Market Discipline

Annual Report on Public Disclosure of Information

June 2019

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1. Message from the Executive Board of Directors of Caixa Central

Following a transparency policy towards its customers, associates, counterparties and employees, the Executive Board of Directors (EBD) of Caixa Central, discloses the "Market Discipline" document, in accordance with Regulation (EU) No. 575/2013 – Part VIII of the European Parliament and of the Council and arising from the requirements established under Pillar III of Basel, through which it makes the public disclosure of detailed information on the solvency of Grupo Crédito Agrícola (GCA), its risk management policies and practices and the processes and systems established for assessment and management.

Grupo Crédito Agrícola pursues a development strategy that aims to enhance the close relationship with the customer, which is the brand image of Crédito Agrícola, supporting it in its financial projects and its protection needs, offering quality services adapted to the customer needs, contribute to the progress of the standard of living of local communities and ensure the accessibility of banking services, seeking to maintain the sustainability of networks.

With this action, Grupo Crédito Agrícola aims at the sustainability of the current business model and an agile response to the growing challenges and requirements of the sector, in particular in matters of regulation and internal control, as well as the need to adjust the levels of profitability and efficiency, including strategic management of non-productive assets.

In 2018, the Group maintained comfortable liquidity levels and a stable solvency position through own funds (capital) appropriate to its risk profile, enabling a solid margin for growth and affirmation in the context of the markets where it operates, through a transformation ratio (net) of 67.7 % and Common Equity Tier 1 ratio of 15.2% (including financial year profit or loss), thus positioning itself at the forefront of financial institutions better prepared to support the sustainability of economic growth in Portugal, consolidating their strategy in a dynamic, risk-aware trade policy and aimed at the effective needs of the population and its local and regional communities.

In 2018, Grupo Crédito Agrícola presented a net result of 112.4 million euros, therefore, widely favourable when compared to previous years.

The information contained in this report, except where another indication is expressly given, refers to the activity of Grupo Crédito Agrícola on a consolidated basis.

2. Declaration of responsibility

The Executive Board of Directors (EBD) of Caixa Central certifies that all the procedures deemed necessary have been developed and that, to the best of its knowledge, all the information disclosed is true and reliable, including that referring to or originating from other entities of the Group to which Caixa Central belongs.

The EBD undertakes to disclose, in a timely manner, any significant changes that may originate during the financial year following that to which this document refers.

The EBD also notes that between the end of the financial year to which this report refers and the date of its disclosure, there were no relevant noteworthy events or facts.

Lisbon, 28 June 2019

3. Framework

This report disseminates the main policies and practices of Grupo Crédito Agrícola in risk management, which is understood in all its dimensions.

The Market Discipline report follows from the provisions of Part VIII of Regulation (EU) No. 575/2013 of the European Parliament and of the Council and reflects the situation on 31 December 2018 of Grupo Crédito Agrícola, a private financial group of a cooperative nature, which includes the Integrated System of Crédito Agrícola Mútuo (hereinafter referred to as SICAM), a group formed by Caixa Central de Crédito Agrícola Mutual (hereinafter referred to as CCCAM or Caixa Central) and 80 Associated Caixas (hereinafter referred to as CCAM or Caixas Agrícolas), and several specialised companies. Within this organisational structure, Caixa Central is responsible for supervising, guiding and monitoring the activity of the Associated Caixas.

The GCA, aiming to maintain a permanent communication with all its stakeholders, considers that this report constitutes an important instrument of this communication, thus falling within the guiding principles of Crédito Agrícola. This document, developed from a predominantly prudential perspective, should be understood as information, complementary to that provided through the Consolidated Report and Accounts, which aims to characterise quantitatively and qualitatively the various risks associated with the banking activity of Crédito Agrícola.

In the year 2018 the development and consolidation of a strategic plan for the management of non-performing loans (NPL) in Grupo Crédito Agrícola stands out, establishing the Group's approach and objectives for its active reduction within a feasible timeframe, as well as, sufficiently ambitious as to the results to be achieved. The NPL ratio amounted to 10.4% on 31 December 2018, with a significantly favourable evolution. The active reduction measure associated with the cancellation of loans considered unrecoverable, enabled a significant decrease in the NPL portfolio, as well as the presence of specialised tools and the improvement of GCA's capacity in monitoring and recovery.

3.1. REGULATORY FRAMEWORK

According to the specificities of Grupo Crédito Agrícola, namely the degree of autonomy of the entities that compose it, the organisational structure of risk management results in a governance model shared between Caixa Central and Caixas Agrícolas, which aims at the progressive adoption of processes and procedures homogeneous under the guidance of Caixa Central de Crédito Agrícola Mutual, in compliance with the provisions of Article 75 of the Legal System for Mutual Agricultural Credit (Decree-Law No. 142/2009 of 16 June).

Thus, the risk management function in the Group is ensured according to an integrated model, which tends to be corporate and, therefore, consisting of the risk management structures of the Caixas Agrícolas and Caixa Central, aiming to fully adjust to the guidelines contained in Notice No. 5/2008 of Banco de Portugal and the consolidation of the internal control system throughout the Group.

In this regard, with the aim of expanding the ability to monitor, follow up and control the risk management activity in SICAM in line with best market practices, with a vision at the level of each Caixa Agrícola, a set of complementary initiatives were implemented in the course of 2018 that comprise a strong articulation with the technological aspect and which require the development of specific internal competences inherent to the Risk Management Function, aiming to adapt the GCA to the guidelines issued by the Basel Committee.

3.2. SCOPE OF THE REPORT

The description of the strategy and policies for managing and controlling the different risks is structured throughout this report as follows:

- Scope and risk management policies;
- Capital adequacy;
- Counterparty credit risk;
- Credit risk – General aspects;
- Credit risk – Standard method;

- Credit risk mitigation techniques;
- Liquidity risk;
- Operational risk;
- Interest rate risk;
- Sensitivity analysis of capital requirements.

Since the Group's business model does not include the assumption of materially relevant positions that entail foreign exchange risk or price risk of financial assets, allusions to these types of market risk are limited to a reference to the monitoring and hedging processes established.

Likewise, no references to "securitisations" are made because they are transactions which, until the date referred to in this report, have not been included in the GCA's management strategy because they are not understood as necessary in light of the Group's strong competitive position, based on a sound situation of liquidity and a comfortable solvency ratio.

3.3. GRUPO CRÉDITO AGRÍCOLA'S ORGANISATIONAL AND BUSINESS MODEL

Crédito Agrícola is a cooperatively based financial group rooted in local communities, with strength, trust, proximity and modernity, equipped with an offer of solutions, products and services capable of meeting all the financial needs and expectations of families, businesses and companies, which constitute critical success factors in a privileged partnership relationship with its customers.

It is an institution that values the relationship with the customer, oriented towards participation in the socio-economic development of the whole country, supported by the performance of each of its Caixas at the regional level, entities that promote local economies, in a balance between raising savings and the granting of credit to families, companies and support for non-profit institutions.

The GCA business model is based on the following key vectors:

- Conservative action with reduced risk appetite;
- Focus on supporting its customers as agents in the local economy;
- Investment in long-term relationships;
- Business vocation centred on domestic activity;
- Solid capital base;
- High autonomy of the CCAM.

The pursuit of strategic objectives is aimed at strengthening the fundamental principles that have guided the GCA in recent years:

- Preservation of the cooperative base;
- Protection of the autonomy of Associated Caixas;
- Operational and technical integration of the Group maximising efficiency and modernisation.

The objectives presented in the Activity Plans of recent years, namely rejuvenating the customer base and strengthening the brand image, reviewing the group's governance model, corporate simplification and revision of Caixa Central functions, customer-centric management and channel monetisation, standardisation of group processes, simplification and cost efficiency, improvement of knowledge, selection and internal mobility of human resources, incentives for innovation and training oriented to functions and responsibilities, systematic management of the Group's balance sheet, strengthening the risk function and proactive management of regulation, security management, personal data protection and compliance and technological modernisation of the Group clearly characterise the GCA's strategy in the face of the challenges to be addressed, in a context of market volatility and some macroeconomic uncertainty.

On the other hand, the legislative and normative production in the context of the powers of the financial sector supervisory authorities, where the aspects related to own funds, major risks, liquidity risk, interest rate risk and credit risk, prevention of BC/FT are particularly noteworthy, constitutes a challenge with a view to the implementation of the best practices in the evaluation and management of the risks inherent to banking activity.

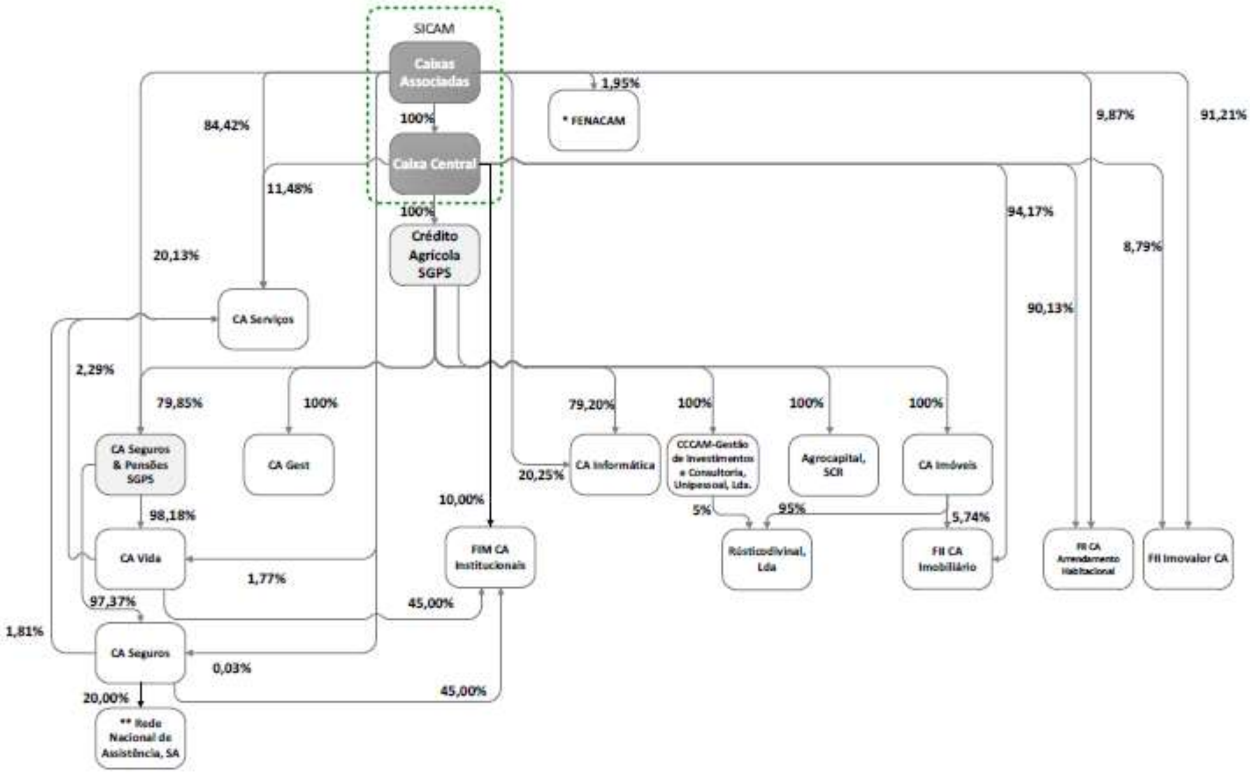
Thus, it aims to continue to promote and maintain a permanent dialogue in the GCA, in particular among those responsible for risk management, compliance and internal auditing, to ensure knowledge and provide mutual understanding of matters of common interest, with a view to strengthening Grupo Crédito Agrícola's assets and reputation. To this end, the promotion of innovation and the implementation of the best benchmark practices in the markets where GCA banking is carried out continues to be considered as the best institutional position.

The main guidelines for the Group's strategic activity for 2018 were as follows:

- Monitoring social trends in urbanisation and digitalisation in order to reinforce the brand's notoriety and competitive position;
- Modernisation of the brand, communicating the concept of a universal bank, also through the rejuvenation of the customer base;
- Guidance of the entire organisation to customer knowledge by offering quality services adapted to customer needs, with the aim of simplifying the sales process;
- Maintenance and encouragement of a discipline of rigour, simplification and cost efficiency, mitigating operational risk and increasing productivity to increase previously standardised processes, freeing up resources for activities of higher added value;
- Promotion of credit granting geared towards acceptable levels of risk;
- Development of standardised, quantified and monitored credit monitoring and recovery processes;

- Efficient management of regulation by improving BC/FT prevention mechanisms, strengthening the effectiveness and adequacy of internal control, responding to commitments made regarding regulatory requirements.

The organisational chart below represents the current organisational structure of the GCA:



(*) FENACAM holds 98.03% of its own capital.
(**) Consolidation through the equity method.

The GCA holds, directly and indirectly, financial holdings in subsidiary and associated companies. Subsidiary companies are those in which the percentage of participation exceeds 50% of their capital. Associated companies are those where the share is between 20% and 50% of their capital or where SICAM, directly or indirectly, exerts a significant influence on its management and financial policy, but does not have control.

The GCA consolidates by the full consolidation method most of the entities that integrate its consolidation perimeter and also Agrocapital SCR and the investment funds FII CA Imobiliário, FII CA Arrendamento Habitacional and FII Imovalor CA.

The consolidation method of GCA for accounting purposes differs from the consolidation method for prudential purposes by the fact that, in the latter, the Group's insurance companies, CA Vida and CA Seguros, are considered by the equity method.

According to the regulatory determination of Banco de Portugal, holdings in insurers are deducted from own funds on a consolidated basis.

3.3.1 Reference model for Associated Caixas

The reference model for Caixas Agrícolas is a unique organisational model that constitutes a reference for all Caixas, inducing the following changes in their management:

- Focuses on business activities, centralising all business support functions in a support structure;
- Emphasises the principle of job segregation and specialisation in critical skills;
- Reduces the number of operating structures to enable greater flexibility in resource management;
- Raises active participation and independence of control functions (Risk, Compliance and Internal Audit).

As a result of the methodological guidelines proposed by Caixa Central, the standard organisation of Caixas Agrícolas is based on a model for identifying, evaluating, monitoring and controlling risks, with the aim of minimising the risk of its activity.

This organisational model establishes objective and systematised criteria and procedures, with a view to assessing the magnitude of the risks underlying the activity carried out, as well as the quality and soundness of the internal governance arrangements of the Caixas Agrícolas, the adequacy of solvency positions and liquidity and its management processes.

3.3.1.1 At management level

In this model, the strategic planning process is intended to be transparent, objective and participative. The structure and quality of management result from the ability to ensure the performance of functions, embodied in the definition, implementation and monitoring of risk control mechanisms.

Executive management ensures involvement in the definition and implementation of risk models, the definition of the policies and objectives of the CCAM in commercial terms, credit risk, human and financial resources, in accordance with the guidelines of Caixa Central and the monitoring of compliance with guidelines and objectives.

3.3.1.2 At the level of specific risk control

In terms of risk control, emphasis is given to the autonomy of the risk management function, as the main support body for risk management (and internal control), proposing internal policies, standards and procedures and ensuring the production of performance/risk indicators with the aim of minimising specific risks in accordance with the guidelines provided by Caixa Central.

The main risks monitored by Caixas Agrícolas, according to this reference framework are credit risk at its different phases (analysis, decision, monitoring and recovery), operational risk and compliance risk, without prejudice to the risks of strategy, reputation, liquidity, interest and concentration rate.

Caixa Central assumes a role in guiding and supporting the harmonisation and improvement of practices throughout SICAM.

3.4. RISK MANAGEMENT FUNCTION

3.4.1 Risk Management Objectives and Policies

The main goal of the risk management function is to effectively implement the risk management system, on an individual and consolidated basis, ensuring the continuous monitoring of its adequacy and effectiveness and therefore its monitoring over time, as well as the identification and implementation of measures to correct any deficiencies in that system within the scope of internal control. In this way, it supports the management and supervisory bodies in defining the strategy and policies for risk and capital management, in a global and integrated manner, ensuring compliance and appropriate organisational empowerment through the implementation of methodologies, procedures and support tools that ensure the identification, measurement, monitoring and control of the various risks, as well as the determination and planning of capital, which have a decisive impact on value creation.

The risk management function in the GCA is based on a corporate function assumed by Caixa Central structure bodies in close articulation with each Caixa Agrícola, materialised in the development of automated means of support and the allocation of specialised and dedicated resources to ensure monitoring, control and support of those responsible for the Risk Function in the Caixas Agrícolas.

In addition, the risk management function is governed by a Risk Management Regulation and complementary documents (e.g. specialised standards establishing the rules and procedures in the management of each of the risks) whose fundamental purpose is to establish principles, policies and governance, including the responsibilities and competences governing the risk management system and the performance of the risk management function at the Caixas Agrícolas, Caixa Central de Crédito Agrícola Mutual and the Group, in accordance with the prudential perimeter in force.

3.4.2 Organisational Structure

Caixa Central's position within the scope of the GCA and the Integrated System of Crédito Agrícola Mútuo (SICAM) is characterised by a set of functions and responsibilities assigned to it by the Legal System for Mutual Agricultural Credit, namely with regard to:

- Guidance, coordination and control of the Caixas that are part of SICAM;
- Provision of services to the Associated Caixas;
- SICAM treasury management;
- Conducting commercial banking operations in an agency contract – international and retail.

The activity guidelines and the general principles of risk management and control are disseminated to the entire organisation through institutional communication vehicles, such as the Activity Plan and Annual Budget or the Marketing Plan, in addition to internal regulations specifically oriented to the management of different types of risk.

The Overall Risk Department(DRG) develops the group's risk management function on an overall, integrated basis, supporting Caixa Central's executive board of directors in defining risk and capital management strategy and policies, ensuring compliance with them and adequate organisational capacity building through the implementation of methodologies, procedures and tools for determining and planning capital and identifying, measuring and controlling diverse risks, coordinating and articulating the activity developed in this domain with the diverse specialised organic units, particularly credit, liquidity, market, interest rate (balance sheet) and operating risks, as well as supporting the relationship with regulatory authorities.

In conjunction with the different competent organic units, the DRG ensures, in particular, the necessary organisational training and also:

a) Supports the relationship with supervisory regulatory bodies in the field of risk management.

b) Recommends adjustments to policies, norms, regulations, procedures or practices in risk areas in order to ensure their suitability to the regulatory and strategic environment;

c) Monitors and ensures the necessary maintenance and evolution of the credit portfolio impairment loss assessment models and performs its periodic calculations, as well as the back-testing of the respective risk parameters;

e) Promotes the application of methodologies and metrics to ensure the correct assessment of the risks incurred, in particular with regard to their characteristics and size, to be carried out by the risk management function, namely with regard to the risk profile, in particular credit risks, concentration, liquidity, rate interest and operational.

f) Supports the prior analysis, in terms of risk management, of the development of new products and activities, as well as the training activity in this area within the GCA, in close collaboration with the training area of the Human Resources Department;

g) Ensures the periodic performance of stress tests to monitor the effectiveness of the strategy, in the face of possible adverse changes in the situation that may affect, in particular, liquidity and capital levels, essential for the implementation of sustainable business strategies and to ensure their adequacy, on a permanent basis, to the institution's risk profile, either on a consolidated basis or on an individual basis (CCCAM);

h) Ensures the execution of the Internal Capital Adequacy Assessment Process (*ICAAP),* with which the assessment and quantification of the main risks to which the GCA is exposed and the adequacy of the funds available for its coverage is verified, in view of the Group's risk profile.

i) Develops the methodologies and requirements associated with the exercise of ILAAP, a process that aims to attest to the existence of policies, systems, procedures and strategies for risk management and internal control in the GCA that allow solid liquidity levels to be maintained at all times.

m) Conceives, disseminates and ensures the maintenance of tools to support credit risk management (e.g. rating and scoring models, a risk alert system with the aim of extending and integrating warning signals for customers who have a degradation of their risk profile, limit management, etc.), as well as a repository of integrated risk information and various databases inherent in the control of this type of risk (guarantee management tool received, balance sheet central, economic groups).

n) Validates the analytical scoring and rating models in order to ensure their quality as decision support tools and regularly issues a set of indicators and macroeconomic analyses, being responsible for various regulatory reports associated with the Risk Function of Caixa Central and the GCA;

p) Determines, plans, controls and executes the reporting of the Group's regulatory as well as economic capital requirements in its individual and consolidated aspects;

q) Carries out the internal report on the institution's risk profile and macro-risk analysis of the various portfolios;

r) Produces the market discipline report under Pillar III of Basel;

s) Draws up recovery plans, which aim to prepare the Group for adverse scenarios and increase its likelihood of recovery in extreme scenarios;

t) Coordinates the periodic implementation of the Risk Committee, whose mission is to support Grupo Crédito Agrícola in the definition and implementation of risk and capital management policies and which establishes in its organic framework the presence of elements of the Caixas Agrícolas.

u) Supports the SICAM network and Group entities in the different dimensions of risk management.

Through the permanent construction and updating of a consistent regulatory body, the DRG, in close articulation with the EBD and the other departments of Caixa Central, seeks to establish, for each specific situation, prudent and effective procedures in order to reduce the risks inherent to each type of activity developed within the scope of the banking business with clients and the financial activity of the institution.

Internal control, in its monitoring component by the risk management function, would invent the deficiencies detected and verifies the effectiveness of the measures taken to resolve them. Caixa Central, through the DRG and in close articulation with the Monitoring and Supervision Department (DAS), guarantees support to SICAM in monitoring the risk management function in each CCAM, considering the respective guiding principles and the specificities of SICAM, namely the high degree of autonomy and the organisational structure that results in a shared governance model between CCCAM and the Associated Caixas, without prejudice to the progressive adoption of homogeneous processes and procedures in risk management and, therefore, the existence of the necessary corporate function in the Group, aiming at the full adjustment of the guidelines contained in Banco de Portugal Notice No. 5/2008 and the consolidation of the internal control system throughout the Group.

