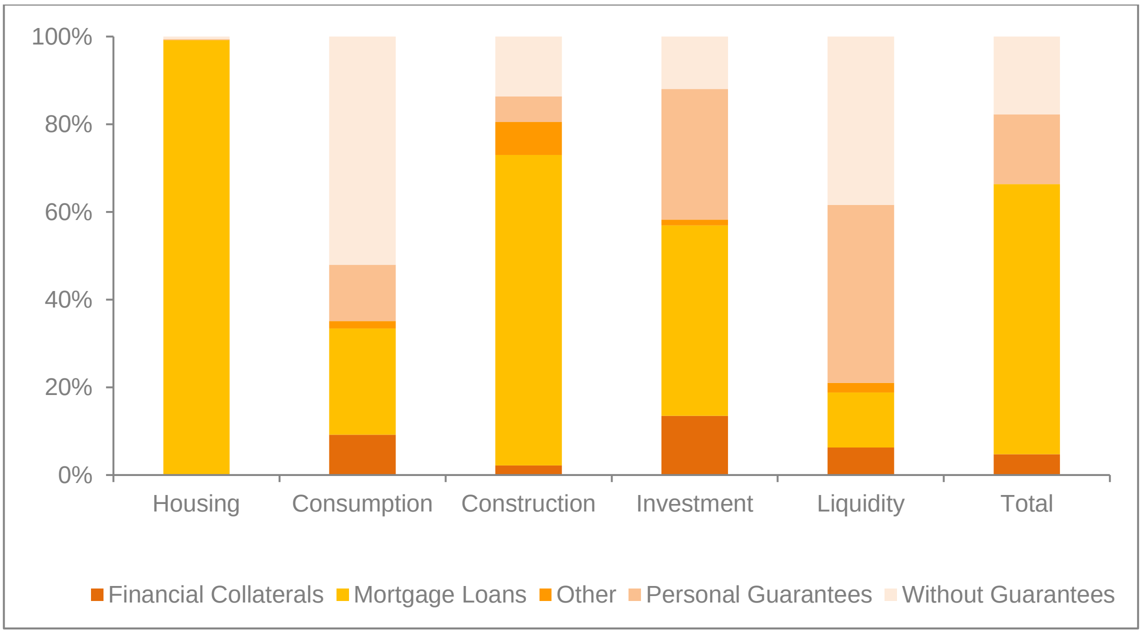
The reactive scoring models use a scale that integrates 8 classes in case of mortgage loans and 10 classes in case of personal loans, aggregating in both cases pre-existing and new customers. The credit card scoring model classifies credit proposals into 4 risk classes.

2.4 Risk coverage and mitigation policies

Collateral requirements depend on the size of the unexpected loss for a given loan and typically apply to operations of greater volume, especially those that involve lending for construction or residential housing purchases. When operations involve real collateral, the loan-to-value ratio is taken into consideration for purposes of pricing, as an indicator of potential loss severity.

Different coverage policies are defined for different types of credit. The distribution by guarantee type for each credit portfolio segment is shown below:

Chart 1 – Distribution of types of guarantee by credit segment [2]



Risk mitigation through collateralization is considered when calculating the price of operations, either via the borrower's credit risk (in the case of real collateral), or through reduction of the exposure level, in situations involving financial collateral (where the market risk of the assets involved is taken into account).

As a rule, personal guarantees are required for retail loans whenever the customer does not comply with debt-to-income rules, while in the context of corporate credit they are standard for

[1] This seventh risk class also includes companies that are in default within the Portuguese financial system, despite being type for each credit portfolio segment is shown below: classified as performing on all credits at Montepio.
[2] The amounts shown under personal guarantee correspond to operations with no other collateralization.

loans involving larger amounts, for smaller companies, and wherever there is a need to further mitigate risk, in light of the operation's collateralization.

3. Capital adequacy

3.1 Regulatory capital

The regulatory capital for solvency purposes includes core or level 1 and complementary or level 2 capital, deducted of the negative components of each.

Core (Tier 1 or level 1) capital is understood as:

- Institutional capital;
- Participation fund of CEMG;
- Issue premiums on shares and participation securities;
- Legal, statutory and other reserves made up of retained earnings;
- Positive results for the year in progress and previous years, net of provisions, depreciation, tax and expected dividends;
- Other capital instruments that fulfill the applicable eligibility criteria for level 1 capital instruments and are validated by Bank of Portugal;
- Minority interest.

Complementary (Tier 2 or level 2) capital is understood as:

- Subordinated loans;

Negative elements of regulatory capital correspond to:

- Units of the participation fund of CEMG held by the own institution;
- Assets held by the institution that are part of the regulatory capital of a third party;
- Intangible fixed assets and positive consolidation differences;
- Negative results for the year in progress and previous years;
- Deferred tax assets attributable due to tax losses;
- Deferred tax assets attributable to temporary differences if above 10% of the core capital.

3.2 Internal capital allocation

CEMG's capital requirements for credit and market risk, as of December 31, 2014, were calculated using the Standardized Approach. Concerning the operational risk, calculations used the Standardized approach for CEMG, MG Cabo Verde and Montepio Crédito and the Basic Indicator approach for Montepio Investimento, Banco Terra and Finibanco Angola. All calculations are in accordance with the Basel III regulations, as stated in Capital Requirements Directive IV (2013/36/EU) and Capital Requirements Regulation nº 575/2013 (CRD IV/CRR)..

The following table shows the distribution of capital requirements for various types of risk, including the capital requirements related to deferred tax assets and to Credit Valuation Adjustment (in Other Basel III Risks):

Table 1 – Capital Requirements by Risk Type

(thousands €)

	Credit Risk	Market Risk	Operational Risk	Other Risks Basel III	Total
Dec-13	1.067.147	3.664	64.281	-	1.135.092
Dec-14	1.106.711	6.438	65.632	29.619	1.208.400

Within capital requirements for credit and counterparty risk, approximately 91,6% corresponds to the loan portfolio.

3.3 Capital adequacy

The CEMG Group strives to provide the institution with a level of capital appropriate for the evolution of its business, which will ensure satisfactory solvency indicators, consistent with the regulatory recommendations.

2014 was the year when the new Basel III regulations came into force through CRD IV and CRR.

The new regulation, with particularly significant capital impacts at the level of deferred taxes, pension funds and eligibility of subordinated debt instruments for Tier II capital, caused a negative impact on CEMG's prudential capital. Nevertheless, CEMG presented in December 2014 a total capital ratio of 8,67%, above the minimum value fixed by the current regulation.

Regarding the eligibility of subordinated debt instruments for Tier II capital, CEMG promoted during the first semester of 2015 the alteration of clauses in three of these instruments (approved by the debt owners' general meeting) that allowed these issues to recover eligibility for Tier II capital in 2015. The resulting estimated impact is approximately +0,93 percentage points (p.p.) on the total capital ratio.

Under its internal capital adequacy assessment process (ICAAP), CEMG analyses the evolution observed in qualitative and quantitative risk evaluation practices, in internal controls and effects aimed at risk mitigation, considering adverse scenarios simulation with impacts on the solvency of CEMG Group and in the internal capital adequacy valuation.

In this exercise, CEMG quantifies its economic capital requirements applying add-ons to the regulatory capital. These add-ons include requirements related with other risks not considered under Pillar I (regulatory approach) and the difference between regulatory and economic capital requirements, taking into account CEMG's internal risk quantification methodologies.

In light of the internal strategic plan and of the objectives of the Funding and Capital Plan agreed with Bank of Portugal and reviewed periodically, no significant changes are anticipated in the material dimensions of the various types of risk. The forecasts verify that CEMG is adequately capitalized. Moreover, the Funding and Capital Plan comprises several measures that will further strengthen CEMG's solvency levels, either by reinforcing own funds or reducing risk weighted assets.

With regards to credit risk, higher levels of collateralization for new retail loans are observed, reducing the average loan-to-values ratios, improving the average levels of capital requirements.