3.4.3 Risk management function activities

Risk management aims to develop and support, in a global and integrated way, the definition of Grupo Crédito Agrícola's risk and capital management strategy and policies, ensuring its compliance and adequate organisational training through the implementation of methodologies, procedures and tools that ensure the determination and planning of capital and the identification, measurement and control of the various risks, framing and articulating the activity carried out in this field between the internal control functions and the different specialised organic units, in particular, credit risks, liquidity, rate of interest, market and operational and also promote the relationship with regulatory authorities.

Recognising that risk management translates into an important factor of stability, the Group has been continuously developing a significant number of initiatives in all areas aimed at building up the challenges emerging from a regulatory framework whose frequency of updating has been particularly accentuated in the recent past, in addition to the effort required by the banking system for planning and controlling liquidity, solvency and equity levels (Funding and Capital Plan and Stress Testing) and the need to ensure, on a permanent basis, compliance with the regulatory guidelines of a prudential and behavioural nature issued by Banco de Portugal. In parallel, it is the objective of the Group to continue to develop the necessary conditions for the assertion of a true risk culture based on ethical values and high professional rigour.

In line with these objectives, the business strategy that has been pursued, aims at the balanced and sustained development of the Group and places particular emphasis on risk control, defining measurable objectives that are intended to be assumed, along with the profitability that is intended to be achieved, subordinating it to risk limitation.

The overall risk strategy sets objectives for quality, profitability, allocation of own funds and development of the credit portfolio, financial assets and securities. These objectives are regularly monitored in order to enable their use by the Executive Board of Directors as a support basis for the review or updating of the strategy pursued.

To achieve the objectives described, the convergence process to Basel motivated strong investments in all areas (business, technology, human resources, information systems, etc.) to enable Crédito Agrícola for the challenges emerging from the current regulatory framework.

The risk management function aims to ensure the necessary compliance with the abovementioned regulatory challenges and to enable the Group to manage risk in line with the best market practices, through a series of complementary initiatives that include a strong technological component and require the development of specific internal skills.

3.5. GRUPO CRÉDITO AGRICOLA RISK PROFILE

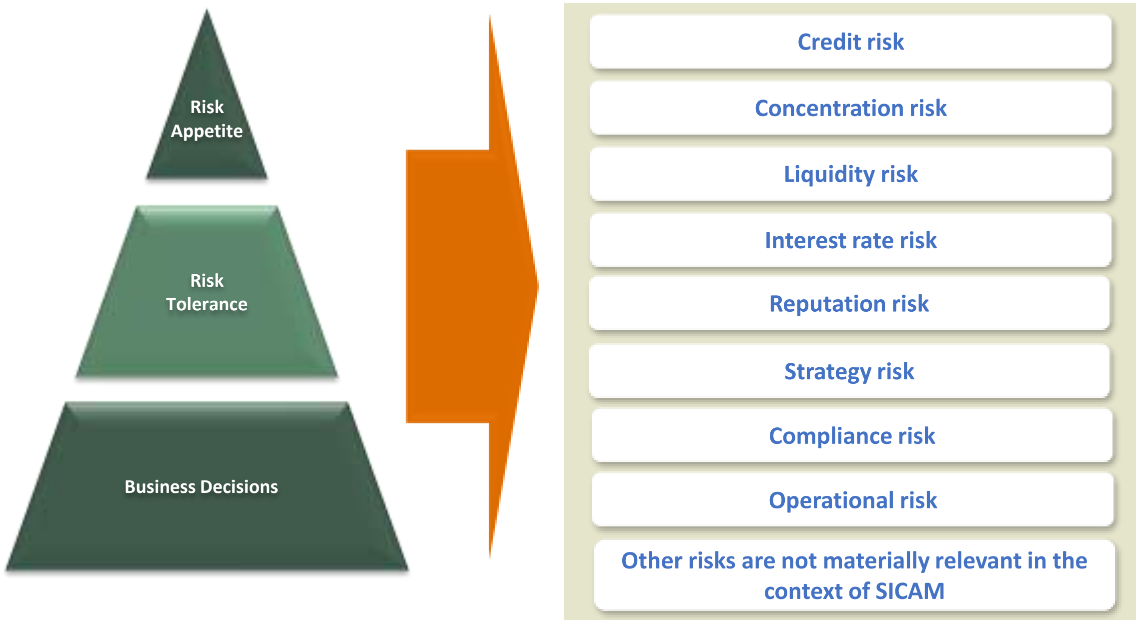
The risk profile corresponds to the level of risk that Grupo Crédito Agrícola is willing to accept and is based on the Group's strategic positioning, structural characteristics and degree of risk acceptance.

The processes adopted for prudent business management and proper risk assessment reflect the risk profile of the GCA at all times. Its definition (and continuous readjustment) is understood as necessary to maintain the desirable return/risk relationship.

The risk profile of the GCA has a broad guiding link to Caixas Agrícolas, given the specificities of the cooperative system, namely the corporate and commercial autonomy of Caixas Agrícolas and their involvement in the local economy and in the communities where they are integrated.

The methodology to support the definition of the risk profile is based on the materialisation of the strategic objectives, proposed by the executive body and sanctioned in the General Meeting, on indicators and limits of risk exposure, which must be incorporated into the exercise of daily activity.

The definition of the risk profile is a process that is the responsibility of the Executive Board of Directors of Caixa Central, but which has a transversal impact on the entire Group, being segmented into three levels – risk appetite, risk tolerance and business decisions:



- Risk appetite corresponds to the strategic component of the GCA risk profile and can be defined through a set of strategic objectives duly aligned with the institution's positioning, values and ethics. The strategic objectives set by the EBD are guided by the combination of both short-term expectations and long-term objectives. These can also be complemented by an institutional statement (formalised in writing and communicated to the stakeholders);
- Risk appetite translates, at a tactical level, into a set of indicators related to risk tolerance levels for each risk typology and for each line of business. For each indicator, the objective is to collect as much history as possible so that it is possible to define the risk exposure limits taking into account the institution's historical trend and the current macroeconomic and market situation;
- Structure units need clear guidance from management bodies so that they can apply the risk profile at the operational level. To this end, limits are adopted, and daily business decisions are taken at the level of the institution's operational procedures, which reflect its risk appetite and tolerance. The limits can be set for the indicator, in general, or be broken down by business unit or segment. In this way, it is possible to guide the operationalisation of business

decisions. These limits are reflected in the Institution's processes, procedures and systems and are applied by all employees.

The permanent change in the macroeconomic environment in which the Group operates requires regular monitoring of the established indicators, as well as their possible adjustment, in line with the developments observed during the period covered by the Activity Plan.

To this end, the GCA has systems for aggregating information residing in its operational systems for use in various areas, including management information. At the same time, it has tools to disseminate this information at all times to the different types of users within the Group.

The GCA risk profile must be updated at least on an annual basis and whenever there are significant changes in the corporate strategy or expectations regarding the macroeconomic and/or sector context.

In this context, the characterisation of the risk appetite assumes unquestionable relevance to the extent that it establishes the limits to which the GCA may be exposed, without jeopardising the development of the strategy established in its activity plans.

The GCA also establishes for the set of indicators mentioned, the limits determining the adoption of measures to adjust capital or liquidity levels, which are distinguished by their character:

- Warning Limits: so-called "early warning signals" allow the identification of negative trends in one or more risk monitoring indicators and are seen as early warnings, anticipating adverse circumstances prior to the activation thresholds of the recovery plan, at which time preventive measures are adopted, which may include measures contained in the recovery plan or others considered relevant in view of the scenario in question.
- Activation Limits: these are identified as triggers that motivate the initiation of the corrective actions provided for in the recovery plan and, in this sense, advocate the factors that trigger the response to a financial crisis situation. As part of the process of monitoring the risks and the necessary level of capital and liquidity of the Group, recognition of a manifestly damaging environment and acute financial imbalance provides for activation of the recovery plan through implementation of the contingency measures to be adopted to remove the

imbalances identified, which are duly monitored by the structural units defined in this document and in accordance with the respective governance model.

The appetite for risk of Grupo Crédito Agrícola is defined by its strategic vision and the guidelines that result from it and which are reflected in the Institution's statements and reference documents (e.g. business plan document for 2019, external corporate presentations led by members of the Executive Board of Directors, communications through the corporate website).

In this context, it was defined as a strategic vision to transform Crédito Agrícola into the best Financial Group in the markets where it operates, integrated and of a universal nature:

- **Mission:** To be the engine for the development of local communities.
- **Values:** Solidity, Trust, Proximity, Simplicity, Cooperative Values.
- **Vision:** Be recognised as the best bank to operate in its markets.
- **Development strategy (guidance):** Grupo Crédito Agrícola exists to meet the financial needs of customers and to promote the development of local communities. Proximity to local markets should allow sustainable investment projects to find CA branded financing solutions. The focus on the efficiency of business processes will ensure that good market opportunities are not won by the competitiveness of competing offers and that, in a sustainable manner, the Group returns adequate levels of profitability and ensures accessibility to a wide range of banking services through the sustainability of the networks (e.g. retail banking – branches, direct banking – APT, ATM).

The adoption of risk policies that are easily perceived by the GCA, based whenever possible on clear methodologies that can be quantified, must make it possible to identify levels of tolerance to risk, as well as business areas in which the GCA is totally averse to risk. These indicators should be regularly monitored in order to enable corrective or risk mitigation actions in a timely manner.

4. Capital Adequacy

This chapter illustrates the composition and adequacy of capital of the GCA, as well as the methodology for calculating internal capital (ICAAP) necessary to cover the various risks inherent to the activity.

The regulatory framework resulting from Directive 2013/36/EU and Regulation No. 575/2013 of the European Parliament and of the Council (CRD IV and CRR) has strengthened the prudential requirements applicable to credit institutions and provided for an additional set of measures related to the establishment of capital reserves to mitigate risks of a macro-prudential nature.

In this sense, the GCA immediately reinforced its processes in order to assess the level of capital considered adequate to cover the different risks and to have strategies to reinforce it, if considered convenient, within the scope of capital planning exercises that include the calculation of internal capital and the assessment of the resilience of capital ratios in baseline and adverse scenarios (stress tests).

4.1. CHARACTERISATION OF OWN FUNDS AND OWN FUNDS REQUIREMENTS

The GCA has a level of capitalisation appropriate to the risk and size of its activity, expressed in its Common Equity Tier 1 ratio of 15.2%.

Basic own funds are mainly made up of paid-up capital and supplementary own funds result from subordinated loans granted by the Crédito Agrícola Mútuo Guarantee Fund or subscribed by the Caixas de Crédito Agrícola Mútuo.

With regard to own funds requirements, the most noteworthy are those arising from loans granted to the retail, corporate and real estate secured classes.

The latest version of the GCA solvency is presented below, with reference to December 2018:

OWN FUNDS AND SOLVENCY RATIO - GRUPO CRÉDITO AGRÍCOLA

Million euros	2015	2016	2017	2018	Δ 18/17
Total own funds [(a)]	**1,142**	**1,227**	**1,387**	**1,440**	**3.8%**
Common equity tier 1	1,105	1,163	1,322	1,371	3.7%
Tier 1	1,105	1,163	1,322	1,371	3.7%
Assets and equivalents exposure	**14,245**	**17,203**	**16,938**	**18,187**	**7.4%**
Own funds requirements	**8,476**	**8,544**	**9,008**	**9,037**	**0.3%**
Credit [(b)]	7,377	7,426	7,908	7,866	-0.5%
Market				85	
Operational	1,099	1,118	1,100	1,086	-1.3%
Solvency ratios					
Common equity tier 1	13.0%	13.6%	14.7%	15.2%	0.49 p.p.
Tier 1	13.0%	13.6%	14.7%	15.2%	0.49 p.p.
Total	13.5%	14.4%	15.4%	15.9%	0.53 p.p.

(a) Including the net income for the end of the year in own funds.

(b) Including the own funds requirements for credit assessment adjustment risk (foreign exchange risk requirements included up to 2017).

The composition of GCA's own funds as at 31 December 2018 was as follows:

Values in Euros

	Amount
OWN FUNDS	**1,439,697,744**
TIER 1 CAPITAL	**1,371,117,594**
COMMON EQUITY TIER 1 CAPITAL	1,371,117,594
Capital instruments eligible as CET1	1,159,700,536
Retained earnings	8,559,560
Accumulated other comprehensive income	-9,129,591
Other reserves	352,250,338
Funds for general banking risk	0
Transitional adjustments due to grandfathered CET1 capital instruments	383,364
Minority interest given recognition in CET1 capital	0
Transitional adjustments due to additional minority interests	0
Adjustments to CET1 due to prudential filters	-1,423,216
(-) Goodwill	0
(-) Other intangible assets	-72,594,479
(-) Deferred tax liabilities that depend on future profitability and do not arise from temporary differences net of associated tax liabilities	-5,887,160
(-) Defined benefit pension fund assets	0
(-) Reciprocal cross holdings in CET1 capital	0
(-) Excess of deduction from AT1 items over AT1 capital	0
(-) Deductible deferred tax assets that rely on future profitability and arise from temporary differences	0
(-) CET1 instruments of financial sector entities where the institution has a significant investment	-357,130
(-) Amount exceeding the 17.65% threshold	-60,413,955
Other transitional adjustments to CET1 capital	29,327
ADDITIONAL TIER 1 CAPITAL	
Capital instruments eligible as AT1 capital	0
(-) Excess of deduction from T2 items over T2 capital	0
Other transitional adjustments to AT1 capital	0
Excess of deduction from AT1 items over AT1 Capital (deducted in CET1)	0
TIER 2 CAPITAL	**68,580,150**
Capital instruments and subordinated loans eligible as T2 capital	68,580,150
Transitional adjustments due to grandfathered T2 capital instruments and subordinated loans	0
Other transitional adjustments to T2 capital	0
Excess of deduction from T2 items over T2 capital (deducted in AT1)	0

Grupo Crédito Agrícola's statutory capital, divided and represented by registered capital securities with a unit nominal value of 5 Euros, is 1,159,706,041 Euros as at 31 December 2018.

Of the total amount of subscribed capital, the amount of 958,410 Euros, by application of IAS 32 – Financial Instruments (Note 28 to the Annex to Accounts), was transferred to a liability item "Instruments representing capital in liabilities".

In 2018, there were capital increases, one share in the amount of 48,476,845 Euros for incorporation of reserves and another in the amount of 25,179,672 Euros per entry of new partners.

On 31 December 2018 and 2017, the statutory capital corresponded to the members of the following Caixas Agrícolas:

Values in euros

	31-Dec-2018	31-Dec-2017
CCAM de Pombal, CRL	56,143,690	56,036,915
CCAM Batalha, CRL	48,378,740	46,862,330
CCAM Alto Douro, CRL	46,502,340	43,423,325
CCAM Costa Azul, CRL	44,015,665	34,424,460
CCAM Açores, CRL	34,736,405	32,684,895
CCAM da Serra da Estrela, CRL	34,377,585	31,855,410
CCAM Alto Cávado e Basto, CRL	31,729,835	30,146,640
CCAM do Noroeste, CRL	36,531,330	29,920,090
CCAM do Vale do Távora e Douro, CRL	28,090,725	25,950,695
CCAM de Vale de Sousa e Baixo Tâmega, CRL	31,950,930	25,890,985
CCAM Terras Sousa, Ave, Basto e Tâmega, CRL	28,472,660	22,948,565
CCAM de Alcobaça, Cartaxo, Nazaré, Rio Maior e Santarém, CRL	23,948,755	22,183,305
CCAM C. da Rainha, Óbidos e Peniche, CRL	21,658,670	21,612,965
CCAM de Trás-os-Montes e Alto Douro, CRL	22,282,005	21,052,285
CCAM do Sotavento Algarvio, CRL	19,414,300	19,241,535
CCAM P. Varzim, V. Conde e Esposende, CRL	20,416,190	19,130,205
CCAM do Baixo Mondego, CRL	20,178,035	19,072,065
CCAM Beira Douro, CRL	19,427,375	18,178,140
CCAM de São Teotónio, CRL	18,011,520	17,933,510
CCAM Vale do Dão e Alto Vouga, CRL	17,689,800	16,181,980
CCAM de Terras de Viriato, CRL	16,447,420	15,168,220
CCAM Alenquer, CRL	15,250,680	14,542,925
CCAM Coimbra, CRL	14,496,215	14,381,405
CCAM Lourinhã, CRL	15,603,000	13,805,105
CCAM S. Bart. Messin. e S. Marcos Serra, CRL	13,328,800	12,886,630
CCAM da Zona do Pinhal, CRL	12,871,370	12,722,925
CCAM Douro e Côa, CRL	13,188,800	12,716,815
CCAM do Baixo Vouga, CRL	12,322,130	12,252,640
CCAM Ribatejo Norte e Tramagal, CRL	12,006,935	11,925,065
CCAM da Terra Quente, CRL	13,131,680	11,753,610
CCAM Beja e Mértola, CRL	11,322,525	11,268,740
CCAM do Guadiana Interior, CRL	11,751,760	11,228,070
CCAM Região do Fundão e Sabugal, CRL	11,523,225	11,063,920
CCAM Costa Verde, CRL	10,556,690	11,026,440
CCAM Salvaterra de Magos, CRL	10,760,295	10,706,530
CCAM Albufeira, CRL	11,114,585	10,693,910
CCAM Coruche, CRL	10,513,335	10,503,280
CCAM Cadaval, CRL	10,160,050	10,129,240
CCAM de Silves, CRL	10,722,745	10,125,360
CCAM Médio Ave, CRL	9,986,490	9,832,980
CCAM Loures, Sintra e Litoral, CRL	9,931,180	9,747,775
CCAM de Cantanhede e Mira, CRL	9,754,565	9,589,990
CCAM Estremoz, CRL	9,109,415	9,090,045
CCAM Área Metropolitana do Porto, CRL	9,707,120	9,012,275
CCAM Oliveira do Bairro, CRL	10,320,305	8,996,465
CCAM de Lafões, CRL	9,057,445	8,841,415

	31-Dec-2018	31-Dec-2017
CCAM Vila Verde e Terras do Bouro, CRL	12,738,550	8,816,935
CCAM Nordeste Alentejano, CRL	8,925,520	8,696,880
CCAM Terras de Miranda do Douro, CRL	8,606,515	8,157,880
CCAM Aljustrel e Almodovar, CRL	9,079,415	8,130,245
CCAM Ferreira do Alentejo, CRL	8,213,540	8,095,265
CCAM Paredes, CRL	8,817,415	8,050,945
CCAM Oliveira de Azeméis e Estarreja, CRL	7,901,945	7,836,040
CCAM Arruda dos Vinhos, CRL	7,932,465	7,818,295
CCAM do Ribatejo Sul, CRL	8,843,630	7,796,110
CCAM de Moravis, CRL	7,818,800	7,773,410
CCAM Alentejo Central, CRL	7,669,910	7,493,745
CCAM da Bairrada e Aguieira, CRL	7,361,720	7,256,030
CCAM Vila Franca de Xira, CRL	7,424,325	7,121,565
CCAM Arouca, CRL	7,180,015	7,023,055
CCAM Beira Centro, CRL	7,398,150	6,987,515
CCAM Elvas e Campo Maior, CRL	7,222,125	6,965,025
CCAM Porto de Mós, CRL	7,112,915	6,962,975
CCAM de Pernes e Alcanhões, CRL	13,224,675	12,558,420
CCAM do Algarve, CRL	7,035,746	6,831,821
CCAM Alcácer-Sal e Montemor-Novo, CRL	6,696,730	6,637,380
CCAM Mogadouro e Vimioso, CRL	6,527,170	6,414,815
CCAM Oliveira do Hospital, CRL	6,874,945	6,232,790
CCAM do Norte Alentejano, CRL	6,229,390	6,180,665
CCAM Sousel, CRL	6,286,590	6,159,905
CCAM da Beira Baixa (Sul), CRL	7,316,980	6,001,260
CCAM Sobral de Monte Agraço, CRL	6,005,860	5,865,815
CCAM Azambuja, CRL	5,826,565	5,805,610
CCAM Entre Tejo e Sado, CRL	5,762,345	5,696,655
CCAM Serras de Ansião, CRL	5,836,050	5,672,845
CCAM Anadia, CRL	5,549,105	5,530,705
CCAM Borba, CRL	5,650,680	5,476,990
CCAM de Albergaria e Sever, CRL	5,426,330	5,345,950
CCAM Vale de Cambra, CRL	5,182,360	5,142,085
CCAM Vagos, CRL	5,132,250	5,126,145
	1,159,706,041	1,086,403,846

On 31 December 2018 and 2017, the shareholder structure of the GCA was distributed by thousands of subscribers of capital securities in Caixas Agrícolas, with no capital holders with a stake greater than 0.1%.