The current strategy of diversification across economic sectors, particularly in the corporate segment, will move in the opposite direction where collateral is concerned. However, though exposure is expected to rise in sectors not related to construction, a greater effort to increase the collateralization of new loans will continue.

The following Tables 2 to 4 provide a summary of solvency figures throughout 2014, taking into account only Pillar I requirements.

Table 2 – Capital adequacy for regulatory capital purposes

(thousands €)

			Capital Adequacy - Part 1	Dec-14	Dec-13
1.	**Total regulatory capital for solvency purposes**			1.309.116	1.849.276
1.1.	**Core Capital**			1.285.230	1.570.508
	1.1.1.	Eligible share capital		1.696.720	1.700.000
		1.1.1.1.	Paid-in share capital	1.700.000	1.700.000
		1.1.1.2.	(-) Own shares	-3.280	0
		1.1.1.3.	share issuance premiums	0	0
		1.1.1.4.	Other financial instruments similar to capital	0	0
	1.1.2.	Eligible reserves and results		-280.381	-108.402
		1.1.2.1.	Reserves	-116.017	191.945
		1.1.2.2.	Eligible minority interests	22.588	8.882
		1.1.2.3.	Results from the previous year and provisional results for the current year	0	0
		1.1.2.4.	(-) Negative results from the previous year and negative provisional results for the current year	-186.953	-298.626
		1.1.2.5.	Results from the previous year and provisional results for the current year	0	0
		1.1.2.6.	(-) Net gains from capitalisation of future margin income from securitised assets	0	0
		1.1.2.7.	Revaluation differences eligible for Tier 1 regulatory capital	0	-10.603
	1.1.3.	Fund for general banking risks		0	0
	1.1.4.	Other items eligible for Tier 1 capital		6.618	68.066
		1.1.4.1.	Other eligible instruments	6.618	8.273
		1.1.4.2.	Impact of the transition to the IAS/AAS (negative impact)	0	1.358
		1.1.4.3.	Other items eligible for Tier 1 capital	0	58.435
	1.1.5.	(-) Other items deductable from Tier 1 capital		-137.727	-89.156
		1.1.5.1.	(-) Intangible fixed assets	-66.054	-59.279
		1.1.5.2.	(-) Amount in excess of the eligibility limit for financial instruments included in Tier 1 capital	0	0
		1.1.5.3.	(-) Other items to be deducted from Tier 1 capital	-71.673	-29.877
1.2.	**Complementary capital**			23.885	316.556
	1.2.1.	Upper Tier 2		0	12.918
	1.2.2.	Lower Tier 2		32.826	303.638
	1.2.3.	(-) Deductions from complementary capital		-8.941	0
1.3.	**(-) Deductions from Tier 1 and complementary capital**			0	-22.173
	1.3.a.	Of which: (-) from Tier 1 capital		0	-11.087
	1.3.b.	Of which: (-) from complementary capital		0	-11.087
1.4.	**Total Tier 1 captial for solvency purposes**			1.285.230	1.559.421
1.5.	**Total complementary capital for solvency purposes**			23.885	305.469
1.6.	**(-) Deductions from total regulatory capital**			0	-15.615
1.7.	**Total complementary capital available to cover market risks**			0	0
1.8.	**For the record:**			0	0
	1.8.1	(+) Surplus / (-) Shortfall in value corrections and "provisions" for assets risk weighted via the internal models method		0	0
		1.8.1.1	Amount of value corrections and "provisions" in the internal models method	0	0
		1.8.1.2.	(-) Expected loss determinded by the internal models method	0	0
	1.8.2.	Nominal value of subordinated debt recognised as a positive contributor to own funds		0	0
	1.8.3.	Minimum requirement for social capital		0	0
	1.8.4.	Reference capital for the purpose of large exposures limits		1.309.116	1.849.276

Note: Dec-2013 values calculated according to Bank of Portugal's Notice 5/2007 and Instruction 23/2007 (Basel II). Dec-2014 values calculated according to CRD IV/CRR (Basel III).

Table 3 – Capital adequacy for capital requirements purposes

(thousands €)

Capital Adequacy - Part 2			Dec-14	Dec-13
2.	Regulatory capital requirements		1.208.400	1.135.092
2.1.	For credit risk, counterparty risk, risk of decrease in receivables and delivery risk		1.106.711	1.067.147
	2.1.1.	Standardised approach	1.106.711	1.067.147
	2.1.1.1.	Risk classes in the standardised approach, excluding securitisation positions	1.106.029	1.066.395
		2.1.1.1.1. Claims and conditional claims on central governments and central banks	3.740	1.267
		2.1.1.1.2. Claims and conditional claims on regional governments and local authorities	1.024	674
		2.1.1.1.3. Claims and conditional claims on public sector and othe non-profit public institutions	1.063	296
		2.1.1.1.4. Claims and conditional claims on multilateral development banks	0	0
		2.1.1.1.5. Claims and conditional claims on international organizations	0	0
		2.1.1.1.6. Claims and conditional claims on insitutions	60.686	55.899
		2.1.1.1.7. Claims and conditional claims on corporations	427.176	427.392
		2.1.1.1.8. Claims and conditional claims in the retails portfolio	75.973	81.819
		2.1.1.1.9. Claims and conditional claims seccured by real estate	237.403	265.325
		2.1.1.1.10. Past due items	107.525	78.026
		2.1.1.1.11. Items classified as high risk for regulatory purposes	15.482	0
		2.1.1.1.12. Covered bonds and public sector bonds	753	780
		2.1.1.1.13. Exposures to colective investment undertakings (CIU)	19.127	41.843
		2.1.1.1.14. Other items	156.076	113.075
	2.1.1.2.	Securitisation exposures using the standardised approach	682	752
	2.1.1.3.	(-) Provisions for general credit risks	0	0
2.2.	Settlement risk		0	0
2.3.	Capital requirements for position risk, foreign exchange risk and commodities risk		6.438	3.664
	2.3.1.	Standardised approach	6.438	3.664
	2.3.1.1.	Debt instruments	408	2.395
	2.3.1.2.	Equity instruments	978	1.269
	2.3.1.3.	Exchange rate risk	5.038	0
	2.3.1.4.	Commodities risk	14	0
2.4.	Capital requirements for operational risk		65.632	64.281
	2.4.1.	Basic indicator method	6.780	7.275
	2.4.2.	Standardised approach	58.852	57.005
	2.4.3.	Advanced measurement methods	0	0
2.5.	Regulatory capital requirements - fixed general expenditure		0	0
2.6.	Temporary capital requirements or other capital requirements		29.619	0

Note: Dec-2013 values calculated according to Bank of Portugal's Notice 5/2007 and Instruction 23/2007 (Basel II). Dec-2014 values calculated according to CRD IV/CRR (Basel III).

Table 4 – Total Capital adequacy

(thousands €)

Capital Adequacy - Part 3	Dec-14	Dec-13
Surplus (+) / Shortfall (-) in total capital	100.716	714.184
Total Capital Ratio (%)	8,67%	13,03%

Note: Dec-2013 values calculated according to Bank of Portugal's Notice 5/2007 and Instruction 23/2007 (Basel II). Dec-2014 values calculated according to CRD IV/CRR (Basel III).

4. Counterparty credit risk

4.1 Exposure Limits

Various limits have been defined for the most relevant risks faced in the course of business. In measuring counterparty credit risk, particular attention is paid to large exposure limits, which are based on internal ratings and profit levels.

4.2 Assessment policies of collaterals

Given the credit quality (rating) of counterparties and the limited level of exposure, no guarantees are required for these operations.

4.3 Quantitative information

As illustrated in Table 5, CEMG's counterparty risk exposures are proportionally low compared to the total portfolio (below 10% of total exposure) and mostly associated with central government entities or financial institutions.