On 31 December 2018, the GCA had subordinated loans eligible as own funds amounting to 76,854,610 Euros, whose detailed inventory corresponds to:

Values in euros

Start Date	Maturity Date	Balance	Multiplicative Factor	Eligible Value
05-06-2014	05-06-2022	13.000.000	68.57%	8.913.472
19-03-2014	31-01-2024	11.000.000	100.00%	11.000.000
23-06-2015	23-06-2020	8.000.000	29.56%	2.364.532
23-06-2015	23-06-2024	8.000.000	100.00%	8.000.000
23-06-2015	30-06-2020	4.000.000	29.94%	1.197.592
19-03-2014	31-12-2022	20.956.724	80.01%	16.767.675
29-04-2015	30-11-2022	12.000.000	78.31%	9.397.590
29-04-2015	15-12-2021	1.500.000	59.15%	887.185
29-04-2015	15-12-2022	6.500.000	79.13%	5.143.757

With reference to 31 December 2018, the breakdown of Own Funds Requirements were as follows:

Values in euros

Own Funds Requirements	Amount	Requirements
TOTAL RISK EXPOSURE AMOUNT	**9,037,207,504.61**	**722,976,600.37**
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	**7,819,968,851.52**	**625,597,508.12**
Standardised Approach (SA)	7,819,968,851.52	625,597,508.12
SA exposure classes, excluding securitisation positions	7,819,968,851.52	625,597,508.12
Central governments or central banks	5,995,860.30	479,668.82
Regional governments or local authorities	108,533,522.74	8,682,681.82
Public sector entities	34,723,764.89	2,777,901.19
Multilateral development banks	0.00	0.00
International organisations	0.00	0.00
Institutions	38,410,058.93	3,072,804.71
Corporates	2,070,483,455.31	165,638,676.42
Retail	1,949,838,322.77	155,987,065.82
Secured by mortgages on real estate	1,201,512,402.51	96,120,992.20
Exposures in default	636,459,173.33	50,916,733.87
Items associated with particularly high risk	26,958,046.22	2,156,643.70
Covered bonds	0.00	0.00
Claims on institutions and corporates with a short-term credit assessment	0.00	0.00
Collective investment undertakings (CIU)	162,011,640.71	12,960,931.26
Equity	262,112,977.62	20,969,038.21
Other items	1,322,929,626.20	105,834,370.10
SA securitisation positions	0.00	0.00
of which: resecuritisation	0.00	0.00
MARKET RISK AND FOREIGN EXCHANGE RISK	**85,166,091.08**	**6,813,287.29**
Market	6,648,440.82	531,875.27
Foreign Exchange	78,517,650.26	6,281,412.02
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	**1,086,036,023.17**	**86,882,881.85**
OpR Basic Indicator Approach (BIA)	1,086,036,023.17	86,882,881.85
ADDITIONAL RISK EXPOSURE AMOUNT DUE TO FIXED OVERHEADS	**0.00**	**0.00**
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	**46,036,538.84**	**3,682,923.11**
Based on the Overall Exposure Method	0.00	0.00
TOTAL RISK EXPOSURE AMOUNT RELATED TO LARGE EXPOSURES IN THE TRADING BOOK	**0.00**	**0.00**
OTHER RISK EXPOSURE AMOUNTS	**0.00**	**0.00**

4.2. ICAAP – INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

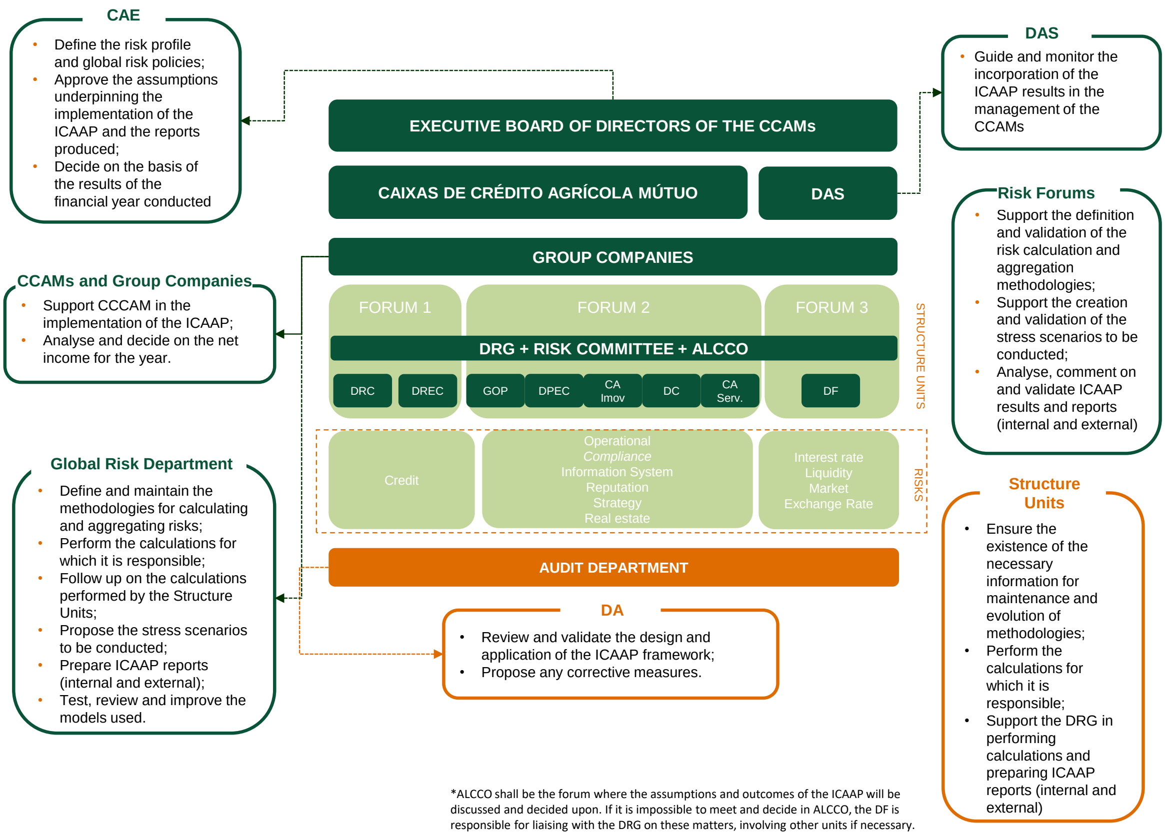
At the base of the ICAAP is the concept of economic capital which consists of a risk measure that intends to quantify unexpected losses, with a given statistical confidence level:

The calculation of economic capital focuses on all materially relevant risks. In addition to those considered in Pillar 1 (credit and its concentration, operational risk and market risk), it also addresses the risks consigned in Pillar 2 (interest rate, liquidity and its concentration, foreign exchange, reputation and strategy), providing an assessment of the institution's capacity to absorb extreme events, as well as to support its own growth and sustainability over time.

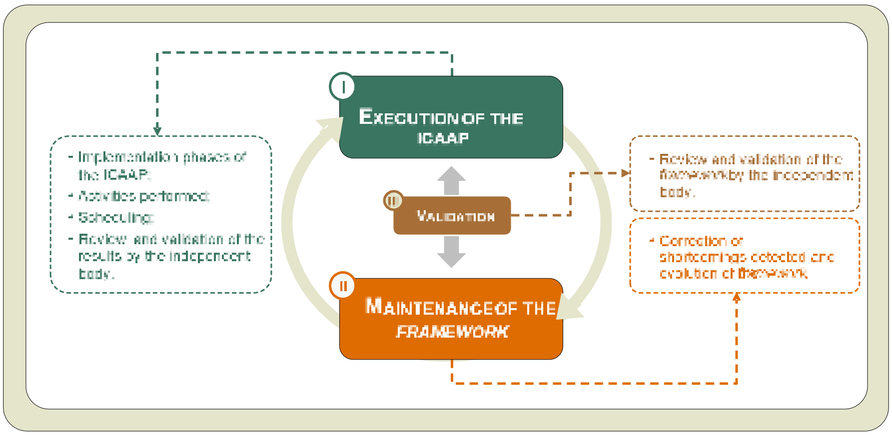
In light of the BdP Notice 5/2008 and the needs of the GCA, the structure of the ICAAP framework met, not only, the requirements defined by the supervisor but, above all, the potential for synergy with the other risk management tools, constituting itself as a structural tool for the internal control in the level of risk identification and assessment.

The GCA wants the ICAAP to continue to respond to some of the requirements of internal control by providing internal methodologies to identify and measure the risks to which the institution is exposed and to accordingly monitor and mitigate those same risks.

The ICAAP framework put in place is based on a governance model with the overall structure and responsibilities illustrated below.



The aim is to achieve this vast set of objectives through a continuous cycle that will allow the retained earnings to be used in the aforementioned capital planning, by incorporating them into management decisions, and in the projection of operational activity and the interconnection with other technological and business initiatives underway.



The implementation component of the ICAAP ensures the involvement of all business units and is integrated into the Group's culture, management and decision-making process.

The maintenance component of the framework includes the steps related to the evolution and improvement of the shortcomings detected in the process.

The validation component incorporates the review and validation component of the framework by an independent body, as defined in Instruction No. 3/2019.

The implemented model also includes a set of management and monitoring processes that ensure the adequacy of the organisation, structure and processes in the face of internal capital needs, the risks incurred, and the shortcomings detected.

4.2.1 Scope of calculation

In order to segregate the different types of risk according to their material importance, it was defined that if they individually impacted more than 1% of the total assets of the GCA, the risks would be identified as materially relevant. According to this rationale, credit, interest rate and liquidity risks were classified as such.

Taking into account the transversal nature and relevance of operational, reputational, counterparty, concentration and strategy risks to the good performance of the GCA, it was considered that they are equally materially relevant, and are therefore quantified.

In the approach to the internal capital calculation for information systems risk and compliance risk, it was considered that they should be analysed together with the operational risk calculation.

Although not meeting the requirements of material relevance, market, exchange rate and credit assessment adjustment risks were included in the ICAAP analysis, with the distinction that a proprietary approach was not outlined, but rather, the standard method and the standard approach respectively outlined by Banco de Portugal for the purposes of calculating regulatory capital requirements was adopted.

Internal capital requirements associated with property risk were also quantified, considered relevant from the perspective of the delicate context and challenges currently faced by the real estate economic sector.

On the other hand, the need to simulate the expected behaviour of the external and internal environment to which the GCA will be exposed over a one-year period (time horizon of risk quantification under the ICAAP), namely the behaviour of the variables with an impact on financial conditions, made it necessary to collect quantitative information (e.g. economic indicators) and its correlation with the current and prospective macroeconomic environment.

With regard to the internal environment, information was collected from the projections made in the Group's Activity Plan, as already pointed out.

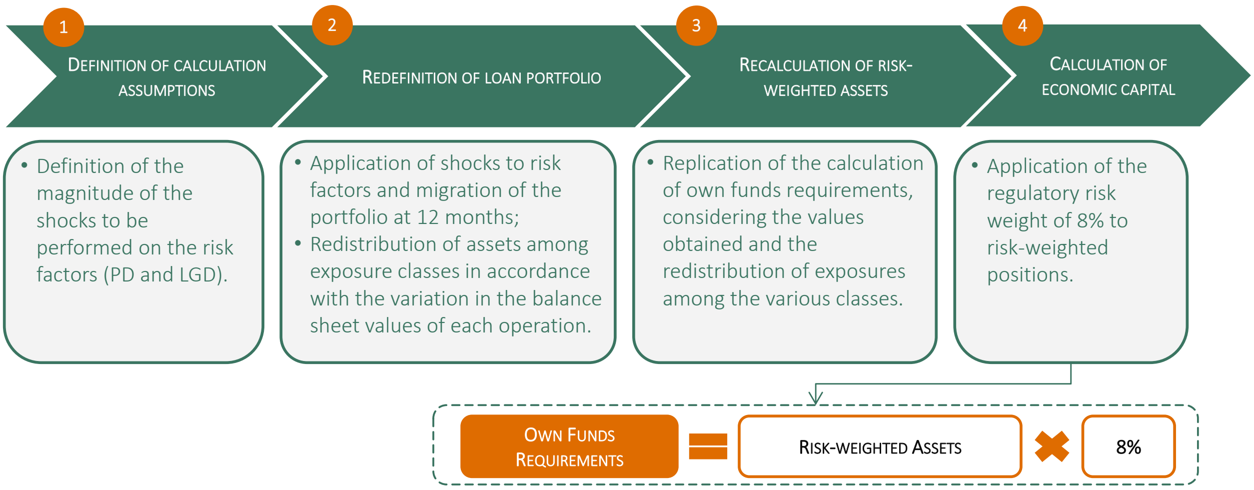
The Internal Capital Adequacy Assessment Process (ICAAP), with reference to 31 December 2018, presents a (baseline) scenario, which is grounded in the Business Plan of Grupo Crédito Agrícola and the macroeconomic scenario forecast for 2019 of the Funding and Capital Plan, reported to December 2018.

The baseline scenario corresponds to the projections for the Portuguese economy published in the December 2018 Economic Bulletin of Banco de Portugal, the projections point to the maintenance of the expansion process of the Portuguese economy, although at a slower pace.

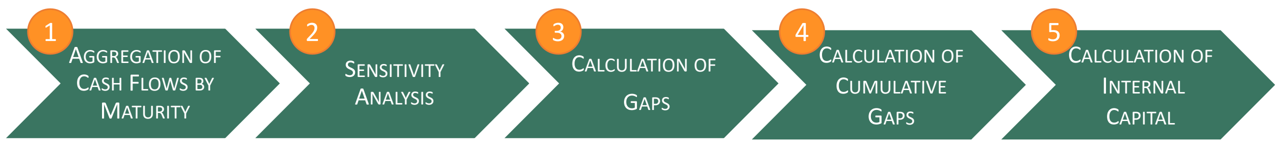
The outlined scenario aims to reflect the level of comfort of the capital level that the GCA intends to guarantee, according to its risk profile and in view of the expectation of evolution of risk factors.

4.2.2 Calculation methodologies by risk typology

In the framework of the ICAAP, for the calculation of internal capital requirements for **credit risk**, the GCA has defined a methodology that combines the standard approach for calculating the regulatory requirement for credit risk (provided for in Directive 2013/36/EU) and in Regulation No. 575/2013 of the European Parliament and of the Council (CRD IV and CRR)) and the calculation of impairment, designated by the GCA for Methodology "Impairment + Standard Approach". This methodology is structured over 4 steps in the following terms:



The methodology followed for **interest rate risk** consisted of Gap Analysis, structured over 5 steps as presented below:



In order to quantify the capital requirement for liquidity risk, the Limited Funding Approach methodology was adopted, which shares similarities with the Gap Analysis methodology applied to interest rate risk, since it is based on the concept of gaps (Assets/Liabilities imbalances). The defined methodology was performed over six steps, as follows, and using the Group's Focus ALM tool:

In the context of the calculation of internal capital for **operational risk**, which for this purpose covers compliance and information systems risks, the GCA used a methodology that combines and adapts the regulatory methodologies of the Basic Indicator and the Standard Approach, which can be represented schematically:

In order to ascertain the internal capital requirement for **reputation risk**, the GCA internally developed a methodology called Qualitative Assessment, based on four pillars:

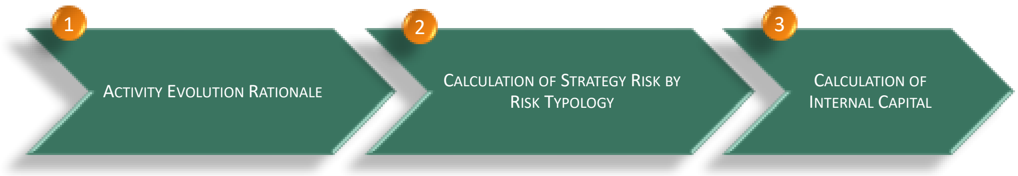
1. Aggregation by risk, of the quantification of the impact caused by reputational damage, designated as reputational *add-on*, that is, it was assumed that reputational risk amplifies the effect of the other risks;

2. Determination of a mitigation factor based on the assessment of existing reputational risk management practices;

3. Application of a weighting resulting from the expected level of public *awareness*;

4. Addition of an amount reflecting the expected cost associated with the possible need to resort to a Contingency Plan to mitigate the damage caused to the reputation of the GCA.

For **strategy risk** and with a view to calculating internal capital, the Group adopted the "Expected Activity Evolution" methodology:



Market risk was not classified as materially relevant, given the GCA's small trading book, and consequently small quantification of the minimum capital requirement to cover this type of risk. For the purposes of the ICAAP, market risk was included in the respective framework, emphasising the adoption of the standard methodology, as opposed to the development of its own methodology.

The own funds requirements for position risk of the GCA consist of the sum of own funds requirements for specific risk and for general risk of positions in debt instruments.

Own Funds Requirements = **Specific Risk Requirements** + **General Risk Requirements**

Specific risk, for which the capital requirement is determined on the basis of the risk weight according to the standard method for credit risk.

Specific Risk Requirement = **Risk-weighted Assets (Credit Risk)** × **8%**

General risk, where the capital requirement for general risk is determined on the basis of maturity, as follows:

GENERAL RISK REQUIREMENT	=	RISK-WEIGHTED ASSETS (MATURITY)	✖	8%

The calculation of risk-weighted assets takes into consideration the following components, in accordance with Article 339 (1) of the CRR.

As with market risk, **exchange rate risk** was not marked as materially relevant.

Despite its exclusion as a materially relevant risk, the internal capital requirement for exchange rate risk was assessed by adopting the standard regulatory methodology.

As for **counterparty risk**, the calculations made were in order to infer as to the Group's capacity to absorb shocks resulting from the default of counterparties with which the Group has contractual obligations, but from a perspective that was limited to the degradation of positions at risk due to the worsening of the risk in the portfolio of securities classified and measured at amortised cost and fair value through other comprehensive income, due to the worsening of the rating, in order to obtain an approximation as to the impact in terms of solvency. It is recalled that with the introduction of the Financial Reporting Rule IFRS 9, an impairment loss amount associated with the previously identified securities portfolio is determined.

This methodology presupposes a redefinition of the securities portfolio based on the PD defined by aggregator of the external rating level, that is, to the ratings Ba1, Ba2 and Ba3, the PD of the Ba rating by external rating is applied, according to IFRS 9, obtained from the information provided by Moody’s. After the worsening of the rating, some exposures move from level 1 to level 2 of the impairment quantification model, imposing the consequent increase in impairment.

Finally and with a view to quantifying the capital requirement associated with **concentration risk**, a methodology has been adopted that articulates the Individual Concentration Ratio (ICI), as defined in Instruction No. 5/2011, with the standard approach for calculating the regulatory requirement for credit risk (provided for in Directive 2013/36/EU and Regulation No. 575/2013 of the European Parliament and of the Council (CRD IV and CRR)).

Its implementation is based on the calculation of the ICS and ICI for the reference period and on the deduction of the respective weights resulting from the standard tables, set out below, defined for the Spanish financial system by the respective regulator under the ICAAP exercise.

The rationale for calculating internal capital for **real estate risk**was based on the economic impact of the devaluation of real estate assets on balance sheet, taking into account the specificities of the different segments (Residential, Commercial and Agriculture/Agricultural Land).

The **CVA risk** was not classified as materially relevant either because of the absence of a meaningful portfolio of derivatives or by quantifying the minimum capital requirement for its hedging. In this sense, it was included, but maintaining the constant value compared to the prudential reporting (COREP) under pillar I.

During the preparation of the ICAAP, the relevant risks for the Group's activity were considered. The following is the enumeration of the results obtained for the risks included in the ICAAP analysis, both from an individual and diversified risk perspective:

	Baseline		
Materially Relevant Risks	Requirements (without diversification)	Requirements (with diversification)	Internal Capital
Credit Risk	640,935,805 €	637,176,753 €	-7,931,726 €
Interest Rate Risk	-	-	-44,144,702 €
Liquidity Risk	-	-	-
Operational Risk	82,741,464 €	41,103,557 €	-
Reputation risk	7,617,185 €	7,617,185 €	-
Strategy risk	25,434,484 €	25,286,625 €	-1,222,231 €
Exchange Rate Risk	6,281,412 €	6,281,412 €	-
Market Risk	531,875 €	453,164 €	-
Counterparty Risk	-	-	-1,349,777 €
Concentration Risk	19,280,192 €	19,280,192 €	-
Real Estate Risk	-	-	-
CVA	3,682,923 €	3,682,923 €	-
Total	**786,505,341 €**	**740,881,812 €**	**-54,648,436 €**

Internal capital requirements without diversification amount to 786.5 million euros and with diversification at 740.8 million euros. Among the risks considered, the values related to operational credit risks are highlighted.

The methodologies adopted have a mainly quantitative component. However, the approaches adopted for reputational and operational risk also have a qualitative component, through the incorporation of a self-assessment of the risk management system.

Considering the available funds and the volume of requirements for the different risks, the main conclusions of the process developed with reference to December 2018 were as follows:

- Basic and supplementary own funds are stable and can cope with unexpected losses;
- Internal capital is appropriate to the Group's risk profile;
- The capitalisation level safeguards the interests of GCA members, customers and other stakeholders and allows for a solid margin of growth and affirmation in the context of the markets where it operates;
- Credit risk is expected to remain the most relevant risk in terms of capital requirements, both internal and regulatory.
- The review process carried out has made it possible to attest that the ICAAP generally fulfils its core objectives, with a view to ensuring that the risks to which the GCA is exposed are adequately assessed. It is also considered that the design and implementation of the ICAAP, as well as the assessment of its results, took into account not only the type, size and complexity of the GCA, but also the operational environment and the nature and risks of the activities carried out.

The amount of available funds will tend to grow in tandem with the generation of income and their subsequent appropriation to the net position. Thus, the GCA does not envisage changes in its own funds, whose composition and adequacy to the requirements was as follows, compared to 31 December 2018:

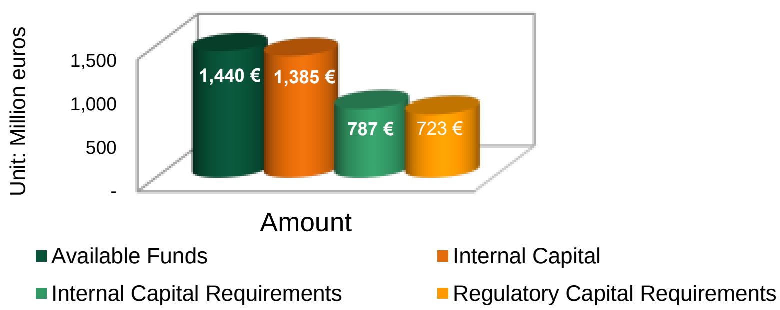
Capital Requirements	Total Amount (million €)
Total own funds:	€ 1,440
Of which, Common Equity Tier 1	€ 1,371
Own funds requirements:	€ 722
Of which, Credit Risk	€ 636
Of which, Operational Risk	€ 87

The GCA considers as internal capital the value of Own Funds (OF), noting the fact that the instruments that make up the Group's main and complementary OF are stable and appropriate to the purpose inherent to internal capital, that is, to cope with unexpected losses. Under the precepts set out in Regulation No. 575/2013, the Group determined the available funds, amounting to €1,440 million and capital requirements amounting to EUR 722 million, through the proposed regulatory approaches.

The risk profile of the GCA is expected to remain stable, while credit risk remains the most relevant in terms of capital requirements, both internal and regulatory.

Based on the calculated information, it is possible to establish a comparison between the three capital levels, illustrated in the following graphs, and to proceed with the overall assessment of GCA's capital needs.

Baseline Scenario



The amount of available internal capital shows a naturally downward trend, along with the generation of results and their subsequent appropriation in the net situation, and the GCA does not foresee any changes in the composition of its own funds, as a result of their solid composition and adequacy.

The Group intends to maintain comfortable levels of liquidity, duly aligned with the policy pursued in the past and which is based on the objective of having a gross transformation ratio (credit/deposits) close to 80%. Caixa Central has set limits on the transformation ratio of the Caixas Agrícolas, as well as a strict policy for investing its surplus funds, with the aim of safeguarding the high level of liquidity of its assets, both on an individual and consolidated basis. The transformation ratio must remain well below the limit that could determine the use of external funding sources to maintain regular activity. Surplus liquidity will be invested in high quality and liquid assets.

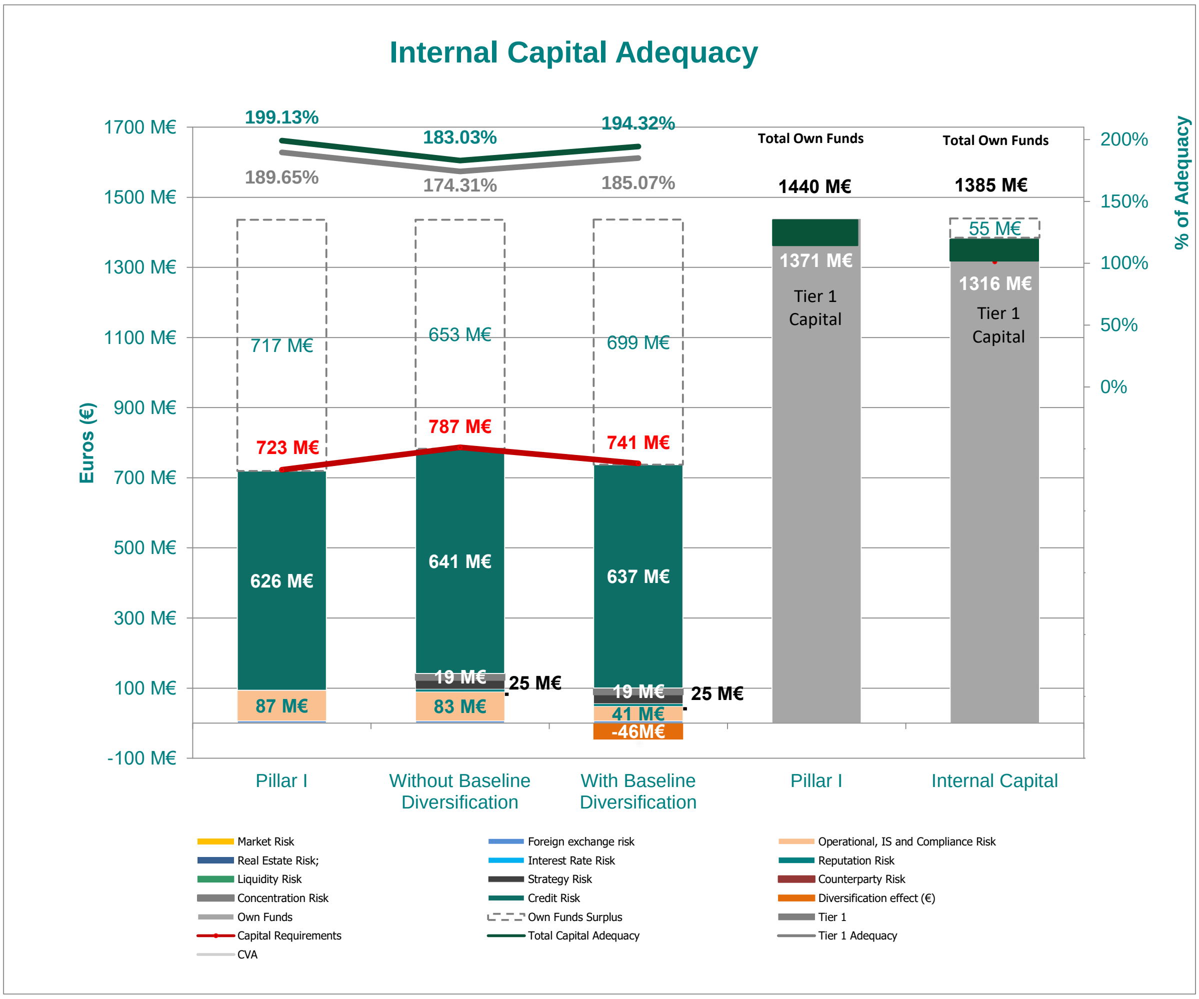
The GCA will maintain effective control over liquidity and interest rate risks, ensuring their mitigation as well as maintaining conservative management of its balance sheet position.

In line with the Group's economic and financial condition, it is not considered necessary to reduce the credit portfolio, nor to transfer credits or reduce the supply of credit in the banking market, including corporate current account renewal operations. In this regard, it is intended to expand the credit portfolio, which will lead to a moderate increase in capital needs. It is also intended to comply with a permanent adjustment of the price of transactions according to the associated risk rather than the size or composition of the Group's balance sheet.

Still on the customer loan portfolio, the intention will be to maintain the strategy adopted in recent years, with a view to improving the quality of assets and recovering credit that is in default. The resulting procedures will be put into practice without wasting opportunities to increase portfolio diversification levels through new business relationships with customers that present an acceptable risk profile.

4.2.3 Overall assessment of capital needs

Based on the information presented, it is possible to establish a comparison between the three levels of capital in order to carry out the overall assessment of GCA's capital needs.



Considering the available funds and the volume of requirements for the different risks, it can be seen that the internal capital is adequate for the Group's risk profile and that the level of capitalisation safeguards the interests of the members, giving the Group a solid margin for growth and affirmation in the context of the markets in which it operates.

The assessment of capital needs for the year concludes that capital is adequate to meet the risks to which the institution is, or may be, exposed.

Notwithstanding the aforementioned favourable conditions, the Group has developed recovery plans with the purpose of preparing to deal with adverse scenarios by identifying the measures that could be taken to quickly and efficiently correct or even avoid financial imbalances, in particular impacts on the Group's capital structure, resulting therefrom.

The measures referred to above may be applied from the perspective of risk-weighted assets or own funds and consider the specificities of the legal framework and organisational model of Crédito Agrícola, at the individual and consolidated level.

4.2.4 Quantitative Information

Under the precepts set out in Regulation No. 575/2013, the Group determined the available funds, amounting to €1,440 million and capital requirements amounting to EUR 786.5 million, through the proposed regulatory approaches.

The unexpected losses estimated under Instruction No. 3/2019, which gives financial institutions the initiative to build their own methodologies, resulted in the determination of internal capital needs equivalent to 786.5 million euros, without diversification of risks, and 740.9 million euros , with risk diversification for the baseline scenario.

4.3. FUNDING AND CAPITAL PLAN

The Funding and Capital Plans (FCP) represents a fundamental element in the Group's internal management, in addition to the relevance expressed as an instrument of prudential supervision beyond the context of Portugal's Economic and Financial Adjustment Programme under which it was initially formulated. Additionally, the new FCP reporting model has been updated and now observes the standard established by FINREP (financial reporting). In this context, through Instruction No. 18/2015 of Banco de Portugal, the regulator requests the periodic review of the FCP with Grupo Crédito Agrícola (GCA), aiming at projecting the main accounting and prudential aggregates with the main purpose of highlighting the potential needs for capital and liquidity in a highly prospective content.

The aim of these exercises is to ensure that the GCA projections are naturally consistent with the macroeconomic framework established for this purpose (in particular economic growth, inflation and unemployment), applying principles, guidelines and restrictions to a wide range of indicators, while making it possible to incorporate the respective strategy, particularly with regard to credit, deposits, solvency, liquidity positions and also the evolution of impairments, other relevant financial assets and generally the assumptions of the factors that dictate their evolution (e.g. demand, interest rate levels, internal targets, external restrictions).

It is concluded that GCA does not record any need to reduce its activity, strengthen capital or change the composition of its assets, as it largely complies with the minimum limits at the level of own funds ratios established by the regulatory framework (EU No. 575/2013), as well as, the guiding limits, at consolidated level, defined in the communication of Banco de Portugal under reference 1550/14/DSPDR, for these same ratios in capital planning exercises, in order to identify and quantify all the risks arising from the activity developed, absorb the impacts of adverse events and the necessary close and active monitoring of market trends and expectations regarding the adequacy of capital levels. In addition, the GCA maintains effective control of liquidity risk, ensuring its mitigation and maintaining conservative management of its balance sheet.

5. Counterparty Credit Risk

This chapter concerns counterparty credit risk in the GCA. The chapter includes a definition of the concept of counterparty credit risk, a presentation of the strategy followed in the management of this risk category and, at the end, a quantitative analysis of the GCA exposure.

5.1. CONCEPT

Counterparty credit risk consists of uncertainty about the ability of a national or non-resident central government or financial institution to fulfil obligations arising from the use of the various money market products, capital, foreign exchange and their derivatives.

5.2. COUNTERPARTY CREDIT RISK MANAGEMENT

5.2.1 Counterparty credit risk management strategy and process

The process of attributing limits to financial institutions is based on the risk rating assigned by the rating agencies and on an internal model that takes into account country risk, the time function, the type of product and the result of the economic and financial analysis.

The sovereign risk assessment process is based on the credit rating awarded by leading international rating agencies.

In addition to the above elements, other relevant aspects are also considered which may aggravate or reduce the risk at hand, such as the economic and political situation of the country in which the financial institution operates, the quality of the shareholders, the specific type of activity and the market segment in which it operates.

Caixa Central's investment policy introduced exposure limits for sovereign debt securities, observing a diversification strategy and mitigation of concentration and counterparty risks.

The definition of a credit limit methodology is based on the creation of a system that effectively protects the financial institution from adverse credit events, being easily applicable and effective in controlling in order to enable the management of new operations in real time, as well as the monitoring of the portfolio in order to maintain desired concentration levels.

In this sense, objective variables and criteria considered relevant for the allocation of limits were identified. The definition of credit limits based on the level of risk perceived allows for the definition of maximum exposure amounts that vary in a manner consistent with the different dimensions of analysis, in particular credit quality and maturity.

5.2.2 Methodology for setting limits for exposures subject to counterparty risk

The methodology for setting limits for exposures subject to counterparty risk results from the maximum exposure per issuer at the level of the underlying VaR for a benchmark rating considered prudent and representative of investment policy, as well as from the total capital eligible for prudential purposes.

In this way, the maximum exposure per issuer records as an initial reference, i.e. starting point and, therefore, VaR of reference, the minimum credit rating observed as investment grade/non-speculative (rating BBB-/ Baa3) according to the total eligible own funds for prudential purposes, with the limit established in accordance with the rating level presented by the issuer.

5.2.3 Policies ensuring legal certainty standards for collateral and policies on valuation adjustments and valuation reserves

For most derivative transactions there is a collateral in the form of a deposit. In order to ensure the effectiveness of the collateral, the GCA carries out a daily follow-up of the market value of the transactions underlying these contracts and the deposits made by counterparties.

5.2.4 Coverage and risk reduction policies

The Group bases its policy of hedging and reducing counterparty risk on the permanent monitoring of counterparty credit risk, proceeding where necessary to reduce or suspend lines for market operations. In situations where this proves necessary, the GCA uses the contracting of credit risk hedging instruments.

5.2.5 Strategies and processes for monitoring the sustained effectiveness of hedging operations and risk reduction factors: risk monitoring policies, indicators monitored, information systems used for monitoring

The principles governing counterparty limits for the Interbank Money Market, foreign exchange market transactions and derivatives are disclosed in internal regulations.

Cases not included in the limits mentioned above are subject to a case-by-case decision by the EBD, which also updates the counterparty limits every six months, although it is possible at any time to review or suspend a limit attributed to any institution, depending on the information on that institution.

Global exposure with non-resident entities may be limited depending on the division by Country Risk Groups defined by Banco de Portugal.

5.2.6 Measures used to calculate the exposure value according to the applicable method

The GCA essentially uses the market price assessment method (mark-to market).

5.2.7 Own funds requirements for credit valuation adjustment risk (CVA)

"Credit Valuation Adjustment" or "CVA" means an adjustment to the mid-market average valuation of the portfolio of transactions carried out with a counterparty. This adjustment reflects the current market value of the counterparty's credit risk to the institution, but not the current market value of the institution's credit risk to the counterparty. The own funds requirements for CVA risk are calculated for all OTC derivatives, with the exception of credit derivatives recognised for the purpose of reducing credit risk-weighted exposure amounts.

5.3. QUANTITATIVE INFORMATION

The amount of the credit valuation adjustment for OTC derivatives is as follows:

Values in euros

	EXPOSURE VALUE			OWN FUNDS REQUIREMENTS	TOTAL RISK EXPOSURE AMOUNT
		of which: OTC derivatives	of which: SFTs		
CVA total risk	68,854,193.66	68,854,193.66	0.00	3,682,923.11	46,036,538.84
Based on the Standardised Approach	68,854,193.66	68,854,193.66	0.00	3,682,923.11	46,036,538.84

The distribution of transactions with GCA derivative financial instruments on 31 December 2018 by counterparty type breaks down as follows:

Values in euros

	Notional value	Book value
Forward foreign exchange transactions		
Forward foreign exchange trading		
Customers	-	-
Swaps		
Financial Institutions	57,795,000	29,255,527
	57,795,000	**29,255,527**

The items relating to deposits from Central Banks and other Credit Institutions are made up as follows:

Values in euros

	31-Dec-2018	31-Dec-2017
Funds of Banco de Portugal		
Loans	1,690,187,389	1,693,366,252
Interest	(13,066,991)	14,441
	1,677,120,398	**1,693,380,693**
Funds of Other Credit Institutions		
Funds of domestic credit institutions		
Deposits	101,040,605	188,306,218
Other funds		
Funds of credit institutions abroad		
Other credit institutions:		
Deposits	10,351,246	3,306,107
Loans	50,000,000	50,000,000
	60,351,246	53,306,107
Interest payable	52,322	92,664
	161,444,173	**241,704,988**
Total funds of central banks and Funds of other credit institutions	**1,838,564,571**	**1,935,085,681**

The interbank activity of the GCA in 2018 continued to be based on traditional transactions, and its risk profile remained conservative in relation to international markets. The GCA uses derivative transactions occasionally for risk hedging purposes and has not yet resorted to any securitisation transactions.

Purchase transactions with a resale agreement are revealed, either for accounting purposes or for the purposes of prudential reporting, within the scope of the credit granted.

6. Credit Risk – General Aspects

This chapter focuses on the credit risk management model, to which Crédito Agrícola attributes particular importance because of the direct dependence between strict control of this type of risk and the efficiency and profitability of the Group itself.

6.1. CONCEPTS

Credit risk is the risk associated with the possibility of a Financial Institution incurring losses due to non-compliance with contractual obligations by its counterparties in the respective credit transactions.

The GCA considers the concept of "credit in default" which reflects the European regulations within the scope of article 178 of the CRR. Grupo Crédito Agrícola immediately began to align with the concept defined in "Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No. 575/2013".

In turn, the identification and characterisation of non-performing loans (NPL) within the GCA, for the purpose of credit risk management, comprises all exposures that meet the criteria of the classification in 'default' according to Article 178 of the Regulation (EU) No. 575/2013, in addition to necessarily including any exposure identified with impairment losses by the institution, namely, overdue credit, i.e. materially relevant exposures overdue more than 90 days ago, and/or improbability of payment/predictability of default (it is considered unlikely that the debtor will pay all its credit obligations, including, for example, clients with multiple signs of financial difficulties, the restructured loans that are in the quarantine period and all the obligations of a debtor (company) where at least one of this customer's operations is classified as default).

For accounting purposes, an "overdue credit" is shown in the respective headings after 30 days of default, however, the respective default interest is counted from the first day of default.

6.2. CREDIT RISK MANAGEMENT

6.2.1 Credit risk management strategy and processes

The objective of credit risk management is to maximise a financial institution's income per unit of risk assumed, while maintaining exposure to this risk, firstly, at acceptable levels with regard to its business development objectives and, secondly, always respecting the regulatory requirements to which it is subject. Credit risk is managed by several GCA organic units based on function segregation criteria and competency delegation levels.

The organisation of activities throughout the life cycle of operations always complies with the regulations of Banco de Portugal on this matter. In this sense, the continuous organisational development of the risk function in each body is promoted, aiming to ensure the independence of the activities that constitute the life cycle of operations and, regularly, approve/revise the risk assumption criteria and the process of monitoring Clients.

In coordination with the various organic units, in developing this strategy, the appropriate rules are stipulated for its management and the necessary policies and procedures are defined for its application to the life cycle of the operations, as well as for competent action in the recovery of non-performing loans. The guidelines outlined by the CCCAM are contained in several credit regulations which are binding in their scope of action and are of a guideline nature for transactions carried out by the Associated Caixas which, moreover, have identical internal benchmarks.

In order to minimise losses on credit granted, the GCA has been:

- Improving the methodologies applied to customer control and operations and strengthen customer monitoring in order to act preventively, namely through the use of an increasing number of alerts and risk indicators, for example within the framework of processes integrated in PARI and PERSI. The importance of these methodologies in the dissemination of recovery strategies in the initial phase of credit recovery processes is emphasised, when share success rates are usually higher.

- Strengthen the risk analysis capacity and improve the credit decision-making process through the use of new tools and the refinement/calibration of existing ones, ensuring close adherence to the established regulatory framework, in particular in view of the segregation requirements of associated functions, which allows for greater control and homogenisation of procedures.

To support these activities, there is a corporate Datawarehouse aimed at integrating all risk information residing in the Group's various operating systems, as well as tools to support judicial and extra-judicial recovery activities in order to ensure the necessary control and procedural promptness.

Backtesting exercises for scoring models are periodically carried out in order to keep their calibration up to date, in line with market developments and their macroeconomic constraints. The Group also has a rating model that constitutes a complementary risk assessment instrument for company customers.

In addition, the development of the management and control system for economic and risk groups, the management and control system for credit limits, the support tools for the monitoring and recovery of loans and the management tool for guarantees and collateral received, allowed for a significant improvement in the field of credit risk management, not only through the increased quality of the support information, but also through the means provided for an efficient monitoring of the credit portfolio.

6.2.2 Credit risk analysis process

This process is based on the careful collection of relevant information on the history of the customer, its activity and its relationship with the banking sector, in order to estimate its repayment capacity and the events that may affect its probability of default.

It also includes the assessment of the guarantees received and their liquidity under current and expected market conditions. The information gathered is processed based on analysis methodologies set out in the Group's internal regulations and in accordance with risk management practices recommended by the banking supervision of Banco de Portugal. The entire process is framed by an adequate segregation of functions and a scrupulous independence and impartiality required of all those involved in the process.

6.2.3 Decision-making process

The purpose of a credit decision is to reconcile the commercial interest with the proper management of the variables that influence the underlying credit risk. These are the variables that are analysed and considered at the time of the credit decision.

To support the decision-making process, models (scoring and rating) developed for risk assessment are used. The results of the models concerned form an integral and mandatory part of the documentation supporting the analysis of the various credit decision-making bodies. The use of the models is mandatory for all customers and products that fit within its scope.

The credit decision follows the principle of prior classification of the Customer/Operation through the attribution of a Risk Level assigning a Risk Degree (rating or scoring), as well as the establishment of Credit Limits when applicable (corporate customers).

The definition of the pricing conditions (interest rate, commissions, etc.) of operations falls within the competence of the respective Commercial Department, which will fix them according to the Internal Standard of Pricing Skills for Credit Operations and the respective credit decision levels supported by the Delegation of Credit Decision.

6.2.4 Follow-up process

The process is sustained on a tool that allows the monitoring and systematisation of credit throughout the pre-recovery stage, besides contemplating a set of monitoring procedures, such as the maintenance of the global credit portfolio in conformity with the defined strategy of exposure limits, diversification and coverage by guarantees and provisions and the monitoring individual monitoring of each operation, customer or group of customers, in order to monitor the evolution of the probability of receiving expected future cash flows and the adoption of measures to minimise the probability of occurrence of losses arising from an unfavourable evolution of the customers' financial situation. In this regard, the process of determining credit impairments plays an important role in the monitoring process.

6.2.5 Recovery process

In the case of Caixa Central, after the occurrence of a default on the part of a customer, its responsibilities are now managed by a specific and autonomous department that assesses the potential for recovery of those responsibilities through renegotiation, execution of existing guarantees or other means of a litigious nature. This department is also responsible for assessing the levels of prudential provisioning appropriate to the evolution of expected losses for the customers in question.