Table 5 – Counterparty credit risk

(thousands €)

	Original Exposure	Credit risk mitigation techniques with substitution effect in the original net exposure	Exposure after risk mitigation	Risk-weighted exposure	
				Dec-14	Dec-13
	1	2	3	4	5
Repos, borrowing/lending of securities or commodities, long settlement transactions or transactions with imposition of margin loans	113.248	0	113.248	101.658	1.657
Derivatives	100.032	0	100.032	73.578	62.349
Contractual multiproduct netting	0	0	0	0	0

The Mark-to-Market valuation method is used to calculate the exposure value for derivatives, repurchase transactions, borrowing or lending of securities or commodities, long term settlement transactions and lending operations with margin imposition, as specified in Section 3, Chapter 6, Title II, Part III of CRR. This method consists of adding a potential-future-value adjustment to the market value of the exposure, which is calculated by multiplying the notional value by a regulatory factor defined according to the type of contract and its residual maturity.

As of December 31, 2014, CEMG had no credit risk hedging operations via credit derivatives:

Table 6 – Credit Derivatives Hedging

(thousands €)

Risk Class (Hedged transactions)	Original exposure 2013	Original exposure 2012	Notional amount covered by credit derivatives: CDS (1)	TRS (2)	CLN (3)	Other	Total 2013	Total 2012
	1	2	3	4	5	6	7=3+4+5+6	8
CL I - Central government and central banks								
CL VI - Institutions								

(1) CDS: Credit Default Sw aps

(2) TRS: Total Return Sw aps

(3) CLN - Credit Linked Notes

On the same date, CEMG had the following investment exposure to credit derivatives, considering the market value:

Table 7 – Credit Derivatives Instruments

(thousands €)

Transactions in Credit Derivatives	Long Positions 2014	Long Positions 2013	Short Positions 2014	Short Positions 2013
I. Credit Portfolio (totals):				
a) Credit Default Swaps	0	134		54
b) Total Return Swaps				
c) Credit Linked Notes	85.585	0		
d) Other Credit Derivatives				
II. Trading Transactions (totals):				
a) Credit Default Swaps				
b) Total Return Swaps				
c) Credit Linked Notes				
d) Other Credit Derivatives				

Long Positions - Theoretical value of the aquired protection

Short Positions - Theoretical value of the sold protection

5. Credit risk

5.1 Definitions

For accounting purposes, the following definitions apply:

- **Past due credit**: all payments of capital and interest not made on the date they fall due;
- **Loans subject to impairment**: all loans that, according to the analysis carried out individually—for Individually Significant loans—or collectively—for those included in the homogeneous populations—suggest expectations of loss or display impairment signs, as defined by the internal model (including past due loans, restructured credit and registration as a risky user in the Bank of Portugal's database, etc.);
- **Past due loans**: all loans with payments in arrears;

- **Value corrections**: derive from the regulatory provisioning of CEMG portfolio positions. On the date of initial recognition, credits are recorded at their face value, in accordance with the procedures defined in Bank of Portugal Notice 1/2005.

The value corrections for year-end 2013 and 2014 were 1.052 million euros and 1.386 million euros, respectively:

Table 8 – Provisions and value corrections

(thousands €)

Value Corrections and Provisions	Dec-14	Dec-13
Initial Balance	**1.051.526**	**922.284**
Charge for the year net of reversals	525.076	298.049
Recovery of loans and interest charged-off	-362.292	-315.552
Transfers/Others	171.562	146.745
Closing Balance	**1.385.872**	**1.051.526**

5.2 Portfolio Structure

The distribution of exposures in the loan portfolio by risk class shows a large concentration in the Positions Guaranteed by Real Estate and Corporate Loans classes, as there was in the previous year (Table 9).

Table 9 – Distribution of credit exposures by risk class

(thousands €)

Risk Class	Orignial exposure at default		Orignial exposure at default (mean over the course of the year)	
	Dec-14	Dec-13	Dec-14	Dec-13
CL I - Central government and central banks	2.532.373	3.555.986	2.542.466	2.453.378
CL II - Regional governments and local authorities	62.712	42.898	54.941	44.708
CL III - Public sector entities and other non-profit public institutions	14.253	5.384	10.090	18.148
CL IV - Multilateral development banks	0	0	0	0
CL V - International organisations	0	0	0	0
CL VI - Institutions	1.458.011	1.059.323	1.356.744	912.015
CL VII - Corporations	6.372.452	5.906.023	6.134.909	5.379.360
CL VIII - Retail portfolio	1.906.628	1.777.932	1.873.440	1.814.551
CL IX - Garanteed by real estate	7.762.493	8.477.962	7.956.975	8.482.996
CL X - Past due items	1.212.849	868.827	1.322.617	868.342
CL XI - Covered bonds and public sector bonds	19.242	20.544	20.114	15.640
CL XII - Exposures to colective investment undertakings (CIU)	239.090	513.136	241.321	458.090
CL XIII - Other items	2.234.000	1.717.394	2.039.937	1.796.630
Securitisation exposures using the standardised approach	8.834	9.403	9.121	10.625
TOTAL	**23.822.937**	**23.954.811**	**23.562.674**	**22.254.483**

CEMG is commercially present in most regions (NUTS II[3]) of the country (Table 10), though a higher concentration is still seen in areas with higher population density (Lisbon, North and Center) when analyzing the geographic distribution of the loan portfolio.

Table 10 – Geographic distribution of exposures in the credit portfolio by risk class (as a % of original exposure at default)

		Geografic distribution of exposures (as a % of original exposure at default)								
Year	Risk Class	Lisbon	North	Center	Algarve	Alentejo	Azores	Madeira	Angola	Mozambique
2013	CL I - Central government and central banks	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,01%	0,00%	
	CL II - Regional governments and local authorities	0,14%	0,00%	0,03%	0,00%	0,00%	0,02%	0,04%	0,00%	
	CL III - Public sector entities and other non-profit public institutions	0,01%	0,02%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	
	CL VI - Institutions	0,67%	0,07%	0,01%	0,00%	0,00%	0,00%	0,00%	0,00%	
	CL VII - Corporations	15,21%	7,42%	4,23%	1,09%	0,61%	0,60%	0,48%	1,13%	
	CL VIII - Retail portfolio	2,74%	3,53%	2,17%	0,58%	0,49%	0,32%	0,13%	0,08%	
	CL IX - Garanteed by real estate	20,37%	12,21%	7,15%	2,68%	2,33%	1,79%	1,38%	0,00%	
	CL X - Past due items	4,05%	3,16%	1,88%	0,58%	0,39%	0,13%	0,05%	0,03%	
	TOTAL	**43,20%**	**26,41%**	**15,47%**	**4,93%**	**3,81%**	**2,85%**	**2,10%**	**1,23%**	
2014	CL I - Central government and central banks	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,04%	0,00%	0,00%
	CL II - Regional governments and local authorities	0,13%	0,00%	0,03%	0,00%	0,00%	0,01%	0,03%	0,00%	0,00%
	CL III - Public sector entities and other non-profit public institutions	0,02%	0,01%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
	CL VI - Institutions	1,14%	0,02%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
	CL VII - Corporations	15,51%	7,58%	4,32%	1,04%	0,93%	0,64%	0,43%	2,23%	0,05%
	CL VIII - Retail portfolio	2,80%	3,99%	2,37%	0,57%	0,47%	0,34%	0,15%	0,07%	0,01%
	CL IX - Garanteed by real estate	18,16%	11,00%	6,61%	2,46%	2,03%	1,67%	1,23%	0,00%	0,06%
	CL X - Past due items	5,08%	3,69%	2,05%	0,40%	0,35%	0,10%	0,10%	0,03%	0,06%
	TOTAL	**42,84%**	**26,29%**	**15,37%**	**4,47%**	**3,78%**	**2,77%**	**1,98%**	**2,33%**	**0,18%**

With regards to the distribution of the corporate portfolio by economic sector (Table 11), the construction sector deserves special attention, despite showing a decrease in its proportion, by -4,0 p.p., compared to Dec-13. There is also a significant proportion of loans in the Commerce, Finance, Insurance and Real Estate Management sectors, with the Wholesale and Retail Trade registering a slight increase of about 1,5 p.p. and the sector Real Estate a decrease of -1,8 p.p., over the last year.

[3] NUTS II is the *Unidades Territoriais para Fins Estatísticos de Nível II* used by the National Institute of Statistics (INE).

Table 11 – Economic sector distribution of exposures in the credit portfolio by risk class (as a % of original exposure at default)

Year	Risk Class	Primary Sector	Secondary Sector		Tertiary Sector							
			Construction	Other	Wholesale and retail trade	Financial & Insurance	Real estate	Transport & Warehousing	Hotels, Restaurants, etc.	Consultancy, Scientific, technical and similar activities	Public administration (1)	Other
2013	CL I - Central government and central banks	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,02%	0,00%
	CL II - Regional governments and local authorities	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,54%	0,00%
	CL III - Public sector entities and other nonprofit public institutions	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,07%
	CL VI - Institutions	0,00%	0,00%	0,00%	0,00%	1,67%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
	CL VII - Corporations	0,74%	14,43%	11,00%	8,46%	9,23%	7,34%	4,29%	2,05%	2,56%	1,80%	4,39%
	CL VIII - Retail portfolio	0,19%	1,05%	1,05%	2,01%	0,12%	0,58%	0,48%	0,61%	0,57%	0,83%	1,03%
	CL IX - Garanteed by real estate	0,04%	3,10%	1,25%	1,18%	0,52%	1,27%	0,05%	0,79%	0,17%	0,26%	0,46%
	CL X - Past due items	0,13%	5,56%	1,51%	2,52%	0,28%	2,10%	0,16%	0,61%	0,31%	0,10%	0,53%
	TOTAL	**1,11%**	**24,14%**	**14,81%**	**14,17%**	**11,82%**	**11,29%**	**4,98%**	**4,06%**	**3,61%**	**3,54%**	**6,48%**
2014	CL I - Central government and central banks	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,09%	0,00%
	CL II - Regional governments and local authorities	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,42%	0,00%
	CL III - Public sector entities and other nonprofit public institutions	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,07%
	CL VI - Institutions	0,00%	0,00%	0,00%	0,00%	2,40%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
	CL VII - Corporations	1,04%	11,28%	12,58%	10,11%	8,55%	4,96%	5,28%	2,65%	2,66%	1,54%	4,52%
	CL VIII - Retail portfolio	0,21%	1,02%	1,16%	2,32%	0,10%	0,56%	0,39%	0,67%	0,58%	0,91%	1,10%
	CL IX - Garanteed by real estate	0,10%	0,96%	1,23%	0,54%	0,06%	0,73%	0,07%	0,38%	0,10%	0,48%	0,51%
	CL X - Past due items	0,12%	6,84%	1,77%	2,70%	1,15%	3,20%	0,27%	0,57%	0,39%	0,09%	0,58%
	TOTAL	**1,46%**	**20,10%**	**16,74%**	**15,68%**	**12,25%**	**9,45%**	**6,01%**	**4,27%**	**3,73%**	**3,52%**	**6,78%**

(1) Public Administration and Defense; Social Security; Human health and welfare

In terms of distribution by residual maturity, as seen in the following table, about 47% of assets are long-term (residual maturity greater than 10 years). These assets are mostly in the class “Guaranteed by Real Estate” and consist of housing loans and investment loans to corporations. The portfolio with no set payment plan, which corresponds to about 14,5% of the overall original exposure, consists broadly of liquidity facilities for companies (revolving credit).

Table 12 – Residual maturity of the credit portfolio by risk class (as a % of original EAD)

Year	Risk Class	Residual maturity (as a % of original exposure at default) RM < 1	1 year < RM < 5 years	5 years < RM < 10 years	RM > 10 years	Revolving
2013	CL I - Central government and central banks	0,0%	0,0%	0,0%	0,0%	0,0%
	CL II - Regional governments and local authorities	0,1%	0,1%	0,1%	0,0%	0,0%
	CL III - Public sector entities and other non-profit public institutions	0,0%	0,0%	0,0%	0,0%	0,0%
	CL VI - Institutions	0,2%	0,2%	0,2%	0,0%	0,2%
	CL VII - Corporations	10,1%	4,0%	5,4%	3,0%	8,2%
	CL VIII - Retail portfolio	1,5%	2,0%	2,5%	1,6%	2,4%
	CL IX - Garanteed by real estate	0,6%	0,8%	3,8%	42,0%	0,8%
	CL X - Past due items	2,8%	0,8%	1,0%	3,3%	2,3%
	Total original exposure at default	**15,2%**	**7,9%**	**13,0%**	**49,9%**	**13,9%**
2014	CL I - Central government and central banks	0,0%	0,0%	0,0%	0,0%	0,0%
	CL II - Regional governments and local authorities	0,1%	0,0%	0,1%	0,0%	0,0%
	CL III - Public sector entities and other non-profit public institutions	0,0%	0,0%	0,0%	0,0%	0,0%
	CL VI - Institutions	0,3%	0,0%	0,2%	0,0%	0,6%
	CL VII - Corporations	10,5%	4,8%	6,4%	3,7%	7,3%
	CL VIII - Retail portfolio	1,5%	1,9%	3,1%	1,8%	2,5%
	CL IX - Garanteed by real estate	0,3%	0,4%	3,2%	39,0%	0,4%
	CL X - Past due items	3,5%	0,9%	1,3%	2,4%	3,7%
	Total original exposure at default	**16,2%**	**8,0%**	**14,3%**	**46,9%**	**14,5%**

5.3 Concentration risk

As mentioned, CEMG has an ongoing diversification strategy in order to reduce the proportion of exposure related to the real estate sector. The impact of concentration risk on capital requirements is evaluated through the calculation of sector and individual concentration indexes (CI), according to the Bank of Portugal's Instruction 5/2011.

The individual CI[4] is calculated from the 100 largest exposures, aggregated by client/economic group. The proportion of these exposures in Dec-14 amounted to roughly 18% of the loan portfolio and 22% of the total portfolio[5].

The sector CI[6] is calculated based on the classification of clients' economic activities.

Table 13 – Concentration indices

	Credit Portfolio		Total Portfolio	
	Dec-14	Dec-13	Dec-14	Dec-13
Individual CI	0,29	0,24	0,34	0,31
Sector CI	10,4	12,2	10,7	11,8

The decrease in the sector CI reflects the diversification strategy that the Institution has been pursuing in all portfolios, both at a sector and on an asset type level.

[4] Customer Concentration Index = $\Sigma x^2 / (\Sigma x * \Sigma y) * 100$, where x represents the value of total exposure to each customer / economic group belonging to the institution's 100 largest counterparties, and Σy corresponds to the total exposure of the portfolio.

[5] Total Portfolio = Loan Portfolio + Portfolios subject to capital requirements (including AFS – Available for Sale, HTM – Held to Maturity, Trading and of balance hedging).

[6] Sector Concentration Index = $\Sigma x^2 / (\Sigma x)^2 * 100$, where x represents the total exposure in each economic sector.

With regard to the distribution of the largest exposures by country, the portfolio is almost entirely concentrated in Portugal (Table 14).

Table 14 – Distribution of exposures by Country

(thousands €)

Country	Exposure by Country		% Total Portfolio	
	Dec-14	Dec-13	Dec-14	Dec-13
Portugal	18.622	17.813	96,33%	96,62%
Spain	141	135	0,73%	0,73%
Italy	111	54	0,57%	0,29%
France	89	34	0,46%	0,19%
Ireland	61	65	0,32%	0,35%
United Kingdom	60	61	0,31%	0,33%
Others	248	275	1,28%	1,49%
Total	**19.332**	**18.436**	**-**	**-**

5.4 Past Due and Impaired Loans

The distribution of the past due exposures and the related impairment provisioning reflect the concentration of the activity in the business sectors of construction, real estate and commerce.

The geographical distribution of past due loans (Table 15) shows, in line with the total portfolio for 31 December, 2013, a larger concentration in the Lisbon, North and Central regions, reflecting the overall portfolio´s geographical distribution.