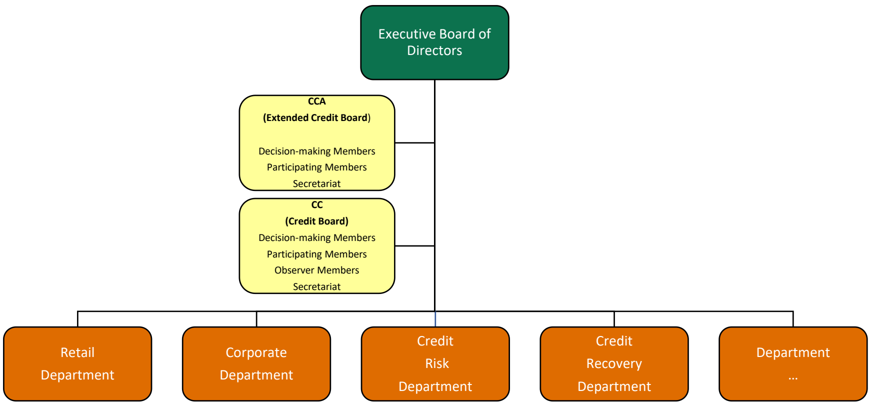
The credit recovery process is based on four fundamental pillars: responsibility for extrajudicial recovery of loans to default clients, management and follow-up of customers in an articulated way with commercial departments, responsibility for customer contact, and responsibility for decision-making after its entry into the recovery phase.

6.3. COVERAGE AND RISK REDUCTION POLICIES

6.3.1 Credit limit analysis

To define the guiding principles of the credit decision and the rules of the credit decision process, the Group has internal regulations that establish the procedures that must be observed by each of the parties involved in the credit granting process. This regulation establishes not only the quantitative limits, but also the limits of responsibility and the processes for segregating functions that seek to guarantee effective analysis and management of credit risk.

The credit risk analysis process involves the bodies listed in the following diagram:



As for the procedures and processes used in the decision-making process, these can be briefly described as follows:

- The CC and the CCA are collegial bodies responsible for credit decisions related to risk analysis and credit recovery. Thus, they are an operational guarantor of the global application of credit risk management policies defined in the Credit Risk Manual. It is generally up to them to decide the credit operations submitted to them and to decide the relevant aspects of credit recovery that are put to their assessment.

- The commercial departments prepare the credit proposals on which they issue an opinion; they then refer the proposal via credit workflow to the unit of structure responsible for carrying out the technical and risk analysis of the proposal according to the type of transaction concerned. After the analysis and opinion of the technical department, the proposal is sent to the competent decision-making body depending on the underlying risk level.

- The limits defined for each customer or group of customers and the credit decisions on each operation always have a validity period which, once they have expired, implies a review and updating of the analyses carried out and a new decision to be taken.

- The GCA has a credit limit management system that allows the optimisation of the monitoring process of the limits defined for each client or Economic Group and Risk Group and type of operation.

6.3.2 Non-litigious and litigious credit recovery

In the GCA, the non-litigious and litigious credit recovery function is carried out separately from the credit risk negotiation, decision-making and monitoring functions, and is assigned specific responsibilities. In particular at CCCAM, this function is also responsible for identifying the operations or customers that constitute the universe of credit recovery.

This activity is based on objective and measurable criteria, namely the number of days of contractual default. The commercial departments must justify in a documented way why operations may not be considered in this universe, albeit temporarily.

The credit recovery function is solely responsible for managing the relationship with the customers subject to recovery. To operationalise this principle, a differentiated recovery flow was developed from the normal credit risk approval circuit.

For customers included in the universe of credit recovery, the determination of impairment losses must be made by employees belonging to the recovery function, who, if necessary, may always seek the support of another employee better informed about the Customer in question.

The employees in this function at CCCAM are also responsible for the proposal to terminate the debt recovery effort, which must be approved by the Executive Board of Directors or the body appointed by it.

6.3.3 Cancellation of bad debts (write-off of assets)

The general principles for the bad debt write-off policy are defined. The write-off of the debt from the balance sheet is proposed for superior approval by the credit recovery department, for decision by the EBD, provided that all efforts have been made to recover the debt and the collectability of the debt is remote.

6.3.4 Credit risk structure by customer credit portfolio

The credit portfolio, by type of customer, presented the following structure as of 31 December 2018:

Analysis according to type of customer

Relative weight	Balance Used 2017	Overdue Credit 2017	Balance Used 2018	Overdue Credit 2018
Other Financial Institutions	0.04%	0.00%	0.00%	0.00%
Regional and Local Governments	3.15%	0.00%	5.19%	0.00%
Non-profit institutions	2.55%	0.54%	2.51%	0.55%
Financial Companies	0.07%	1.11%	1.56%	1.66%
Sole Proprietors/Independent Professionals	10.51%	7.06%	10.30%	8.25%
Individuals	36.83%	31.21%	35.52%	29.91%
Companies	46.86%	60.08%	44.91%	59.63%
Total Value	100.00%	100.00%	100.00%	100.00%

The credit portfolio, by product type, presented the following structure as of 31 December 2018:

Analysis according to Product Family

Relative weight	Balance Used 2017	Overdue Credit 2017	Balance Used 2018	Overdue Credit 2018
Off-balance sheet - Individuals	0.00%	0.00%	0.00%	0.00%
Off-Balance Sheet - Companies	0.00%	0.00%	0.00%	0.00%
Credit Cards - Companies	0.03%	0.04%	0.04%	0.07%
Credit Cards - Individuals	0.35%	0.60%	0.36%	0.48%
Other Loans - Companies	1.11%	1.95%	0.38%	1.86%
Business Loans - Sole Proprietors	1.96%	3.08%	1.63%	3.69%
Leasing	1.90%	0.81%	2.16%	0.46%
Commercial Paper	3.11%	0.00%	2.76%	0.00%
Other loans - Individuals	4.59%	20.39%	3.65%	18.63%
Investment Credit - Sole Proprietors	4.32%	2.87%	4.43%	3.37%
Consumer Credit - Individuals	5.37%	3.21%	5.59%	3.03%
Business Loans - Companies	19.41%	33.87%	18.50%	30.63%
Mortgage Loans - Individuals	30.38%	8.11%	30.16%	8.88%
Investment Credit - Companies	27.46%	25.08%	30.34%	28.90%
Total Value	100.00%	100.00%	100.00%	100.00%

6.4. VALUE AND IMPAIRMENT CORRECTIONS

6.4.1 Credit Portfolio Impairment

IFRS 9 Financial Instruments, issued in July 2014 by the International Accounting Standards Board (IASB), replaces IAS 39 Financial Instruments - Recognition and Measurement and establishes new rules for the classification and measurement of financial assets and liabilities, namely:

- Establishes new requirements for the classification and measurement of financial instruments and, for certain types of purchase or sale contracts, for non-financial items;
- Defines a new methodology for the recognition of impairment losses of financial assets based on expected loss model;
- Presents new possibilities for applying hedging accounting rules through a greater number of hedge relationships between the hedged items and the instruments covered.

The concept of non-compliance reflects the European regulation of Article 178 of the CRR. Grupo Crédito Agrícola immediately began to align with the concept defined in "Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013", which entered into force in January 2021.

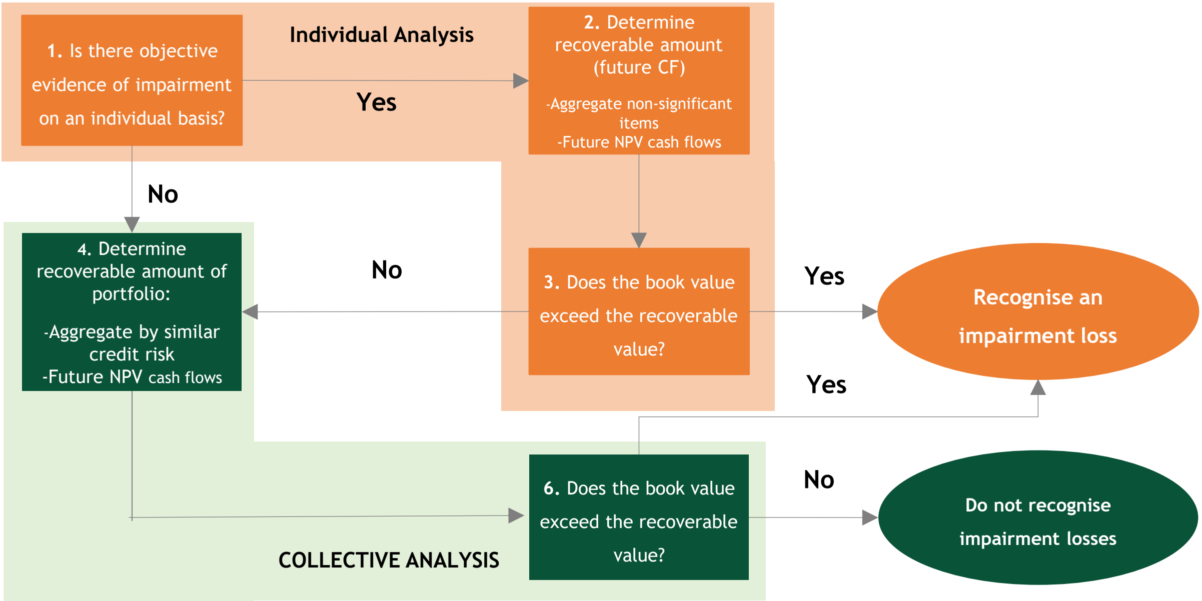
According to IFRS 9 Standard, all credits measured at Amortised Cost (AC) or Fair Value through Other Comprehensive Income (FVOCI) must be subjected to impairment assessment:

The calculation process can be based on two types of analysis:

i. Individual analysis of clients with significant exposure, through the assessment sheets (questionnaires) in the MOAI application – Individual Impairment Analysis Module, and the individual analysis data are validated and used for the calculation of impairment on an individual basis;

ii. Collective analysis of clients/GER that do not fit the criteria for submission to the individual analysis process, these being analysed in homogeneous risk groups using statistical methods.

All contracts are subject to collective analysis, but only those that do not fit into the individual analysis or do not originate provisions in that way, have as final value of impairment the value calculated in the collective analysis. Thus, the consolidation process is summarised in the following flow:



Within the collective analysis, the credits are grouped according to similar credit risk characteristics, in accordance with the risk assessment methodology defined by the GCA. Consequently, the inputs for the calculation of collective impairment are determined on the basis of statistical models for credit groups with similar characteristics and regularly revised to approximate the estimated values to the actual values.

The following tables show the breakdown of exposure by individual and collective analysis, as well as by segment and level.

Unit: thousand euros, except %

Segment	Exposure						Impairment						Degree of coverage		
	Collective Analysis	%	Individual Analysis	%	Total	%	Collective analysis	%	Individual Analysis	%	Total	%	Collective analysis	Individual Analysis	Total
Companies	**5,048,716**	**30.9%**	**756,375**	**82.6%**	**5,805,091**	**33.6%**	**103,419**	**52.1%**	**235,651**	**80.6%**	**339,070**	**69.1%**	**2.0%**	**31.2%**	**5.8%**
Large	1,856,893	11.4%	135,985	14.8%	1,992,878	11.5%	45,433	22.9%	54,995	18.8%	100,428	20.5%	2.4%	40.4%	5.0%
Corporate and SME	2,242,036	13.7%	403,106	44.0%	2,645,142	15.5%	39,526	19.9%	111,877	38.3%	151,403	30.8%	1.7%	27.8%	5.6%
Construction and real estate activities	949,787	5.8%	217,284	23.7%	1,167,071	6.7%	18,460	9.3%	68,779	23.5%	87,239	17.8%	1.9%	31.7%	7.5%
Individuals, of which:	**4,828,181**	**29.4%**	**157,584**	**17.2%**	**4,985,765**	**28.7%**	**90,017**	**45.3%**	**56,659**	**19.4%**	**146,676**	**29.9%**	**1.9%**	**36.0%**	**2.9%**
Mortgage	3,036,259	18.5%	27,649	3.0%	3,063,908	17.7%	28,482	14.3%	8,435	2.9%	36,917	7.5%	0.9%	30.5%	1.2%
Consumer	894,629	5.4%	77,475	8.5%	972,104	5.6%	44,370	22.4%	32,635	11.2%	77,005	15.7%	5.0%	42.1%	7.9%
Other	**640,969**	**3.9%**	**2,188**	**0.2%**	**643,158**	**3.7%**	**770**	**0.4%**	**6**	**0.0%**	**776**	**0.2%**	**0.12%**	**0.28%**	**0.12%**
Sub-total	**10,517,866**	**64.3%**	**916,147**	**100.0%**	**11,434,013**	**66.2%**	**194,206**	**97.8%**	**292,317**	**100.0%**	**486,522**	**99.1%**	**1.8%**	**31.9%**	**4.2%**
Investments in securities	**5,834,369**	**35.7%**	**0**	**0.0%**	**5,834,369**	**33.8%**	**4,312**	**2.2%**	**0**	**0.0%**	**4,312**	**0.9%**	**0.07%**	**0.00%**	**0.07%**
Total	**16,352,235**	**100.0%**	**916,147**	**100.0%**	**17,268,382**	**100.0%**	**198,518**	**100.0%**	**292,317**	**100.0%**	**490,835**	**100.0%**	**1.2%**	**31.9%**	**2.8%**

Unit: thousand euros, except %

Segment	Exposure											
	Assets with no significant increase in risk (Level 1)	%	Assets with a significant increase in risk (Level 2)	%	Of which: restructured	%	Assets in default (Level 3)	%	Of which: restructured	%	Total	%
Companies	**4,662,155**	**30.1%**	**429,845**	**57.0%**	**270,280**	**67.7%**	**713,091**	**71.1%**	**423,447**	**78.1%**	**5,805,091**	**33.6%**
Large	1,705,020	11.0%	86,221	11.4%	75,399	18.9%	201,636	20.1%	98,908	18.2%	1,992,878	11.5%
Corporate and SME	2,067,268	13.3%	261,399	34.7%	116,570	29.2%	316,475	31.6%	208,799	38.5%	2,645,142	15.3%
Construction and real estate activities	889,866	5.7%	82,225	10.9%	78,311	19.6%	194,980	19.5%	115,741	21.3%	1,167,071	6.8%
Individuals, of which:	**4,380,339**	**28.1%**	**317,526**	**42.1%**	**121,839**	**30.5%**	**287,900**	**28.7%**	**118,500**	**21.9%**	**4,985,765**	**28.7%**
Mortgage	2,858,617	18.3%	127,583	16.9%	31,840	8.0%	77,708	7.8%	22,868	4.2%	3,063,908	17.7%
Consumer	761,171	4.9%	69,125	9.2%	45,634	11.4%	141,808	14.1%	66,851	12.3%	972,104	5.6%
Other	**634,793**	**4.1%**	**7,000**	**0.9%**	**7,000**	**1.8%**	**1,365**	**0.1%**	**270**	**0.0%**	**643,158**	**3.7%**
Sub-total	**9,677,287**	**62.4%**	**754,371**	**100.0%**	**399,119**	**100.0%**	**1,002,355**	**100.0%**	**542,217**	**100.0%**	**11,434,013**	**66.2%**
Investments in securities	**5,834,369**	**37.6%**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**	**5,834,369**	**33.8%**
Total	**15,511,656**	**100.0%**	**754,371**	**100.0%**	**399,119**	**100.0%**	**1,002,355**	**100.0%**	**542,217**	**100.0%**	**17,268,382**	**100.0%**

Unit: thousand euros, except % | Unit: thousand euros, except %

Segment	Impairment												Degree of coverage		
	Assets with no significant increase in risk (Level 1)	%	Assets with a significant increase in risk (Level 2)	%	Of which: restructured	%	Assets in default (Level 3)	%	Of which: restructured	%	Total	%	Assets with no significant increase in risk (Level 1)	Assets with a significant increase in risk (Level 2)	Assets in default (Level 3)
Companies	**38,555**	**75.9%**	**31,903**	**69.2%**	**22,771**	**78.4%**	**268,613**	**68.2%**	**164,060**	**75.2%**	**339,070**	**69.1%**	**0.8%**	**7.4%**	**37.7%**
Large	10,469	20.6%	4,005	8.7%	3,422	11.8%	85,955	21.8%	41,092	18.8%	100,428	20.5%	0.6%	4.6%	42.6%
Corporate and SME	19,768	38.9%	17,918	38.9%	9,787	33.7%	113,717	28.9%	81,710	37.4%	151,403	30.8%	0.9%	6.9%	35.9%
Construction and real estate activities	8,318	16.4%	9,980	21.7%	9,562	32.9%	68,941	17.5%	41,258	18.9%	87,239	17.8%	0.9%	12.1%	35.4%
Individuals, of which:	**7,205**	**14.2%**	**14,181**	**30.8%**	**6,250**	**21.5%**	**125,291**	**31.8%**	**54,206**	**24.8%**	**146,676**	**29.9%**	**0.2%**	**4.5%**	**43.5%**
Mortgage	1,797	3.5%	4,415	9.6%	832	2.9%	30,705	7.8%	8,694	4.0%	36,917	7.5%	0.1%	3.5%	39.5%
Consumer	2,952	5.8%	4,656	10.1%	2,757	9.5%	69,397	17.6%	31,207	14.3%	77,005	15.7%	0.4%	6.7%	48.9%
Other	**743**	**1.5%**	**9**	**0.0%**	**9**	**0.0%**	**25**	**0.0%**	**12**	**0.0%**	**776**	**0.2%**	**0.12%**	**0.12%**	**1.81%**
Sub-total	**46,502**	**91.5%**	**46,092**	**100.0%**	**29,030**	**100.0%**	**393,928**	**100.0%**	**218,278**	**100.0%**	**486,522**	**99.1%**	**0.5%**	**6.1%**	**39.3%**
Investments in securities	**4,312**	**8.5%**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**	**4,312**	**0.9%**	**0.07%**	**0.00%**	**0.00%**
Total	**50,814**	**100.0%**	**46,092**	**100.0%**	**29,030**	**100.0%**	**393,928**	**100.0%**	**218,278**	**100.0%**	**490,835**	**100.0%**	**0.3%**	**6.1%**	**39.3%**

6.4.1.1 Accounting

Impairment losses are recorded in return for profit or loss, however, when in a subsequent period there is a decrease in the amount of impairment losses attributed to an event, the amount previously recognised is reversed and the impairment loss account is adjusted. The amount of the reversal is recognised directly in the income statement. Periodically, the GCA writes off receivables considered uncollectible using the respective accumulated impairment. In the event of any recovery of those claims, it is recognised as a deduction to impairment losses recognised in profit or loss.

6.4.2 Quantitative information

The movement occurred in GCA impairments during the 2018 financial year and the 2017 financial year was as follows:

Valores em euros

	Balance as at 31-12-2017 *	31-Dec-2018 Net reinforcements of write-backs & annulments	Uses	Transfers	Adjustments	Balance as at 31-Dec-2018
Impairment for credit to customers (Note 14)	664,557,169	(1,736,047)	(191,768,067)		-	471,053,055
	664,557,169	(1,736,047)	(191,768,067)	-	-	471,053,055
Provisions:						
Guarantees provided and irrevocable commitments	19,230,851	(3,916,050)	(558,666)	-	-	14,756,135
Other risks and charges	7,373,723	3,082,855	(428,657)		-	10,027,921
	26,604,574	(833,195)	(987,323)	-	-	24,784,056
Impairment of other financial assets:						
Financial assets available for sale (Note 10)	-	-	-	-	-	-
Impairment for Assets FVTOCI (Note 11)	2,405,934	(1,595,613)	-	-	159	810,480
Impairment for Securities at amortised cost (Note 33)	1,260,901	2,241,123	-	-	-	3,502,024
Investments in Credit Institutions	-	703,827	(703,827)			-
	3,666,835	1,349,337	(703,827)	-	159	4,312,505
Impairment of other assets:						
Non-current assets held for sale (Note 17)	174,382,483	1,813,288	(5,066,765)	-	-	171,129,006
Other assets (Note 23)	33,975,560	659,374	-	-	211,364	34,846,298
Other tangible assets (Note 19)	8,725,401	1,028,083	(417,678)	-	-	9,335,806
Intangible assets (Note 20)	33,858	-	-	-	-	33,858
	159,087,868	3,500,746	(5,484,443)	-	211,364	215,344,968
	841,968,062	2,280,840	(198,943,660)	-	211,364	715,494,583

* balance as at 31 December 2017 with IFRS 9 impact, see Note 2.2

	Balance as at 31-Dec-2016	31-Dec-2017 Net reinforcements of write-backs & annulments	Uses	Transfers	Adjustments	Balance as at 31-Dec-2017
Impairment for credit to customers (Note 13)	710,417,574	2,454,418	(39,776,732)	(21,010,533)	-	652,084,727
	710,417,574	2,454,418	(39,776,732)	(21,010,533)	-	652,084,727
Provisions:						
Other risks and charges	11,992,870	(5,646,261)	-	21,010,533	-	27,357,142
	11,992,870	(5,646,261)	-	21,010,533	-	27,357,142
Impairment of other financial assets:						
Financial assets available for sale (Note 10)	2,611,396	1,468,651	(641,723)	-	-	3,438,324
Impairment of other assets:						
Non-current assets held for sale (Note 15)	124,188,404	8,346,987	(16,182,342)	-	-	116,353,049
Other assets (Note 22)	27,164,514	72,225	-		6,738,821	33,975,560
Tangible assets (Note 17)	7,330,377	1,395,025	-	-	-	8,725,401
Intangible assets (Note 18)	33,858	-	-	-	-	33,858
	158,717,153	9,814,237	(16,182,342)	-	6,738,821	159,087,868
	883,738,993	8,091,045	(56,600,797)	-	6,738,821	841,968,062

6.5. CONCENTRATION RISK

6.5.1 Concept

Credit concentration risk is understood as an exposure or group of exposures with the potential to produce losses so high as to jeopardise the solvency of the institution or the capacity to maintain its main operations. In particular, the risk of credit concentration stems from the existence of common or correlated risk factors between different counterparties, so that the deterioration of those factors entails a simultaneous adverse effect on the credit quality of each of those counterparties.