Table 15 – Breakdown of past due and impaired exposures

Year		Total exposures		% Exposures past due	% Covered by impairment provisions
Dec-13	Breakdown by main economic sectors (Corporate segment)	Primary Sector		0,9%	29,6%
		Secondary Sector	Construction	40,3%	33,4%
			Others	11,0%	44,2%
		Tertiary Sector	Wholesale and retail trade	18,2%	44,8%
			Real estate activities	15,2%	31,2%
			Hotels, Restaurants, etc.	4,4%	23,5%
			Other	3,8%	45,9%
			Consultancy, Scientific, technical and similar activities	2,3%	38,3%
			Financial & Insurance	2,0%	33,7%
			Transport & Warehousing	1,2%	44,9%
			Public admin. and defense; Social Security; Human health and welfare	0,7%	31,4%
		Total		100,0%	36,6%
	Breakdown by main geografic regions	Lisbon		39,4%	34,2%
		North		30,8%	38,5%
		Center		18,3%	33,3%
		Algarve		5,6%	26,2%
		Alentejo		3,8%	34,5%
		Azores		1,3%	28,1%
		Madeira		0,5%	32,9%
		Angola		0,3%	4,9%
		Total		100,0%	34,8%
Dec-14	Breakdown by main economic sectors (Corporate segment)	Primary Sector		0,7%	44,4%
		Secondary Sector	Construction	38,7%	43,1%
			Others	10,0%	58,9%
		Tertiary Sector	Real estate activities	18,1%	44,2%
			Wholesale and retail trade	15,3%	55,5%
			Financial & Insurance	6,5%	40,0%
			Other	3,3%	56,1%
			Hotels, Restaurants, etc.	3,2%	32,3%
			Consultancy, Scientific, technical and similar activities	2,2%	46,2%
			Transport & Warehousing	1,5%	42,4%
			Public admin. and defense; Social Security; Human health and welfare	0,5%	31,1%
		Total		100,0%	46,6%
	Breakdown by main geografic regions	Lisbon		42,9%	45,0%
		North		31,1%	45,8%
		Center		17,3%	37,9%
		Algarve		3,4%	40,4%
		Alentejo		2,9%	42,7%
		Azores		0,9%	26,7%
		Madeira		0,8%	25,6%
		Mozambique		0,5%	42,0%
		Angola		0,2%	91,7%
		Total		100,0%	43,6%

5.5 Standard Approach

The capital requirement for credit and counterparty risk is determined in accordance with the Standard Approach as defined in Capital Requirements Directive IV - CRD IV 2013/36/UE and Capital Requirements Regulation - CRR n.º 575/2013 (Basel III). Depending on the nature of the counterparty, asset portfolio positions are assigned to one of several risk classes, and ratings provided by Moody's, S&P and Fitch are used in the attribution of risk weights.

This use is common to all risk classes and is in accordance with Basel III regulation, as follows:

- When different ratings are simultaneously issued by separate recognized agencies, the second highest of the two best risk weights applies;

- In the case of bonds or similar securities, the issue rating is used, and the issuer rating applied only in cases where an issue rating is not available;
- Existing ratings are used consistently for all exposures in all classes.

The value of risk-weighted exposures is calculated based on the exposure value, net of provisions and value corrections, considering the effect of credit risk mitigation techniques—namely real and personal credit protections—and after the application of conversion factors to off-balance sheet elements.

As of December 2014, the distribution of CEMG's portfolio among the different classes and risk weights are presented in detail in the following table.

Table 16 – Regulatory capital, counterparty and credit risk requirements

(thousands €)

		Risk weights									Total
		0%	10%	20%	35%	50%	75%	100%	150%	Other	
1. Original exposure by risk class	CL I - Central government and central banks	2.361.760	0	169.756	0	29	0	829	0	0	2.532.373
	CL II - Regional governments and local authorities	0	0	62.712	0	0	0	0	0	0	62.712
	CL III - Public sector entities and other non-profit public institutions	0	0	3	0	0	0	14.250	0	0	14.253
	CL IV - Multilateral development banks	0	0	0	0	0	0	0	0	0	0
	CL V - International organisations	0	0	0	0	0	0	0	0	0	0
	CL VI - Institutions	0	0	710.242	0	56.725	0	555.421	129.013	6.610	1.458.011
	CL VII - Corporations	0	0	0	728	39.590	0	6.332.133	0	0	6.372.452
	CL VIII - Retail portfolio	0	0	0	0	0	1.906.628	0	0	0	1.906.628
	CL IX - Garanteed by real estate	0	0	0	7.084.917	128.781	346.353	202.443	0	0	7.762.493
	CL X - Past due items	0	0	0	0	0	0	934.660	278.188	0	1.212.849
	CL XI - Covered bonds and public sector bonds	0	516	0	0	18.726	0	0	0	0	19.242
	CL XII - Exposures to colective investment undertakings (CIU)	0	0	0	0	0	0	239.090	0	0	239.090
	CL XIII - Other items	189.558	0	116.857	0	0	0	1.927.585	0	0	2.234.000
	Securitisation exposures using the standardised approach	0	0	0	0	609	0	8.225	0	0	8.834
	TOTAL of original exposures:	**2.551.318**	**516**	**1.059.570**	**7.085.645**	**244.460**	**2.252.981**	**10.214.637**	**407.202**	**6.610**	**23.822.937**
2. Exposures by risk class (basis for RW application)	CL I - Central government and central banks	2.361.760	0	169.756	0	29	0	829	0	0	2.532.373
	CL II - Regional governments and local authorities	0	0	62.298	0	0	0	0	0	0	62.298
	CL III - Public sector entities and other non-profit public institutions	0	0	3	0	0	0	13.285	0	0	13.288
	CL IV - Multilateral development banks	0	0	0	0	0	0	0	0	0	0
	CL V - International organisations	0	0	0	0	0	0	0	0	0	0
	CL VI - Institutions	0	0	692.361	0	56.725	0	535.118	129.013	6.610	1.419.827
	CL VII - Corporations	0	0	0	728	39.590	0	5.542.330	0	0	5.582.648
	CL VIII - Retail portfolio	0	0	0	0	0	1.434.046	0	0	0	1.434.046
	CL IX - Garanteed by real estate	0	0	0	7.084.917	128.781	341.456	198.929	0	0	7.754.082
	CL X - Past due items	0	0	0	0	0	0	934.654	276.281	0	1.210.935
	CL XI - Covered bonds and public sector bonds	0	516	0	0	18.726	0	0	0	0	19.242
	CL XII - Exposures to colective investment undertakings (CIU)	0	0	0	0	0	0	239.090	0	0	239.090
	CL XIII - Other items	189.558	0	116.857	0	0	0	1.927.585	0	0	2.234.000
	Securitisation exposures using the standardised approach	0	0	0	0	609	0	8.225	0	0	8.834
	TOTAL exposures:	**2.551.318**	**516**	**1.041.275**	**7.085.645**	**244.460**	**1.775.502**	**9.400.046**	**405.294**	**6.610**	**22.510.665**
3. TOTAL risk weighted exposures (=Σ (2."x"risk weights))		**0**	**52**	**208.255**	**2.479.976**	**122.230**	**1.331.626**	**9.400.046**	**607.941**	**0**	**14.150.125**
Capital requirements by risk class (2. "x" risk weights "x" 8%)	CL I - Central government and central banks	0	0	2.716	0	1	0	66	0	0	2.784
	CL II - Regional governments and local authorities	0	0	997	0	0	0	0	0	0	997
	CL III - Public sector entities and other non-profit public institutions	0	0	0	0	0	0	1.063	0	0	1.063
	CL IV - Multilateral development banks	0	0	0	0	0	0	0	0	0	0
	CL V - International organisations	0	0	0	0	0	0	0	0	0	0
	CL VI - Institutions	0	0	11.078	0	269	0	42.729	15.482	6.610	76.167
	CL VII - Corporations	0	0	0	18	1.390	0	426.752	0	0	428.160
	CL VIII - Retail portfolio	0	0	0	0	0	75.973	0	0	0	75.973
	CL IX - Garanteed by real estate	0	0	0	196.841	4.734	20.267	15.561	0	0	237.403
	CL X - Past due items	0	0	0	0	0	0	74.772	32.752	0	107.525
	CL XI - Covered bonds and public sector bonds	0	4	0	0	749	0	0	0	0	753
	CL XII - Exposures to colective investment undertakings (CIU)	0	0	0	0	0	0	19.127	0	0	19.127
	CL XIII - Other items	0	0	1.870	0	0	0	154.207	0	0	156.076
	Securitisation exposures using the standardised approach	0	0	0	0	24	0	658	0	0	682
	TOTAL capital requirements:	**0**	**4**	**16.660**	**196.860**	**7.168**	**96.240**	**734.935**	**48.234**	**6.610**	**1.106.711**

6. Credit risk mitigation techniques

Both personal guarantees, which substitute the risk of one counterparty for another, and financial collateral, which directly reduces the value of the exposure, are used to reduce credit risk for the positions held in the loan portfolio. Mortgage collateral is also a relevant risk mitigating technique in the CEMG portfolio.

CEMG does not generally use on- or off-balance sheet compensation methods, and does not originate credit derivatives for its loan portfolio.

Exposures with risk mitigation via risk substitution are mostly corporate/business loans guaranteed by Mutual Guarantee companies (Agrogarante, Norgarante, Lisgarante and Garval).

Loans in which risk is reduced directly correspond mainly to those collateralized by financial securities, namely term deposits, gold, bonds and shares included in a main index of a recognized stock exchange, as presented in Section 4, Chapter 4, Title II, Part III of CRR.

With regards to mortgage collateral, property evaluations are performed by independent specialists or an independent department. The re-evaluation of these assets is done in accordance with the requirements defined in Notice 5/2007, using real estate price variation indices[7] or on-site assessments.

Table 17 – Property Re-evaluation

Property for housing	- At least once every three years, automatically, using real estate variation indices. - For loans exceeding 5% of regulatory capital of the Institution or 500.000 euros, the assessment of the property must be reviewed by an evaluator.
Property for commercial purposes	- At least once a year, automatically through the use of indices, using real estate variation indices. - For loans exceeding 5% of regulatory capital or 1 million euros, the assessment of the property must be reviewed by an evaluator at least every three years.

[7] Based on data provided by Credit Institutions and Real Estate Brokers.

Table 18 – Credit risk mitigation techniques

(thousands €)

Risk Class	Net exposure	Credit risk mitigation techniques with a substitution effect on net exposure					Mitigation techniques which reduce the value of exposure	
		Personal protection, mitigation amount		Real credit protection		Efect of substitution on exposure[1]	Volatility ajustment to exposure value	Financial Colateral: mitigation amount
		Guarantees	Credit derivatives	Simple Method	Other			
	1	2	3	4	5	6	7	8
Total exposure	**23.822.937**	**237.024**	**0**	**0**	**0**	**31.017**	**0**	**333.359**
CL I - Central government and central banks	2.532.373	0	0	0	0	0	0	0
CL II - Regional governments and local authorities	62.712	225	0	0	0	0	0	217
CL III - Public sector entities and other non-profit public institutions	14.253	0	0	0	0	0	0	837
CL VI - Institutions	1.458.011	51.000	0	0	0	26.001	0	17.804
CL VII - Corporations	6.372.452	170.057	0	0	0	0	0	162.014
CL VIII - Retail portfolio	1.906.628	3.399	0	0	0	0	0	142.162
CL IX - Garanteed by real estate	7.762.493	908	0	0	0	0	0	8.411
CL X - Past due items	1.212.849	11.435	0	0	0	5.015	0	1.914
CL XI - Covered bonds and public sector bonds	19.242	0	0	0	0	0	0	0
CL XII - Exposures to colective investment undertakings (CIU)	239.090	0	0	0	0	0	0	0
CL XIII - Other items	2.234.000	0	0	0	0	0	0	0
Securitisation exposures using the standardised approach	8.834	0	0	0	0	0	0	0

(1) - This field is calculated as follows: G*P1 - G*P2 , where G is the amount of the guarantee, P1 the original RW and P2 the RW after taking into account the guarantee.

Table 19 – Concentration Analysis – Personal and real credit protection

(thousands €)

	Personal credit protection		Real credit protection - Integral method for financial colateral	
	Guarantees		Eligible (financial) collateral	
	Dec-14	Dec-13	Dec-14	Dec-13
CL I - Central government and central banks	0	0	0	0
CL II - Regional governments and local authorities	225	225	217	166
CL III - Public sector entities and other non-profit public institutions	0	0	837	1.310
CL VI - Institutions	51.000	57.400	17.804	19.840
CL VII - Corporations	170.057	141.016	162.014	163.288
CL VIII - Retail portfolio	3.399	0	142.162	121.507
CL IX - Garanteed by real estate	908	1.790	8.411	7.955
CL X - Past due items	11.435	12.516	1.914	9
CL XI - Covered bonds and public sector bonds	0	0	0	0
CL XII - Exposures to colective investment undertakings (CIU)	0	0	0	0
CL XIII - Other items	0	0	0	0
Securitisation exposures using the standardised approach	0	0	0	0

7. Securitizations

7.1 Current involvement

As of 31 December, 2014, CEMG was involved in the following traditional credit securitization operations as originator: Pelican Mortgages 1, Pelican Mortgages 2, Pelican Mortgages 3, Pelican Mortgages 4, Pelican Mortgages 5 and Pelican Mortgages 6 (Table 20). As a result of the acquisition of Finibanco Holding, CEMG is the originator of Aqua Mortgage 1. In 2014 it was launched a new securitization operation (Pelican Finance 1) that has CEMG (60%) and Montepio Crédito (40%) as originators. In all of these operations, the main goal was to achieve greater flexibility in managing the balance sheet, with a positive impact on liquidity indicators, for instance.

The degree of involvement, understood to be the quotient between the volume of global debt exposures assigned in securitization transactions and the sum of consolidated assets (plus the overall volume of assigned positions), was below 20%.

For regulatory purposes, none of the aforementioned securitizations involved a significant transfer of credit risk.

7.2 Calculation Methods for risk-weighted exposures

Given that none of these securitization operations meets the criteria set out in Article 243 of CRR — which defines the conditions for a significant transfer of credit risk — the loans involved are not excluded from the calculation of risk-weighted assets. Capital requirements are therefore not calculated for the securitization exposures held and losses on these positions are not considered.

With regard to securitizations where CEMG acts as an investor, the risk-weighted exposure is calculated according to Section 3, Chapter 5, Title II, Part III of CRR, using the Standardized Approach. Credit ratings issued by Fitch, Moody's and S&P were used to determine the credit quality of each securitization position.

7.3 Accounting policies

Until 31 December, 2004, in accordance with the accounting principles defined by the Bank of Portugal, loans transferred by CEMG through securitization deals were derecognized. Securities acquired as a result of those operations were considered as assets available for sale and provisioned according to the rules defined in the Bank of Portugal's Instruction 27/2000. Following the publication of the Bank of Portugal's Instruction 2/2008, the provisioning of these securities was subject to the impairment rules as defined in IAS 39.

In line with IFRS 1, no changes have been made to the derecognition criterion adopted in CEMG's individual financial statements for all securitizations issued carried out prior to 1 January, 2004. All operations carried out after that date are analyzed according to the rules set out in IAS 39, which stipulates that if a substantial portion of the risks and benefits associated with the assets are transferred, or control over the assets is transferred, those assets may be derecognized.