6.5.2 Concentration Risk Management

In accordance with Directive 2013/36/EU and Regulation No. 575/2013 of the European Parliament and of the Council (CRD IV and CRR), three types of credit concentration risk are assessed:

a) Significant exposures to an individual counterparty or to a group of counterparties related from an economic or risk point of view ("single name concentration risk" or "large risks") as recommended by the supervisory authority, for Caixas on an individual basis in Notice No. 5/2014, and for SICAM in Notice No. 9/2014, both of Banco de Portugal.

b) Significant exposures to groups of counterparties whose likelihood of default results from common underlying factors, such as: (i) economic sector, (ii) geographical area, (iii) currency and (iv) dependence on the economic and financial performance of the same activity or product/service;

c) Indirect credit exposures resulting from the application of risk mitigation techniques (exposure to a type of guarantee or credit protection provided by a counterparty).

The management of Concentration Risk in the GCA is based on the definition of internal limits on exposure to certain types of counterparty and/or a particular financial instrument or type of credit. These limits are monitored and updated periodically depending on the evolution of exposures and market conditions.

The existence of correlation factors with entities whose risk deterioration could contaminate the quality of the credit granted is also verified: capital relations, coincident management bodies or strong commercial dependence on a supplier or client.

In addition to the internally defined limits, the GCA also controls its concentration risk by observing the limits to significant exposures to an individual counterparty or a group of related counterparties.

6.5.3 GCA portfolio analysis

Customer credit portfolio analysis

The analyses carried out according to different relevant variables of the customer credit portfolio allow us to assess the absence of significant concentrations that are not explained by the economic situation and the characteristics of the Group and its business.

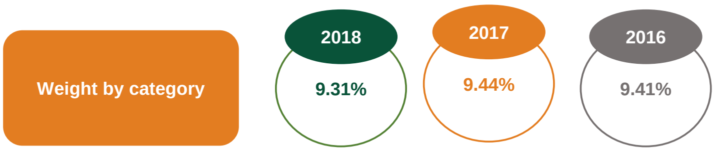
Thus, it is concluded that GCA's customer credit portfolio does not have a significant concentration according to the variables that were considered relevant to this type of risk, namely: geographical region, product family, associated guarantee, customer, economic activity sector, total term, residual term, product family by region and sector of activity by region. Only in the analysis by company size, the Group has a higher concentration.

Counterparty credit risk analysis

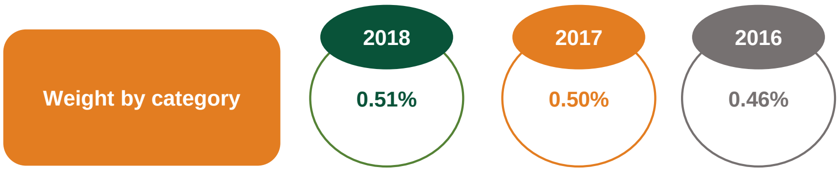
According to the results of the concentration analysis of the financial assets (securities) in the portfolio, the concentration of counterparty credit risk is moderate to high. The variables for which there is a higher concentration are as follows: 'risk classes', 'counterparty' and 'counterparty rating'.

6.5.4 Sectoral and Individual Concentration Indices

With regard to the Sectoral Concentration Index (ICS), it was determined on the basis of the breakdown of the portfolio according to the CAE codes defined in Instruction No. 5/2011. The value of the sector concentration index in the GCA is 9.31%, reflecting a not very significant concentration in absolute terms and compared to the value reached in 2017 (9.44%).



The Individual Concentration Index (ICI) was also determined based on the indications defined in Instruction No. 5/2011 for the assessment of the amounts on display of the largest counterparties. The calculation of the total direct exposure was made considering the institution's 100 largest counterparties (all legal personalities having been considered), and the groups of clients linked to each other were taken into account as a single counterparty. The Individual Concentration Index presented, with reference to December 2018, a value of approximately 0.51%, which reflects a not very significant concentration by counterparty. Compared to 2017, there is a slight increase in the value of the index, which stood at 0.50%.



6.6. QUANTITATIVE INFORMATION

The concentration indicators resulting from the analyses described indicate that the GCA business is not exposed to relevant concentration risks, both in terms of economic activity and in terms of the largest individual counterparties.

7. Credit Risk – Standard Method

The capital requirements of the entire credit portfolio are calculated solely on the basis of the standard method according to the new regulatory framework resulting from Directive 2013/36/EU and Regulation No. 575/2013 of the European Parliament and of the Council (CRD IV and CRR) by segmenting the original exposures into the defined exposure classes. As illustrated in this report, the value of the positions is corrected for impairment and net exposures are calculated.

The risk profile of the GCA customer credit portfolio is characterised by the balance between credit granted to companies and credit granted to individuals and by the predominance of credit granted to retail (individuals and small and medium-sized companies). In the private customer segment, mortgage loans represent about 30% of the total portfolio) and in the case of companies, the sectors of commerce, agriculture and manufacturing industries constitute the greatest representation of the credit granted to non-financial companies.

In 2018, GCA's credit portfolio increased by +5.6% compared to the previous year, from 9.435 billion euros in 2017 to 9.960 billion in 2018.

As a result of the positive evolution of macroeconomic variables, there was an increase in the portfolio of loans and advances to individuals in 2018 of around EUR 108 million (+2.4%), already seen in the previous year.

INDIVIDUALS AND SOLE PROPRIETORSHIPS	2014	2015	2016	2017	2018	Δ %
Values in million euros, except %						
Credit to Individuals	**4,068**	**4,144**	**4,263**	**4,470**	**4,578**	**2.4%**
Mortgage Loans	2,375	2,451	2,577	2,777	2,905	4.6%
Consumer Credit	225	244	320	409	458	11.9%
Credit Cards	22	22	31	31	34	9.1%
Leasing	18	22	28	34	37	9.9%
Other Credit for Disbursement of Funds *	1,428	1,404	1,307	1,219	1,144	-6.2%

* Includes overdrafts, effects of discounts, current accounts and loans of various maturities

In the corporate segment, as mentioned above, there was an overall growth of +8.4%, as a result of the favourable economic environment.

COMPANIES	2014	2015	2016	2017	2018	Δ %
Values in million euros, except %						
Credit to Companies	**4,079**	**4,286**	**4,451**	**4,965**	**5,382**	**8.4%**
Pledged Current Accounts	380	402	403	409	450	10.1%
Commercial Discounts	25	24	19	19	18	-2.1%
Leasing	115	110	123	145	176	21.3%
Financing	3,558	3,750	3,905	4,393	4,737	7.9%
of which Commercial Paper	226	229	259	291	273	-6.2%
Weighted average rate of the portfolio of credit to companies	**4.88%**	**4.09%**	**3.52%**	**3.16%**	**2.70%**	**-0.5 p.p.**

	2017		2018	
Relative weight	**Balance Used 2017**	**Overdue Credit 2017**	**Balance Used 2018**	**Overdue Credit 2018**
Mining	0.39%	1.24%	0.37%	0.33%
Electricity, gas, steam, hot and cold water and air conditioning supply	0.43%	0.12%	0.34%	0.00%
Arts, entertainment, sports and recreation activities	0.76%	0.96%	0.78%	0.22%
Education	0.83%	0.52%	0.97%	0.98%
Water supply; sewerage, waste management and decontamination	1.26%	0.26%	1.30%	0.32%
Information and communication activities	1.38%	1.14%	0.26%	0.42%
Administrative and support service activities	1.39%	1.43%	1.58%	1.22%
Other service activities	1.76%	0.73%	1.65%	0.67%
Transport and storage	1.89%	2.44%	1.90%	1.92%
Financial and insurance activities	2.78%	3.95%	4.22%	3.53%
Human health and social work activities	4.50%	0.92%	4.23%	1.11%
Professional, scientific and technical activities	5.00%	0.89%	4.36%	0.78%
Public Administration and Defence; Compulsory Social Security	6.24%	0.01%	8.64%	0.00%
Hotels, restaurants and similar activities	7.52%	5.18%	7.41%	5.07%
Construction	**8.27%**	**21.29%**	**7.86%**	**23.62%**
Real estate activities	**11.90%**	**11.31%**	**11.66%**	**10.00%**
Manufacturing industries	**12.56%**	**14.81%**	**11.71%**	**15.88%**
Agriculture, livestock, hunting, forestry and fishing	**14.60%**	**8.89%**	**15.48%**	**14.26%**
Wholesale and retail trade	**16.56%**	**23.93%**	**15.28%**	**19.68%**
Total Value	100.00%	100.00%	100.00%	100.00%

The percentage of credit granted to agricultural activity and fisheries grew by 0.89 pp between 2017 and 2018, corresponding to 15.5% of the total portfolio, while credit to the construction sector saw a reduction of 0.41 pp.

With regard to the claims of the credit portfolio, with reference to 31 December 2018, it should be noted that credit to non-productive customers amounts to 1,070 million euros, which represents a NPL ratio (gross) in the amount of 10.4%, registering a significantly favourable evolution resulting, to a large extent, from the strategic plan for the management of non-performing loans (NPL) in progress at the Group. In turn, the net NPL of impairment ratio stood at 6.5%. The degree of impairment NPL coverage (total) reaches 44%.

Own Funds Requirements relating to Credit Risk are presented in the following table:

Values in euros

Own Funds Requirements	Amount	Requirements
TOTAL RISK EXPOSURE AMOUNT	**9,037,207,504.61**	**722,976,600.37**
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	**7,819,968,851.52**	**625,597,508.12**
Standardised Approach (SA)	7,819,968,851.52	625,597,508.12
SA exposure classes, excluding securitisation positions	7,819,968,851.52	625,597,508.12
Central governments or central banks	5,995,860.30	479,668.82
Regional governments or local authorities	108,533,522.74	8,682,681.82
Public sector entities	34,723,764.89	2,777,901.19
Multilateral development banks	0.00	0.00
International organisations	0.00	0.00
Institutions	38,410,058.93	3,072,804.71
Companies	2,070,483,455.31	165,638,676.42
Retail	1,949,838,322.77	155,987,065.82
Secured by mortgages on real estate	1,201,512,402.51	96,120,992.20
Exposures in default	636,459,173.33	50,916,733.87
Items associated with particularly high risk	26,958,046.22	2,156,643.70
Covered bonds	0.00	0.00
Claims on institutions and corporates with a short-term credit assessment	0.00	0.00
Collective investment undertakings (CIU)	162,011,640.71	12,960,931.26
Equity	262,112,977.62	20,969,038.21
Other items	1,322,929,626.20	105,834,370.10
SA securitisation positions	0.00	0.00
of which: resecuritisation	0.00	0.00

Exposure to the Corporate class represents the segment with the highest capital consumption, with around 26% of the total capital requirements for credit risk.

The weight of private clients, individual entrepreneurs, liberal professionals, micro, small and medium-sized enterprises in the GCA activity determines that the capital requirement derived from the retail business corresponds to about 25% of the total requirements.

The contractual residual terms of financial instruments in 2018 presented the distribution illustrated in the table below, where it can be seen that all underwriting and lending operations with banks are concentrated in maturities of up to 1 year and that mortgage and investment credit, usually medium and long-term, cause a concentration of the credit volume in residual maturities above 5 years.

	31-12-2018						in thousand euros
	Contractual residual periods						
	Sight	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined	Total
Assets							
Cash and deposits at Central Banks	440,879	204,670	-	-	-	-	645,549
Cash balances at other credit institutions	64,672	-	-	-	-	-	64,672
Financial assets held for trading	-	-	-	-	-	-	-
Financial assets at FVTPL	-	102,648	-	19,932	1,794	-	124,375
Financial assets available for sale	-	-	-	-	-	-	-
Financial assets at FVTOCI	-	150,019	241,797	578,186	106,076	-	1,076,079
Investments in Credit Institutions	-	31	-	-	-	-	31
Credit to customers (gross balance)	-	722,245	537,332	1,632,226	8,348,240	-	11,240,044
Securities at amortised cost (gross balance)	-	-	-	2,071,652	3,340,522	-	5,412,174
Hedging derivatives	-	-	-	-	40,723		40,723
	505,551	1,179,614	779,130	4,301,997	11,837,356	-	18,603,647
Liabilities							
Funds of central banks	21,854	-	-	1,751,750	-	-	1,773,604
Liabilities held for trading	-	-	-	-	-	-	-
Funds of other credit institutions	-	49,388	112,784	28	-	-	162,200
Customer funds and other loans	-	8,708,771	4,979,274	161,043	90,733	32	13,939,852
Hedging derivatives	-	-	-	-	45,399	-	45,399
Other subordinated debt	-	-	1,014	91,050	9,440	-	101,504
	21,854	8,758,159	5,093,072	2,003,870	145,572	32	16,022,558
Net exposure	483,697	(7,578,545)	(4,313,942)	2,298,127	11,691,784	(32)	2,581,089

31-12-2017 — in thousand euros

	Sight	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined	Total
	Contractual residual periods						
Assets							
Cash and deposits at Central Banks	400,144	-	-	-	-	-	400,144
Cash balances at other credit institutions	80,373	-	-	-	-	-	80,373
Financial assets held for trading	-	24,521	-	-	-	-	24,521
Financial assets at FVTPL	-	-	-	28	-	-	28
Financial assets available for sale	-	1,574,195	1,733,786	2,475,319	101,401	(8,774)	5,875,926
Financial assets at FVTOCI	-	-	-	-	-	-	-
Investments in Credit Institutions	800	6,181	-	-	-	7	6,988
Credit to customers (gross balance)	4,505	659,048	1,014,414	3,200,067	5,462,008	26,894	10,366,936
Securities at amortised cost (gross balance)	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
	485,822	2,263,944	2,748,200	5,675,414	5,563,409	18,127	16,754,916
Liabilities							
Funds of central banks	-	25,131	-	1,751,779	-	14	1,776,924
Liabilities held for trading	-	-	-	-	166	1	167
Funds of other credit institutions	61,470	37,456	143,586	-	-	93	242,606
Customer funds and other loans	4,683,559	2,984,472	4,679,017	227,638	63,119	6,473	12,644,278
Hedging derivatives	-	-	-	-	-	-	-
Other subordinated debt	-	7,387	9,719	93,434	458	388	111,386
	4,745,029	3,054,446	4,832,322	2,072,851	63,744	6,969	14,775,363
Net exposure	(4,259,207)	(790,502)	(2,084,123)	3,602,563	5,499,665	11,158	1,979,553

On 31 December 2018 and 2017, the credit quality of financial assets according to the internal benchmark rating can be summarised as follows:

Values in euros

2018

Assets	Aaa	Aa1	Aa2	Aa3	A1 to A3	Baa1 to B3	C	Undetermined	Total
Financial assets held for trading	-	-		-	-	-	-	29,255	29,255
Financial assets at FVTPL	-	-	-	-	-	10,131	-	37,976	48,107
Financial assets available for sale	10,592	52,892	-	-	53,971	916,523	-	210,951	1,244,928
	10,592	52,892	0	0	53,971	926,654	0	278,182	1,322,290

2017

Assets	Aaa	Aa1	Aa2	Aa3	A1 to A3	Baa1 to B3	C	Undetermined	Total
Financial assets held for trading	-	-		-	-	-	-	26,585	26,585
Financial assets at FVTPL	-	-	-	-	63,761	24,399	-	-	88,160
Financial assets available for sale	28,608	-	-	-	141,416	1,466,793	-	16,464	1,653,281
	28,608	0	0	0	205,177	1,491,192	0	43,049	1,768,026

Grupo Crédito Agrícola uses as a reference rating, the rating released by the international agency Moody's, or if this does not exist, the highest of the ratings released by the agencies Fitch and Standard & Poors.

With regard to the customer credit portfolio, the Group has analytical credit risk models, namely a rating model associated with a workflow process, which aims to standardise the process of analysing the credit risk of companies and scoring models of acceptance, associated with the process of granting credit to private customers, and follow up associated with the process of monitoring the credit portfolio to individuals.

The GCA activity is limited exclusively to the territory of mainland Portugal and the archipelagos of Madeira and the Azores. Thus, the geographical distribution of exposures can be summarised as follows:

Values in euros

Original exposure by exposure class	
Central governments or central banks	5,995,860.30
Regional governments or local authorities	108,533,522.74
Public sector entities	34,723,764.89
Multilateral development banks	0.00
International organisations	0.00
Institutions	38,410,058.93
Corporates	2,070,483,455.31
Retail	1,949,838,322.77
Secured by mortgages on real estate	3,410,182,715.97
Exposures in default	979,622,281.41
Items associated with particularly high risk	17,972,107.48
Covered bonds	0.00
Claims on institutions and corporates with a short-term credit assessment	167,031,659.87
Collective investment undertakings (CIU)	0.00
Equity	117,601,779.73
Other items	2,188,492,035.21

8. Credit Risk Reduction Techniques

This section discusses the principles underlying the recognition of guarantees received as appropriate instruments for mitigating credit risk

8.1. POLICIES AND PROCESSES FOR OFFSETTING ON- AND OFF-BALANCE SHEET POSITIONS AND THE IMPORTANCE OF THEIR USE

The GCA does not use balance sheet position clearing processes as a means of mitigating credit risk. On the other hand, the use of hedge derivatives in the Group is residual.

8.2. POLICIES AND PROCEDURES FOR MANAGING AND VALUING REAL GUARANTEES

The GCA defines the types of guarantees and how they should be constituted, based on the customer segment and the type of products. In addition, criteria were established to determine the value of these guarantees at the initial time of the transaction, how this value should be calculated *a posteriori* and how the coverage levels that were at the basis of the credit risk approval should be maintained, thus accounting for future (but possible) depreciation of the asset/guarantee at the transaction review stage.

In this context, improvements have been made to the Group's computer applications aimed at increasing the depth and timeliness of information on guarantees received, as well as ensuring the periodic review of the value of the properties received under guarantee.

The policy for accepting guarantees includes an assessment of their liquidity, the volatility of their value and the degree of correlation between their risk and the risk of the operation to which they are associated.

The collateral that can be added to credit operations must be realised within reasonable time limits and at lower costs than the customer's outstanding credit, and it is therefore desirable that there should be a market with sufficient liquidity to enable its rapid transformation into capital.

Mortgage-backed loans are mostly made up of loans for house purchases. For these loans in particular, a policy of prudential risk has been defined where the ratio between the value of the guarantee and the amount of the loan must not exceed 80%.

The GCA makes use of several reputable specialised property valuation entities that certify the value of each property given as guarantee, before a credit decision is taken.

The maintenance of up-to-date information on real estate obtained as collateral to reduce the risk of the credit portfolio to customers allows, from the perspective of credit risk management, to know at all times the achievable value of the protection associated with its operations.

The GCA considers the mandatory requirements applicable to real estate collateral under Capital Requirements Regulation (EU) No. 575/2013, which are intended to be eligible as credit risk mitigants, namely with regard to legal certainty, verification and valuation of property values, in particular the use of statistical methods to verify the value of properties and identify those that should be revalued. Particularly in this regard, developments have been implemented in the Guarantees Management Tool that include the creation of an information field and the definition of rules for filling in and updating it, in order to comply with the regulatory requirements and procedures associated with risk management.

Guarantees in the form of financial assets are only accepted if they are deposited/custodied with the GCA, with a daily revaluation of the same and control over the percentages of exposure coverage, supported by warning systems if the minimum contracted coverage is not guaranteed.

8.3. KEY TYPES OF GUARANTEES

The main types of guarantees received by GCA are property mortgages, personal guarantees and financial pledges, and in itself the value of mortgage guarantees corresponds to about 75% of the total guarantees received.

8.4. CONCENTRATION OF HEDGE VALUES BY TYPE OF INSTRUMENT

The property mortgage constitutes the traditional guarantee of mortgage loans, thus being the dominant guarantee. In the other types of credit, there is a greater diversification of mitigation instruments, although real guarantees, as it was said, continue to constitute the main credit guarantee in the GCA.

Analysis according to Type of Guarantee	2017		2018	
Relative weight	**Balance Used 2017**	**Overdue Credit 2017**	**Balance Used 2018**	**Overdue Credit 2018**
Mortgages on Movable Property	0.14%	0.10%	0.15%	0.20%
Insurance	0.28%	0.27%	0.31%	0.15%
Pledge over Rights	0.40%	0.22%	0.40%	0.06%
Commercial pledge	0.75%	1.28%	0.64%	0.54%
Guarantees provided by Credit Institutions	1.05%	0.07%	1.20%	0.15%
Other Institutional Guarantees	0.94%	0.00%	1.20%	0.00%
Other Real Guarantees	1.88%	0.58%	1.52%	0.04%
Financial Pledge	2.17%	1.34%	2.00%	0.29%
No guarantee	**8.57%**	**9.24%**	**7.52%**	**5.26%**
Personal guarantees	**9.75%**	**19.45%**	**10.55%**	**11.35%**
Other Mortgages on Real Estate	**36.42%**	**47.46%**	**36.85%**	**57.88%**
Mortgages on Residential Real Estate Borrower	**37.66%**	**19.99%**	**37.66%**	**24.09%**
Total Value	100.00%	100.00%	100.00%	100.00%

8.5. QUANTITATIVE INFORMATION

In the table showing the credit risk mitigation techniques, the amounts entered in the column named 'collateral' correspond to the collateral eligible as credit risk mitigants based on the rules defined in accordance with the COREP reporting, applying the CRD IV/CRR rules, Regulation (EU) No. 575/2013.