7.4 Quantitative information

Table 20 – Securitization Operations

(thousands €)

	Securitisation Operations								
	Pelican 1	Pelican 2	Pelican 3	Pelican 4	Pelican 5	Pelican 6	Aqua Mortgage 1	Pelican Finance 1	
Traditional securitisation									
Originator	CEMG	CEMG	CEMG	CEMG	CEMG	CEMG	CEMG	CEMG	Montepio Crédito
Issuer	Navegator SGFTC, SA	Banco Finantia, SA	Sagres STC, SA	Sagres STC, SA	Sagres STC, SA	Sagres STC, SA	Tagus STC, SA	Tagus STC, SA	
Information on the operations									
Start date	19-Dec-02	29-Sep-03	30-Mar-07	20-May-08	25-Mar-09	05-Mar-12	09-Dec-08	07-May-14	
Legal maturity	Sep-37	Sep-36	Sep-54	Sep-56	Dec-61	Dec-63	Dec-63	Dec-28	
Step-up clause (date)	n.a.	Sep-10	Mar-16	Jun-17	Jun-18	n.a.	n.a.	n.a.	
Revolving (years)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2	1,5	
Securitised assets (in millions of euros)	650	700	750	1.000	1.000	1.040	233	294	
Outstanding amount (in millions of euros)	64	129	300	752	760	959	160	285	
Information on involvement of originator(s)									
Existence of situations of "implicit support"	no	no	no	no	no	no	no	no	no
Assets ceded (by institution)/Securitised Assets (total) (%)	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	60,0%	40,0%
Inicial capital-gains/Value of repurchased firstloss position	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	

n.a. = not aplicable

Table 21 – Outstanding exposure amount on securitized loans

(millions €)

	Amount	Of which: relating to exposures subject to impairment or past due
Pelican 1	64	2
Pelican 2	129	1
Pelican 3	300	1
Pelican 4	752	4
Pelican 5	760	3
Pelican 6	959	12
Aqua Mortgage 1	160	5
Pelican Finance 1	285	3
Traditional securitisations (total)	3.409	32

Montepio

Table 22 – Credit risk – Securitization Operations: Standardized Approach

(thousands €)

Type of securitisation (tradicional/synthetic)	Exposure amount		Risk weighted exposure	
		Amount deducted from regulatory capital	Dec-14	Dec-13
	2	3	9	10
B=Investor positions: total	8.834	0	8.530	9.403
B1 - On-balance sheet exposures	8.834	0	8.530	9.403
Securitisations	8.834	0	8.530	9.403
Resecuritisations	0	0	0	0
B2 - Off-balance sheet items and derivatives	0	0	0	0
C=Issuer positions: total	0	0	0	0
C1 - On-balance sheet exposures	0	0	0	0
C2 - Off-balance sheet items and derivatives	0	0	0	0

Table 23 – Credit risk – Securitization Operations: Activities Summary

(millions €)

Type of securitisation (tradicional/synthetic)	Securitised exposure		Risk weighted exposure		Gains / Losses recognised on sales	
	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13
Tradicional securitisations (total)	3.409	3.825	0	0	0	0
On-balance sheet exposures	3.409	3.825	0	0	0	0
Securitisations	3.409	3.825	0	0	0	0
Resecuritisations	0	0	0	0	0	0
Off-balance sheet items and derivatives	0	0	0	0	0	0
Synthetic securitisations (total)	0	0	0	0	0	0
On-balance sheet exposures	0	0	0	0	0	0
Securitisations	0	0	0	0	0	0
Resecuritisations	0	0	0	0	0	0
Off-balance sheet items and derivatives	0	0	0	0	0	0

8. Position, credit, counterparty and settlement risk on the trading book

8.1 Methods of calculation of capital requirements

The trading book portfolio is composed of positions held with the aim of achieving short-term gains, either through sales or by revaluation. Capital requirements are calculated using the Standardized Approach.

8.2 Methods for assessing risk on the trading book

The trading book is fully covered by the “standardized approach to the trading book” as set out in Title IV, Part III of CRR. In accordance with the standardized approach, the financial assets are split into two classes: debt instruments (including derivatives and comparable debt instruments) and equity securities (including derivatives on equity instruments and comparable assets).

The capital requirement for each asset class is calculated according to the specific risk and overall risk hedging for each asset class. Thus, according to the standardized approach, the following methodologies are applied to each type of exposure:

Debt Instruments

- General risk: refers to the risk of loss caused by unfavorable changes in interest rates. In order to calculate the regulatory capital requirements for general risk, a method based on maturity is used, in accordance with Subsection 2, Section 2, Chapter 2, Title IV, Part III of CRR.
- Specific risk: refers to the risk of loss due to factors associated with the issuer, and the regulatory capital requirements for these risks are based on the methodology described in Subsection 1, Section 2, Chapter 2, Title IV, Part III of CRR, which results in the weighting of assets in accordance with the sector and the credit quality of the issuer.

Equities

- General risk: refers to the risk of loss caused by unfavorable changes in the stock market. To calculate the regulatory capital requirements for general risk, the method described in Section 3, Chapter 2, Title IV, Part III of CRR is used.
- Specific risk: refers to the risk of loss due to factors associated with the issuer. The regulatory capital requirements for this risk are based on the methodology described in Section 3, Chapter 2, Title IV, Part III of CRR.
- Positions in collective investment undertaking: these positions are subject to an own funds requirement of 32%. The regulatory capital requirements for this risk are based on the methodology described in Section 6, Chapter 2, Title IV, Part III of CRR.

8.3 Quantitative information

Table 24 – Regulatory capital requirements (trading book)

(thousands €)

Trading book risks		Regulatoty capital requirements Dec-14	Dec-13
Total of trading book risks (1 + 2)		**2.336**	**4.317**
1.	**Position risk**	1.386	3.964
1.1.	**Standardised approach to the trading book**	1.386	3.964
1.1.1.	**Debt instruments**		
1.1.1.1.	Specific risk	51	2.049
1.1.1.2.	General risk	357	646
1.1.2.	**Equities**		
1.1.2.1.	Specific risk	489	516
1.1.2.2.	General risk	489	516
1.1.3.	**Collective Investment Undertaking (CIU)**	0	236
2.	**Counterparty credit risk**	950	353
2.1	Bonds	0	0
2.2	Derivatives	950	353
2.3	Other	0	0

In quantitative terms, using the methods described above, the regulatory capital requirements amounted to 1.386 thousand euros for the trading portfolio, which represents a decrease of 1.981 thousand euros in comparison to the previous year resulting from reductions in capital requirements for credit risk of derivatives and for position risk on equity securities. This reduction was particularly significant in the specific risk for debt instruments.

9. Exchange rate and commodity risks on the banking and trading books

9.1 Method of calculation of minimum regulatory capital requirements

The method used by CEMG to calculate the regulatory capital requirements to cover currency and commodity risks is the standardized approach, as defined in Chapters 3 and 4, Title IV, Part III of CRR.

9.2 Evaluation method of exchange and commodities risk

For the calculation of regulatory capital requirements for exchange risk it is applied the method set out in Chapter 3, Title IV, Part III of CRR. The standardized method imposes a weight of 8% (or 4% when dealing with closely correlated currencies) on the aggregate net positions in foreign currencies, if this sum exceeds 2% of total regulatory capital.

With regards to commodity risk, the regulatory capital requirements are calculated according to the maturity ladder approach as described in Chapter 4, Title IV, Part III of CRR.

9.3 Quantitative information

As of 31 December, 2014, the net foreign currency position result from CEMG's international activity, namely from Finibanco Angola.

Table 25 – Regulatory capital requirements for exchange rate and commodity risks

(thousands €)

Regulatoty capital requirements for Exchange rate and Commodities Risks		
Exchange and Commodities Risk	**Dec-14**	**Dec-13**
1. Exchange Rate Risk (=1.1.+1.2.)	**5.038**	
1.1. Standardised Approach	5.038	
1.2. Internal Models Approach		
2. Commodities Risk (=∑(2.1. a 2.2.))	**14**	
2.1. Standardised Approach (=∑(2.1.1. a 2.1.4.))	**14**	
2.1.1. Maturity ladder approach or Simplified approach	14	
2.1.2. Futures and commodity options traded on the stock-exchange		
2.1.3. Futures and commodity options traded in OTC markets		
2.1.4. Other		
2.2. Internal Models Approach		

10. Equity exposures in the banking book

10.1 Management goals

Equity investment in CEMG's banking book assumes marginal proportions, with regards to both the portfolios managed and the balance sheet.

This conservative attitude towards risk has meant that the adverse conditions that characterized the stock market in the recent past had no significant negative impact on profitability or regulatory ratios.

10.2 Accounting techniques and assessment methods used

Capital losses on equity exposures are accounted for according to the portfolios in which these securities are classified, the cumulative value of the losses and the length of time for which the losses have existed. Capital losses on equity registered in the trading book have an immediate effect on results. Reductions in the value of shares categorized as available for sale are classified as impairment and affect results if greater than 30% or if the situation persists for a period of more than 12 months. In the remaining cases, capital losses are recorded in revaluation reserves, affecting equity.

10.3 Quantitative information

Table 26 – Equity exposure

(thousands €)

	Listed shares		Unlisted shares		Total	
	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13
Acquisition cost	97.943	29.280	361.618	406.885	459.561	436.166
Fair value	96.072	27.865	358.080	403.347	454.152	431.212
Market price	96.072	27.865			96.072	27.865
Results for the year arising from sales and settlements					3.229	1.318
Total unrealized gains and losses					1.423	2.117
Total gains and losses inherent in latent revaluations					**-6.833**	**-7.070**

11. Operational risk

Operational risk consists of the risk of losses as a result of shortcomings or failures in internal processes, human resources, systems or external factors.

Montepio obtained authorization from the Bank of Portugal, effective 30 June 2010, to adopt the standard method (TSA) for the calculation of minimum capital requirements for operational risk. With the larger perimeter of consolidation in 2011, this method is being implemented in the remaining companies within the group.

As of December 31, 2014, the operational risk capital requirements for CEMG, MG Cabo Verde and Montepio Crédito were calculated using the standard approach (TSA). For Montepio Investimento, Banco Terra and Finibanco Angola, the requirements were calculated according to the basic indicator approach (BIA). As a result, the consolidated capital requirements to cover operational risk were 65,6 million euros on December 31, 2014.

In the Basic Indicator Approach, regulatory capital requirement to cover operational risk is calculated as the average of the relevant positive yearly indicator over the last three years, multiplied by 15%. In the Standard Method this capital requirement corresponds to the average of the relevant positive yearly indicator, across each of the business lines, over the last three years, multiplied by a factor assigned to each business line, according to the Bank of Portugal's definitions.

The accounting information taken into consideration in calculating the relevant indicator is aligned with Bank of Portugal's Instruction 23/2007, with the exception of accounts that do not stem from CEMG's current activity, according to the provisions of article nº.5, subparagraph d) of Annex I to Bank of Portugal's Notice 9/2007.

The criteria for each business segment follow the Bank of Portugal's Notice 9/2007. The table below describes the relationship between the business segments and the list of activities in CEMG:

Table 27 –Business Line Mapping

Business Line	Activity
Corporate Finance	- Underwriting;
	- Consulting services on capital structure, industrial strategy and other related or consulting questions, along with services related to mergers and acquisitions by companies;
Trading and sales	- Proprietary positions; - MMI Brokerage; - Reception and transmission of orders in relation to one or more financial instruments; - Execution of orders on behalf of clients;
Payment and settlement	- Issue and administration of payment services; - Payments operations;
Commercial banking Retail banking	- Retail deposits and investment funds; - Private lending; - Finance leases; - Guarantees;
Agency services	- Safekeeping and administration of financial instruments on behalf of clients, including custody and related services, such as treasury/ collateral management;
Retail brokerage	- Reception and transmission of orders in relation to one or more financial instruments; - Execution of orders on behalf of clients.
Asset Management	- OICVM management.

Table 28 – Capital Requirements of Operational Risk

(thousands €)

Business Line	Relevant Indicator			Regulatory capital requirement
	2012	2013	2014	
Total	433.442	419.973	516.713	65.632
1.Total of activities subject to Basic Indicator method	37.091	43.127	55.390	6.780
2.Total of activities subject to Standard method	396.351	376.846	461.323	58.852
2.1. Corporate Finance	2.317	4.644	5.852	
2.2. Trading and sales	-44.818	-14.602	-17.310	
2.3. Retail brokerage	7.999	7.612	7.850	
2.4. Commercial banking	305.742	277.251	281.632	
2.5. Retail banking	86.862	63.672	145.879	
2.6. Payment and settlement	33.094	32.646	30.621	
2.7. Agency services	5.156	5.623	6.799	
2.8. Asset Management	0	0	0	

12. Analysis of sensitivity of Capital requirements

12.1 Interest rate risk on the banking book

Identifying, measuring and controlling interest rate risk on CEMG's banking book are among the tasks of DRI. CEMG’s interest rate risk management is based on the principles recommended by the *Bank for International Settlements*.

Measurement and assessment of the interest rate risk on CEMG's banking book essentially uses the repricing gap method.

This method uses the following components in constructing the simulation:

- Remunerated assets and liabilities that make up CEMG's balance sheet (balance, currency, repricing date, maturity date, contract interest rate, type of indexing rate, interest rate renewal period and type of repayment);
- Off-balance sheet accounts (in particular interest rate swaps);
- New volumes strategies (amounts, pricing and repricing);
- Projection of interest and exchange rates.

The repricing gap method calculates the value of assets and liabilities that renew their interest rate within a certain period ("time bucket"), normally one month. The difference between the value of assets and liabilities that renew their interest rate within a certain period represents a gap, which will be positive (negative) if the total value of assets is higher (lower) than the total value of liabilities.

The repricing models can be:

- Static: concerned only with the balance sheet and off-balance sheet position at the end of each month;
- Dynamic: concerned with the balance sheet and off-balance sheet position forecast for subsequent months, based on the initial situation and the expected development of

various business variables, such as volumes, interest rate renewal periods, early settlements and mobilizations.

The models are based on the following methodological approaches:

- Remunerated assets and liabilities are grouped according to repricing period, type of reference rate and purpose of operation;
- Fixed-rate remunerated assets and liabilities are regarded as undergoing repricing on their maturity date;
- Currently, coefficients take into account the residual maturity of the contracts, instead of considering early mobilization (of deposits and credit).

For remunerated assets and liabilities that are not directly indexed to a market rate, the repricing date corresponds to the expiration date. Likewise, the same process is applied to the fixed leg of interest rate swaps.

On-demand deposits are regarded subject to repricing every one to two years, noting that changes to the remuneration of these deposits are made only administratively.

12.2 Stress tests

In addition to the stress tests reported to the Bank of Portugal, CEMG regularly conducted other impact studies that intend to provide an analytical view of its position in terms of liquidity, profits and capital when subject to unfavorable scenarios stemming from changes in risk factors such as interest rates, credit spreads, deposit runoffs, eligible asset evaluation haircuts applied by the Central European Bank (ECB), credit ratings (for CEMG and issuing bodies), portfolio and collateral losses, among other factors.

The results under the adverse scenarios, including those resulting from the adverse macroeconomic scenarios defined by Bank of Portugal under the financial aid program to the Portuguese Republic, show that CEMG continues to enjoy suitable capitalization levels.

The impact studies and results are disclosed to and discussed with the board of directors, being the subsequent conclusions incorporated in the strategic decision making processes, namely in the determination of levels of solvency, liquidity, exposure to specific risks (counterparty and price risks) and global risks (interest rate, foreign exchange and liquidity risks), as well as in the pricing, loan criteria and development of products offered.

12.3 Quantitative information - interest rate risk

The following is the information reported biannually to the Bank of Portugal on “Interest rate risk (banking book)”, on a consolidated basis, considering the impact of a rate shock of (+-) 200 b.p.:

Table 29 – Interest rate risk (banking book)

(thousands €)

			Dec-14	Dec-13
Efect on equity od a parallel shift of 200 b.p. in interest rate	Amount	+	-55.358	109.017
		-	55.358	-109.017
	% Regulatory capital	+	-3,48%	6,22%
		-	3,48%	-6,22%

"+" = upward parallel shift of 200 b.p. in the interest rate

"-" = downward parallel shift of 200 b.p. in the interest rate

Calculated in accordance with the methodology laid down in Instruction 19/2005, the impact on equity of a parallel shift of + 200 b.p. in the interest rate curve is 3,48% of the regulatory capital (see Table 28). The sensitivity of the banking book to interest rate risk is thus within the guidelines defined by the BIS in “Principles for the Management and Supervision of Interest Rate Risk” (20% limit).