Values in euros	ORIGINAL EXPOSURE BEFORE THE APPLICATION OF CONVERSION FACTORS	(-) VALUE ADJUSTMENTS AND PROVISIONS ASSOCIATED WITH THE ORIGINAL EXPOSURE	EXPOSURE NET OF VALUE ADJUSTMENTS AND PROVISIONS	CREDIT RISK MITIGATION (CRM) TECHNIQUES WITH SUBSTITUTION EFFECTS ON THE EXPOSURE				NET EXPOSURE AFTER CRM SUBSTITUTION EFFECTS BEFORE THE APPLICATION OF CONVERSION FACTORS	FULLY ADJUSTED EXPOSURE VALUE (E*)
				UNFUNDED CREDIT PROTECTION: ADJUSTED VALUES (Ga)	FUNDED CREDIT PROTECTION	SUBSTITUTION OF THE EXPOSURE DUE TO CRM			
				(-) GUARANTEES	(-) FINANCIAL GUARANTEES: SIMPLE METHOD	(-) TOTAL OUTFLOWS	TOTAL INFLOWS (+)		
	010	030	040	050	070	090	100	110	150
TOTAL EXPOSURES	20,254,129,232.36	-1,025,564,481.75	19,228,564,750.61	-117,704,529.41	-143,768,683.12	-261,473,212.52	261,473,212.52	19,228,564,750.61	19,228,564,750.61
of which: SME	5,689,334,298.02	-71,584,570.27	5,617,749,727.75	-93,341,558.69	-107,667,056.06	-201,008,614.74	172,600,298.57	5,589,341,411.58	5,589,341,411.58
of which: SME subject to SME supporting factor	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which: Secured by mortgages on real estate - Residential real estate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which: Exposures under the permanent partial use of the standardised approach	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which: Exposures under the standardised approach with prior supervisory permission to carry out a sequential IRB implementation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BREAKDOWN OF TOTAL EXPOSURES BY EXPOSURE TYPE:									
On-balance sheet exposures subject to credit risk	20,254,129,232.36	-1,025,564,481.75	19,228,564,750.61	-117,704,529.41	-143,768,683.12	-261,473,212.52	261,473,212.52	19,228,564,750.61	19,228,564,750.61
Off-balance sheet exposures subject to credit risk	18,393,898,046.80	-1,010,882,989.67	17,383,015,057.13	-117,129,984.46	-134,812,562.54	-251,942,547.00	251,942,547.00	17,383,015,057.13	17,383,015,057.13
Exposures / Transactions subject to counterparty credit risk	1,859,403,491.90	-14,681,492.08	1,844,721,999.82	-574,544.95	-8,956,120.58	-9,530,665.53	9,530,665.53	1,844,721,999.82	1,844,721,999.82
Securities financing transactions	827,693.66	0.00	827,693.66	0.00	0.00	0.00	0.00	827,693.66	827,693.66
of which: centrally cleared through a QCCP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Derivatives & Long Settlement Transactions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which: centrally cleared through a QCCP	827,693.66	0.00	827,693.66	0.00	0.00	0.00	0.00	827,693.66	827,693.66
Arising from contractual cross-compensation between products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BREAKDOWN OF TOTAL EXPOSURES BY RISK WEIGHTS:									
0%	6,376,131,954.78	-2,502.93	6,376,129,451.85						6,519,241,185.83
2%	0.00	0.00	0.00						0.00
4%	0.00	0.00	0.00						0.00
10%	0.00	0.00	0.00						0.00
20%	459,438,644.45	-16,780.72	459,421,863.73						459,415,863.73
35%	2,797,313,810.15	-29,547,657.04	2,767,766,153.11						2,767,766,153.11
50%	294,676,026.71	-6,204,297.10	288,471,729.61						288,471,729.61
70%	0.00	0.00	0.00						0.00
75%	3,785,897,718.53	-78,571,112.31	3,707,326,606.21						3,618,589,063.24
100%	5,094,537,371.25	-1,024,926,548.39	4,069,610,822.86						4,015,286,282.42
150%	148,643,502.42	-11,133,096.23	137,510,406.19						137,466,755.62
250%	213,091,194.57	0.00	213,091,194.57						213,091,194.57
370%	0.00	0.00	0.00						0.00
1250%	0.00	0.00	0.00						0.00
Other risk weights	0.00	0.00	0.00						0.00

Values in euros	BREAKDOWN OF THE FULLY ADJUSTED EXPOSURE OF OFF-BALANCE SHEET ITEMS BY CONVERSION FACTORS				EXPOSURE VALUE	RISK WEIGHTED EXPOSURE AMOUNT BEFORE THE APPLICATION OF THE SME SUPPORTING FACTOR	RISK WEIGHTED EXPOSURE AMOUNT AFTER THE APPLICATION OF THE SME SUPPORTING FACTOR	
	0%	20%	50%	100%				OF WHICH: WITH A CREDIT ASSESSMENT DERIVED FROM CENTRAL GOVERNMENT
	160	170	180	190	200	215	220	240
TOTAL EXPOSURES	310,440,540.31	550,268,459.50	532,587,194.10	451,425,805.91	18,211,615,845.65	8,279,354,940.96	7,819,968,851.52	1,482,390,364.99
of which: SME	114,468,543.29	456,364,132.80	383,264,191.03	34,368,593.01	4,918,149,466.54	3,794,824,122.57	3,331,564,973.20	
of which: SME subject to SME supporting factor	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
of which: Secured by mortgages on real estate - Residential real estate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
of which: Exposures under the permanent partial use of the standardised approach	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
of which: Exposures under the standardised approach with prior supervisory permission to carry out a sequential IRB implementation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
BREAKDOWN OF TOTAL EXPOSURES BY EXPOSURE TYPE:								
On-balance sheet exposures subject to credit risk	0.00	0.00	0.00	0.00	17,383,015,057.13	7,838,326,950.22	7,407,286,960.98	
Off-balance sheet exposures subject to credit risk	310,440,540.31	550,268,459.50	532,587,194.10	451,425,805.91	827,773,094.86	440,862,452.01	412,516,351.82	
Exposures / Transactions subject to counterparty credit risk	0.00	0.00	0.00	0.00	827,693.66	165,538.73	165,538.73	
Securities financing transactions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
of which: centrally cleared through a QCCP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Derivatives & Long Settlement Transactions	0.00	0.00	0.00	0.00	827,693.66	165,538.73	165,538.73	
of which: centrally cleared through a QCCP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Arising from contractual cross-compensation between products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
BREAKDOWN OF TOTAL EXPOSURES BY RISK WEIGHTS:								
0%	999.48	4,457,538.50	2,372,771.62	312,805,042.50	6,969,599,112.14	0.00	0.00	0.00
2%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
20%	26,867.39	1,558,812.96	26,138,474.61	818,724.49	603,073,769.12	120,614,753.82	120,614,753.82	0.00
35%	0.00	2,895,282.91	16,296,069.78	562,942.15	2,940,571,998.14	1,029,200,199.35	989,711,541.22	0.00
50%	0.00	962,425.46	3,142,887.92	451,800.00	326,388,551.01	163,194,275.50	148,986,795.43	0.00
70%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
75%	270,572,593.36	404,740,520.41	242,530,686.67	30,814,819.18	3,145,127,957.38	2,358,845,968.03	2,005,217,475.47	1,311,405,665.56
100%	32,873,237.29	112,765,935.41	236,893,472.10	104,346,037.30	3,837,600,224.88	3,837,600,224.88	3,785,538,766.21	170,984,699.43
150%	6,966,842.79	22,887,943.86	5,212,831.41	1,626,440.29	203,236,063.10	304,854,094.64	304,854,094.64	0.00
250%	0.00	0.00	0.00	0.00	186,018,169.89	465,045,424.73	465,045,424.73	0.00
370%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1250%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other risk weights	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

9. Asset Encumbrance

Information on asset encumbrance is presented in this chapter.

- Assets

Values in euros

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets	2,179,490,835.11		15,459,614,327.30	
Equity instruments	0.00	0.00	50,497,112.39	50,497,112.39
Debt securities	2,179,490,835.11	2,173,735,767.34	4,068,768,041.93	4,043,010,484.62
Other assets	0.00		11,340,349,172.98	

- Encumbered assets, encumbered received collateral and associated liabilities

Values in euros

	Associated and contingent liabilities and borrowed securities	Assets, collateral received and own debt securities issued other than own covered bonds or encumbered ABS
Carrying amount of selected financial liabilities	1,677,120,397.97	2,179,490,835.11

Information on the importance of asset encumbrance

In order to achieve a reduction in financing costs, the GCA uses part of its securities portfolio to collateralise Eurosystem funding. In December 2018, the encumbered securities corresponded to the Portuguese, Italian and Spanish public debt, in addition to bonds of EU credit institutions.

At that date, GCA had no other encumbered assets and so, in overall terms, the encumbrance on assets was neither significant in relation to total assets nor restrictive to the Group's activity or strategy.

10.Operational risk

This chapter presents the calculation method used by the GCA to determine capital consumption related to operational risk.

10.1.CONCEPT

Operational risk is defined as the risk of events resulting from inadequate or negligent application of internal procedures, people's behaviour, inadequacy or deficiency of information systems, external causes, events which may have a negative impact on profit or loss or in equity.

10.2. OPERATIONAL RISK MANAGEMENT

The development of processes aimed at controlling and mitigating operational risk in Crédito Agrícola is an objective assumed by the Group considering that, in addition to enabling the prevention of unexpected losses, it creates improvements in operational efficiency and a more efficient use of capital.

In this regard, the GCA has a Business Continuity Plan where the necessary and sufficient measures are defined for safeguarding information and the continuity of activity in the event of disasters or incidents of extreme gravity. This plan is supported on technological infrastructures and processes developed for this purpose, which allow a replica of the critical information systems to be available for restoring activity in circumstances of extreme severity.

The GCA, as has been said, presents a set of specificities which highlights the significant dispersion of decision-making power and control structures and a great heterogeneity of size and business strategy.

The Group is implementing a framework for operational risk, where the effort to formalise, systematise and homogenise processes and procedures deserves particular emphasis.

In this regard, the Group has been expanding the catalogue of processes, including their risks and controls, for subsequent close articulation with the operational risk infrastructure and which is characterised by incremental objectives in its evolution approach, in particular with regard to the risk event matrix and the global process of collecting events and losses.

For the coverage of operational risk, the GCA only adopts the "basic indicator" method as defined by its Regulation. According to this method, the own funds requirements to cover this risk correspond to 15% of the average of the last three years of the sum of net income, interest, commissions, financial operations and income from capital instruments, on an annual basis, reported at the end of the financial year.

10.3. QUANTITATIVE INFORMATION

The use of the relevant indicator method implies greater capital consumption when there is an increase in operating income. Since the GCA's activity is very concentrated in retail, it is predictable that the use of more advanced methods will lead to a decrease in the capital requirement to cover operational risk, which is currently expected to be calculated by excess, since the weight is applied over all income, regardless of the risk of the activity that gave rise to them. Currently, the capital requirement to cover operational risk accounts for around 12% of total own funds.

Values in euros

	RELEVANT INDICATOR			OWN FUNDS REQUIREMENTS	TOTAL OPERATIONAL RISK EXPOSURE AMOUNT
	YEAR-3	YEAR-2	PREVIOUS YEAR		
BANKING ACTIVITIES SUBJECT TO THE BASIC INDICATOR APPROACH	562,878,368.63	619,537,350.06	555,241,918.38	86,882,881.85	1,086,036,023.17

11. Liquidity Risk

This chapter concerns the liquidity risk to which the GCA is subject in the context of the development of its activity. The chapter consists of three components, definition of the concept of liquidity risk, description of the liquidity risk management process and quantitative information that illustrates GCA's exposure to this risk category.

11.1.CONCEPT

Liquidity risk is associated with GCA's potential inability to fund its assets and meet all its liabilities on the contracted dates. Thus, the notion of liquidity risk includes funding risk, which reflects an institution's capacity to access funding with spreads under normal market conditions, and the liquidity risk itself, resulting from possible temporary imbalances between inflows and outflows and the existence of potential difficulties in liquidating positions in the portfolio without incurring excessive losses.

11.2. LIQUIDITY RISK MANAGEMENT

11.2.1 Strategy and Guiding Principles for Liquidity Risk Management

The GCA liquidity management policy is defined and monitored according to the guidelines defined by the EBD, while its daily management is the responsibility of specialised departments. The Group's surplus resources are channelled to Caixa Central, where they are centrally invested in good quality credit and liquidity assets, namely Euro Zone government bonds and short-term investments in benchmark national and international credit institutions.

The Group and Caixa Central monitor liquidity ratios from a prudential point of view, calculated according to the rules of Banco de Portugal. In this regard it should be noted that the Group maintains a conservative policy reflected in a net transformation ratio below the sector's average.

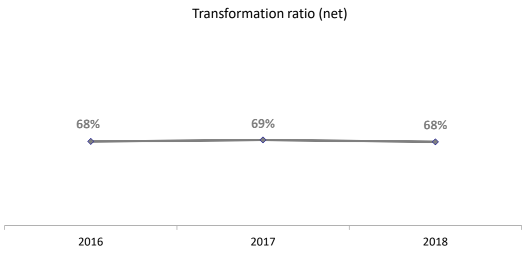
Within the scope of liquidity management, the Bank seeks to maintain financing lines, with or without the guarantee of securities, with national and international credit institutions, regularly tested, to launch liability products that contribute to the maintenance of the permanence standards of resources, to maintain a cushion of assets with immediate liquidity to meet any unexpected increase in cash outflows, as well as controlling and containing possible concentrations of commercial resources, which, if they develop, could contribute to a greater permeability of the portfolio, reducing its stability and permanence. In this regard, impact simulations are regularly performed under conservative assumptions on the stability of retail resources and without considering the competition from additional financing sources.

11.2.2 Evaluation methodologies and indicators of exposure to liquidity risk

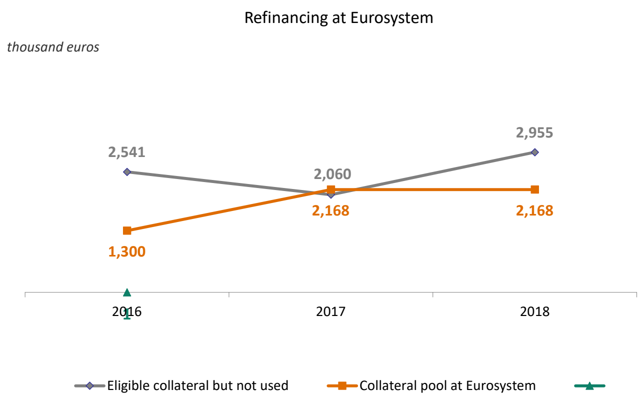
The analysis of exposure to liquidity risk uses several methodologies with the objective of assessing immediate liquidity, through the Liquidity Coverage Ratio (LCR), the minimum one-week and one-month liquidity ratios considering the degree of coverage of a sudden reduction in customer deposits (currently the only source of structural liquidity of SICAM) by high quality liquid assets (convertible into cash, by maturity, sale or use in financing operations with the guarantee of securities, practically immediately and without significant loss of value). On the other hand, to assess structural liquidity, the static and dynamic gaps (incorporating the budgetary evolution of the activity) of liquidity are calculated considering the aggregation in a series of time intervals of all cash flows (interest payment and capital amortisation) generated for contracted transactions, both active and passive (in- and out-of-balance sheet).

With regard to other assessment methodologies and liquidity risk exposure indicators, various types of internal reporting are carried out to enable both the departments involved in ALCCO and senior management to monitor and make timely decisions regarding the management of this risk, such as additional liquidity monitoring metrics within the scope of the COREP – ALMM prudential reporting and concentration risk monitoring metrics for the main SICAM balance sheet items.

Grupo Crédito Agrícola has a comfortable liquidity position, manifested in a solid base of customer resources (GCA's main source of funding) and reflecting a transformation ratio at levels below those observed, as a rule, by the financial system.



Funding from the ECB stood at 1.7 million euros in December 2018, which corresponds to a collateral pool of 2.2 billion euros, and it should be noted that the assets eligible for this type of operations totalled 2.9 billion euros on the same date.



11.2.3 ILAAP – Internal liquidity adequacy assessment process

The Internal Liquidity Adequacy Assessment Process (ILAAP) was prepared in accordance with the Instruction of Banco de Portugal no. 2/2019, and with the guidelines of the EBA - Guidelines on ICAAP and ILAAP information collected for SREP (EBA/GL/2016/10) and good market practices, and represents Grupo Crédito Agrícola's own assessment of its liquidity situation, namely with regard to strategy, management capabilities and planning.

Considering the level and nature of the risks that the Group must take, ILAAP becomes a key element of the Group's risk management approach. ILAAP is composed of an integrated set of principles, policies, procedures and governance, and aims to ensure proper management of liquidity risk within the limits defined according to the Risk Appetite Model.

ILAAP represents the assessment of Grupo Crédito Agrícola itself with regard to its liquidity situation, namely with regard to strategy, management and planning capabilities.

Grupo Crédito Agrícola incorporates in its framework, and the respective supporting and reporting documentation, the various rules and guidelines referred to above, seeking to be in line with best market practices, ensuring, whenever appropriate, adaptations to its organic and business model and due proportionality of the mechanisms and means employed in liquidity management vis-à-vis the size and complexity of the activities developed.

The risk management faced by the various entities of the Group follows the same control and reporting principles, since the methodologies and procedures are defined at Group level, in coordination with the Associated Caixas and taking into account specific, business and regulatory risks of each area of activity. In this sense, the established governance model gives Caixa Central powers to manage and ensure the exercise of ILAAP on a consolidated basis, where SICAM represents almost all exposure to liquidity risk. In the organic model of the GCA, the principle of centralised management of SICAM liquidity plays a key role.

At the GCA level, ILAAP is supported by several internal policies, procedures, reports and analyses, including a Liquidity Risk Management Framework, Applications Policy, Financing and Capital Plan, Liquidity Contingency Plan, Stress Testing and Regulation of the Risk Function.

11.2.4 Scope and nature of information systems used in risk management and measurement

The current management and planning of short-term liquidity makes use of liquidity reports that support the valuation management and control of GCA's market positions.

The Group has defined a structure and processes for managing liquidity and financing risk through regular reports and analyses related to liquidity and liquidity risk. The liquidity risk assessment metrics used by the GCA are detailed in the General Liquidity Risk Management Framework and are subject to a permanent assessment in the context of ALCCO.

Current Management and Short-Term Planning

With regard to daily and intraday liquidity management, the control process is managed by the Financial Department within its competences, based on the short-term Cash Flow Map. The Cash Flow Map details the forecast evolution, by daily time bands for a 1-month time horizon, of the account balance with the Banco de Portugal, in the case of positions in euros, and of the balance of accounts with foreign counterparties, in the particular case of foreign currency accounts.

Compliance with the relevant regulatory standards takes place in particular:

- In the maintenance of a positive balance at all times in the CCCAM account (which centralises SICAM's surplus liquidity) with Banco de Portugal;
- Throughout the reserve period[1], an average balance of the CCCAM account with Banco de Portugal higher than the amount of the Minimum Cash Reserves.

To meet possible short-term liquidity needs, the Liquidity Bureau has at its disposal, among others, a set of instruments, including:

- Money market lines;
- Lines for reporting operations;

[1] Period over which the GCA will have to ensure a deposit amount with Banco de Portugal calculated on the basis of its balance sheet elements. The reserve maintenance periods are defined in accordance with a calendar prepared by the ECB for credit institutions in the euro area and primarily serve the purposes of stabilising money market interest rates and regulating the liquidity of the financial system.

- Carrying out securities reporting operations with Banco de Portugal;
- Intraday credit facility with the Bank of Portugal, backed by securities, to ensure the smooth settlement of intra-day settlements on the account with the latter.

Medium- and Long-Term Management Planning

CCCAM's medium-term and long-term liquidity planning and management is, by delegation of competences, the responsibility of ALCCO, based on the Financing Plan (approved by the EBD). Under normal business conditions, the management of the medium and long-term liquidity position is based on a monthly analysis of the following elements:

- Adjusted Liquidity Static Gap;
- Liquidity Dynamic Gap;
- Liquidity Ratio.

As mentioned above, the credit portfolio in the GCA is fully financed by deposits, with the surpluses of funds being applied to assets of high-quality credit and liquidity.

It should be noted that, in order to meet possible liquidity needs, the GCA, in addition to its natural funding base, also has complementary financing instruments at its disposal, where the reporting operations with the ECB which make it possible to finance any momentary insufficiency of liquidity through the guarantee provided by SICAM's portfolio of public debt securities.

11.2.5 Monitoring and control mechanisms

To control exposure to liquidity risks, limits are defined based on indicators of exposure to this risk, calculated by the specialised support tool for Asset and Liability Management (FOCUS ALM).

The definition of limits of exposure to liquidity risk seeks to guarantee that the GCA does not incur in situations of liquidity shortage that prevent it from making all payments due at a given moment.

Monitoring the liquidity situation

ALCCO is the collegiate body responsible for preparing and taking decisions on the management of assets, liabilities and capital and the subsequent monitoring of their execution. In this context, it also falls upon ALCCO to manage the communication mechanisms, both with the EBD and with the specific Departments or Offices in charge of implementing the decisions it takes, with the aim of optimising the time and manner of execution of the management measures to be implemented.

ALCCO carries out monthly monitoring of a comprehensive set of ratios and indicators, considered fundamental for an assessment of the evolution of its structural liquidity situation (Tableau de Bord of Liquidity).

The GCA monitors its Short-Term Liquidity Sources through reports that show the available money market lines and their use, operations with securities and other investment assets, money market transactions and applications in Commercial Paper.

Liquidity Contingency Management Plan

The GCA, within the framework of ALCCO, continuously monitors its structural liquidity position and maintains funding strategies appropriate to its Medium- and Long-Term Business Plan. This does not, however, prevent, in exceptional circumstances, the result of unexpected events, namely unpredictable change in economic or market conditions, the occurrence of extraordinary losses, the occurrence of operational problems beyond their control, when there may be deficits of liquidity in the short or medium term.

The purpose of maintaining a Liquidity Contingency Management Plan (which incorporates the procedures for assessing and monitoring the liquidity situation and the actions to respond to a possible liquidity crisis) is to assess the impact of a liquidity crisis situation so that the negative consequences associated with its occurrence are minimised.

Cost-Benefit Allocation Mechanism

Crédito Agrícola recognises the importance of implementing a mechanism for "allocating costs, benefits and risks". Within the scope of strengthening the balance sheet management optimisation mechanisms, an internal transfer pricing (FTP) model is being implemented. The proposed FTP methodology concentrates the responsibility of managing transformation and liquidity risk hedging in treasury, informing and guiding business units in capturing and negotiating commercial opportunities through the provision of transfer prices that will include, among others, a spread associated with the cost of liquidity. To this end, the Focus ALM tool will be used, which includes a set of variables that allow FTP criteria to be established between business units and treasury.

Alerts and actions in a liquidity crisis situation

In its current liquidity context, the GCA considers that the verification of a set of situations identified below represents a moderate increase in the probability of occurrence of a liquidity crisis in the medium term, including:

- Dissemination of negative advertising, real or not, involving any entity in the Crédito Agrícola universe;
- Dissemination of negative publicity involving entities considered or perceived as comparable to entities of the Crédito Agrícola universe;
- Reduction or elimination of lines by Corresponding Banks;
- Actual or perceived reduction in the availability of Counterparties to perform unsecured operations with CCCAM;
- Increase in the spread obtained in money market operations;
- Variation in values associated with Tableau de Bord Liquidity indicators, namely, among others, a significant increase in loans and advances to customers, a reduction in resources from Associated Caixas, a reduction in liquid assets.

In the event of a liquidity crisis, the EBD member chairing ALCCO is responsible for coordinating action in the event of an alert situation and deciding whether or not corrective action is required to overcome the situation.

The Liquidity Contingency Management Plan is revised on an annual basis immediately after approval of the Business Plan for the following year, without prejudice to any adjustments that the evolution of circumstances may dictate at any time.

11.3. QUANTITATIVE INFORMATION

The GCA has maintained comfortable liquidity levels throughout the crisis that has affected the financial markets and has not had the need to deleverage its balance sheet or suffer any other constraints on its activity due to insufficient liquidity. The GCA Transformation Ratio remains low (since 2005, this indicator has never exceeded 90%), and surplus funds are generally applied to high-quality, high-liquidity assets.

In addition, the GCA also has adequate liquidity margins to meet regulatory, market and business evolution, namely considering that the limits defined for monitoring the risk tolerance level, which materialise the risk appetite, are more conservative than the regulatory limits, as for example in the case of the Liquidity Coverage Ratio (LCR), which, positioned at 400%, is considerably above the internally defined limit.

12. Interest Rate Risk

This chapter deals with the interest rate risk to which the Group is subject in the development of its activity.

The chapter consists of the definition of the concept of interest rate risk, the presentation of interest rate risk management and the disclosure of quantitative information reflecting the GCA's exposure to this risk category.

12.1. CONCEPT

The GCA incurs interest rate risk whenever, in the development of its activity, it contracts transactions with future financial flows whose present value is sensitive to changes in interest rates.

The interest rate risk incurred by the Group reflects the exposure of its financial situation to adverse interest rate movements and comes from four distinct sources:

● Repricing risk: associated with the distinct pace at which the various assets and liabilities renew their rate;

● Curve risk: related to movements of a diverse nature (level and inclination) that may affect differently the various points of the interest rate curve to which the various assets and liabilities are indexed;

● Basis risk: as a result of changes in the correlation of the different interest rate curves to which the various balance sheet items are indexed;

● Optional risk: a result of the growing importance of products that have incorporated implicit options (e.g. early repayment options on certain loans, or even ultimately the current or savings accounts without a defined contractual maturity).

Interest rate changes condition profit or loss by affecting not only the Financial Margin but other interest rate sensitive banking product elements (e.g., value of government debt securities subject to market value revaluation). Interest rate changes also affect the underlying value of assets, liabilities, out-of-balance sheet items, and consequently of Own Funds, depending on the necessary revision of the current value of future cash flows generated by them (and in many cases the revision of its own cash-flows).

12.2. INTEREST RATE RISK MANAGEMENT

12.2.1 Strategy and guiding principles for interest rate risk management

The interest rate risk management policy is defined and monitored by the Assets and Liabilities and Capital Committee (ALCCO) according to the guidelines defined by the EBD. In addition, the Group sets limits for maintaining interest rate risk at prudent levels by monitoring interest rate risk exposure indicators.

The limits set for interest rate risk exposure ensure the application of the principles underlying its management policy, defined by the EBD. The monitoring of these limits is carried out regularly, giving rise to recommendations, or the promotion of corrective actions when there can be deviations from them.

12.2.2 Assessment methodology and interest rate risk exposure indicators

Exposure to this type of risk is assessed monthly using a methodology based on the grouping of various sensitive assets and liabilities at time intervals according to their respective rate review dates. For each interval the assets and liabilities cash flows are calculated by ascertaining the corresponding gap sensitive to interest rate risk. The impact of the mentioned gaps on the evolution of the financial margin and on the entity's economic value is then assessed in various interest rate evolution scenarios.

The risk/return relationship is framed by the defined limits, monitored monthly by ALCCO at the level of exposure of the financial margin and of the economic value sensitive to adverse variations in interest rates.

The Group may, if necessary, sell futures on interest rates and other derivatives, with the strict purpose of covering the risk of change in assets.

In the analysis of interest rate risk exposure, several complementary methodologies are used, such as the Static Repricing Gap and the Dynamic Repricing Gap.

12.2.2.1 Static Repricing Gap

The Static Repricing Gap is based on the balance sheet at the analysis date, in the calculation of the Static Repricing Gap, the interest rate sensitive assets are classified in time intervals according to the term remaining until the date of its next repricing or expiration (whichever comes first).

For each time interval, the gap between assets and liabilities subject to interest rate revision is calculated, thus estimating a measure of the net exposure of the balance sheet to parallel changes in interest rates. Starting from the aggregation of gaps associated with different adjacent time intervals, the accumulated gap for a given time horizon is obtained.

This analysis is especially useful due to the simplicity with which it illustrates the exposure of the Financial Margin to interest rate movements.

12.2.2.2 *Dynamic Repricing Gap*

The Dynamic Repricing Gap is used in order to complement the Static Repricing Gap and to support decision-making with a prospective view of risk. This methodology incorporates in the analysis the full repricing of rates associated with each balance sheet mass, the budgeted evolution of the balance sheet and the possibility of simulating non-parallel interest rate shocks.

The repricing matrix associated with budgeted positions is based on a comprehensive set of assumptions so the analysis of the conclusions must be prudent and complemented by the construction of different evolution scenarios.

The construction of the Dynamic Repricing Gap allows for the assessment of exposure to interest rate risk through the evolution of the Financial Margin and the economic value of Own Funds, depending on the occurrence of several alternative scenarios associated with different assumptions on the evolution of interest rates and the various balance sheet items.

The calculation of the Repricing Gap is carried out on the basis of the various scenarios recommended by the Basel Committee in the context of the assessment of the sensitivity of the Financial Margin and the economic value of Own Funds, over a period of 12 to 24 months. The results obtained in each scenario are evaluated comparing with the results obtained in the Baseline Scenario.

The projections incorporate scenarios of market discounted interest rate evolution and/or maintenance throughout the period of simulation of interest rate curve values at the time of analysis. These analyses also consider parallel movements, both upward and downwards of the interest rate curve, of relevant amplitudes (e.g. 50 bp, 100 bp, 200 bp), as well as positive or negative movements of the curve around an axis considered relevant according to the reading made of market conditions and *ad-hoc* movements based on specific curve movements (e.g. review of reference rates by part of the European Central Bank).

12.2.3 Scope and nature of information systems used in risk measurement and management

To support the calculation processes described for the management of this risk typology, the GCA uses a tool (FOCUS ALM) specialising in the management of balance sheet risks that enables production, on a systematic and coherent basis of liquidity and interest rate risk analyses.

12.2.4 Monitoring and control mechanisms

On 31 December 2018, the exposure of the balance sheet to interest rate risk according to its maturity or refixing date is as follows:

Amounts in thousands of euros

	Refixing Dates/Maturity Dates						
	At sight	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Assets	**502.016**	**5.213.347**	**6.186.883**	**1.746.073**	**466.985**	**1.602.237**	**15.717.540**
Cash, cash balances at central banks and other demand deposits	441.786	133.723	0	0	0	0	575.508
Financial assets held for trading	0	100.428	470	0	0	1.500	102.398
Non-negotiable financial assets mandatorily stated as fair value through profit or loss	0	0	0	0	0	0	0
Trading financial assets	0	0	0	0	0	0	0
Financial assets recorded at fair value through profit or loss	0	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income	0	577.668	398.639	21.100	20.000	16.000	1033.407
Financial assets at amortised cost	60.231	4.042.528	4.802.424	1.724.973	446.985	2.929.087	14.006.227
Investments held to maturity	0	0	0	0	0	0	0
Other non-derivative non-negotiable financial assets	0	0	0	0	0	0	0
Derivatives - Hedge accounting	0	359.000	985.350	0	0	-1.344.350	0
Changes in the fair value of items hedged in the interest rate risk hedging portfolio	0	0	0	0	0	0	0
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0	0
Tangible assets	0	0	0	0	0	0	0
Intangible assets	0	0	0	0	0	0	0
Tax assets	0	0	0	0	0	0	0
Other assets	0	0	0	0	0	0	0
Non-current assets and disposal groups classified as held for sale	0	0	0	0	0	0	0
Liabilities	**2.524.413**	**3.461.354**	**5.682.039**	**2.890.339**	**638.406**	**600.185**	**15.796.736**
Financial liabilities held for trading	0	0	0	0	0	0	0
Financial liabilities recorded at fair value through profit or loss	0	0	0	0	0	0	0
Negotiable financial liabilities	0	0	0	0	0	0	0
Financial liabilities measured at amortised cost	2.524.413	3.461.341	5.682.039	2.890.339	638.406	600.185	15.796.723
Derivatives - Hedge accounting	0	0	0	0	0	0	0
Changes in the fair value of items hedged in the interest rate risk hedging portfolio	0	0	0	0	0	0	0
Provisions	0	0	0	0	0	0	0
Tax liabilities	0	0	0	0	0	0	0
Cash repayable share capital	0	0	0	0	0	0	0
Other liabilities	0	12	0	0	0	0	12
Liabilities included in disposal groups classified as held for sale	0	0	0	0	0	0	0
Net Exposure	**-2.022.397**	**1.751.993**	**504.844**	**-1.144.267**	**-171.421**	**1.002.052**	**-79.196**

The interest rate risk sensitivity analysis on 31 December 2018 based on the simulation on assets and liabilities sensitive to changes in reference rates of -200 basis points and +200 basis points shows the following results:

Amounts in thousands of euros

	Impact resulting from the change in the reference interest rate	
	-200 bp	+200 bp
Assets	**685.911**	**-395.491**
Cash, cash balances at central banks and other demand deposits	13.835	14.320
Financial assets held for trading	560	-529
Non-negotiable financial assets mandatorily stated as fair value through profit or loss	0	0
Trading financial assets	0	0
Financial assets recorded at fair value through profit or loss	0	0
Financial assets at fair value through other comprehensive income	33.135	-10.603
Financial assets at amortised cost	865.446	-671.076
Investments held to maturity	0	0
Other non-derivative non-negotiable financial assets	0	0
Derivatives - Hedge accounting	-227.065	272.398
Changes in the fair value of items hedged in the interest rate risk hedging portfolio	0	0
Investments in subsidiaries, joint ventures and associates	0	0
Liabilities	**144.571**	**-309.612**
Financial liabilities held for trading	0	0
Financial liabilities recorded at fair value through profit or loss	0	0
Negotiable financial liabilities	0	0
Financial liabilities measured at amortised cost	144.571	-309.612
Derivatives - Hedge accounting	0	0
Changes in the fair value of items hedged in the interest rate risk hedging portfolio	0	0
Provisions	0	0
Tax liabilities	0	0
Cash repayable share capital	0	0
Other liabilities	0	0
Liabilities included in disposal groups classified as held for sale	0	0
Impact on economic value	**541.340**	**-85.878**

Amounts in thousands of euros

	Impact resulting from the change in the reference interest rate	
	-200 b.p.	+200 b.p.
Assets	**-61.387**	**155.744**
Cash, cash balances at central banks and other demand deposits	-1.241	2.481
Financial assets held for trading	-1.960	1.777
Non-negotiable financial assets mandatorily stated as fair value through profit or loss	0	0
Trading financial assets	0	0
Financial assets recorded at fair value through profit or loss	0	0
Financial assets at fair value through other comprehensive income	-7.157	14.235
Financial assets at amortised cost	-43.380	117.009
Investments held to maturity	0	0
Other non-derivative non-negotiable financial assets	0	0
Derivatives - Hedge accounting	-7.647	20.241
Changes in the fair value of items hedged in the interest rate risk hedging portfolio	0	0
Investments in subsidiaries, joint ventures and associates	0	0
Liabilities	**-40.125**	**99.235**
Financial liabilities held for trading	0	0
Financial liabilities recorded at fair value through profit or loss	0	0
Negotiable financial liabilities	0	0
Financial liabilities measured at amortised cost	-40.125	99.235
Derivatives - Hedge accounting	0	0
Changes in the fair value of items hedged in the interest rate risk hedging portfolio	0	0
Provisions	0	0
Tax liabilities	0	0
Cash repayable share capital	0	0
Other liabilities	0	0
Liabilities included in disposal groups classified as held for sale	0	0
Impact on net interest income	**-21.262**	**56.509**

When there are situations where some of the internally defined limits are exceeded, alternatives are analysed within the scope of ALCCO, in order to create financial positions that allow the risk indicators to be repositioned within the defined limits.

As at 31 December 2017 and 2018, the exposure to interest rate risk by type of rate, can be summarised as follows. The figures calculated in the tables represent the balance sheet masses and their exposure to interest rate risk.

31-12-2018	Fixed Rate	Variable Rate	Sub-total	Not subject to interest rate risk	Total (in thousand euros)
Assets					
Cash and deposits at Central Banks	-	645,548	645,548	-	645,548
Cash balances at other credit institutions	-	14,783	14,783	-	14,783
Financial assets at FVTPL	100,000	868	100,868	229,452	330,320
Financial assets at FVTOCI	-	1,004,004	1,004,004	-	1,004,004
Investments in Credit Institutions	1,002,160	-	1,002,160	(8,835)	993,324
Credit to customers (gross balance)	572,151	953,795	1,525,945	3,756	1,529,701
Securities at amortised cost (gross balance)	-	4,648,898	4,648,898	52,349	4,701,247
	1,674,310	7,267,896	8,942,206	276,721	9,218,927
Liabilities					
Funds of central banks	1,690,187	-	1,690,187	(13,067)	1,677,120
Funds of other credit institutions	6,520,385	100,147	6,620,532	6,886	6,627,418
Customer funds and other loans	700,867	73,350	774,217	978	775,195
Other subordinated debt	20,000	-	20,000	218	20,218
	8,931,438	173,496	9,104,934	(4,985)	9,099,950
Net exposure	(7,257,128)	7,094,400	(162,728)	281,706	118,978

31-12-2017	Fixed Rate	Variable Rate	Sub-total	Not subject to interest rate risk	Total (in thousand euros)
Assets					
Cash and deposits at Central Banks	-	315,974	315,974	-	315,974
Cash balances at other credit institutions	-	13,106	13,106	-	13,106
Financial assets available for sale	4,512,208	839,572	5,351,780	300,238	5,652,018
Investments in Credit Institutions	1,161,544	15,185	1,176,729	102	1,176,831
Credit to customers (gross balance)	438,467	1,030,341	1,468,808	4,774	1,473,582
	6,112,219	2,214,178	8,326,397	305,114	8,631,511
Liabilities					
Funds of central banks	1,693,366	-	1,693,366	14	1,693,380
Funds of other credit institutions	5,592,775	344,605	5,937,380	10,727	5,948,107
Customer funds and other loans	493,349	236,775	730,125	843	730,968
Other subordinated debt	20,000	-	20,000	218	20,218
	7,799,490	581,380	8,380,869	11,802	8,392,672
Net exposure	(1,687,270)	1,632,798	(54,472)	293,312	238,840

12.2.5 Coverage and risk reduction policies

Taking into account the objective of risk mitigation, hedging operations are also established, whenever necessary, for the amounts of net exposure to the interest rate risk, safeguarding the stability of the financial margin or the economic value of GCA's capital.

The aim is to make the generation of economic results compatible with the maintenance, within comfortable limits, of the margin and value fluctuation risks inherent to its development. At the same time, the taking of strategic positions, with an impact on risk that the outlook for market evolution may dictate, is subject to segregation, monitoring and scrutiny as often as circumstances may recommend.

12.2.6 Strategies and processes for monitoring the effectiveness of hedging operations and risk reduction factors

Exposure limits have been established for hedging operations and their effectiveness and results are regularly evaluated to ensure that the degree of adherence is within the parameters and fluctuation margins allowed by the policy for managing this type of risk.

12.3. QUANTITATIVE INFORMATION

1 - The cumulative impact on the Financial Margin generated by the repricing of interest rate sensitive instruments up to one year due to a parallel positive or negative shift of the yield curve of 200 bp, measured through the Static Repricing Gap, is 56,509 thousand Euros (+200 bp) and -21,262 thousand Euros (-200 bp).

2 - The cumulative impact on the economic value of Own Funds generated by the revaluation of interest rate sensitive instruments due to a parallel shift, positive or negative, of the yield curve of 200 bp, measured through the Static Repricing Gap, is of -85,878 thousand Euros (+200 bp) and 541,340 thousand Euros (-200 bp).

12.4. OTHER TYPES OF MARKET RISK

12.4.1 Foreign exchange risk monitoring

Foreign exchange risk arises as a consequence of changes in the exchange rates of currencies, whenever there are open positions in those currencies and, similarly to market risk, it is also marked as a risk that is not materially relevant for Crédito Agrícola.

The profile defined for foreign exchange risk is very conservative and is embodied in the hedging policy followed. The operations negotiated have a commercial basis, with foreign exchange activity being directed at hedging them within very conservative exposure limits. Values and compliance with total open position limits are calculated.

The exchange rate risk control and assessment shall be carried out on a daily basis at individual level for each branch and at a consolidated level.

In the GCA, the management of foreign exchange risk is centralised, under the responsibility of the Financial Department, and with the framework of approved limits.

12.4.2 Monitoring the price risk of financial assets

The GCA conducts periodic impairment analyses of financial assets. When there is evidence of impairment in an asset or group of financial assets, impairment losses are also charged against profit or loss.

For listed securities, evidence of impairment is considered to exist in a situation of continued devaluation or significant drop in value in the price of the securities. For unlisted securities, evidence of impairment is considered to be the existence of an impact on the estimated future cash flows of the financial asset, provided that this can be reasonably estimated.

Market risk reflects possible losses resulting from an adverse change in the market value of a financial instrument as a consequence of changes, namely in interest rates, exchange rates, share prices, commodity prices, credit spreads or other equivalent variables.

In the context of the strategy and activity carried out by Grupo Crédito Agrícola, there is the inclusion in the treasury management of a trading book consisting of financial assets whose cash flows may or may not be considered exclusively capital and interest, including derivative instruments, with the aim of making it possible to monetise the treasury's own positions, in particular through the performance of financial transactions, albeit without materiality.

In order to mitigate the risks incurred, a policy of segregation of functions between the execution of market operations and risk control is implemented at each time.

In addition to Caixa Central's portfolio of securities, which is under the management of the Financial Department, CA Vida's portfolio of securities is managed in its entirety by CA Gest, with a defined investment benchmark, according to the risk to be taken on and the desired return for each security. This portfolio is valued monthly, or weekly in periods of high market volatility, based on reports produced by CA Gest.

12.4.3 Banking book interest rate risk monitoring

The Group's banking activity is primarily based on traditional intermediation, so interest-rate sensitive instruments are essentially credit and customer resources.

12.5. QUANTITATIVE INFORMATION

The values obtained in the measurement of the interest rate risk to which GCA is exposed, and which are explained in the various tables presented throughout this chapter, allow us to conclude that Crédito Agrícola is able to accommodate the effects of possible variations in interest rates without jeopardising prudent levels of solvency and liquidity.

13. Sensitivity Analysis of Capital Requirements

The methodology for carrying out stress tests that had been used, according to instruction no. 4/2011 of Banco de Portugal, was changed due to the need for its articulation with the work inherent in the Funding Capital Plan of the banking system. The GCA also performs stress testing exercises under the Group's Recovery Plan, in which reverse stress tests are carried out and also in the context of the Internal Capital Adequacy Assessment Process (ICAAP) that involve conducting sensitivity analyses.

13.1. STRESS TESTS

13.1.1 Framework and concept

Stress tests reflect a risk management methodology that aims to assess potential effects on an institution's financial conditions resulting from changes in risk factors as a result of exceptional but plausible events, and all materially relevant risks must be considered. Thus, they constitute tools that contribute to prudent risk management in the Group, providing a better perception of their profile. The results obtained, using statistical tests and simulations, are intended to assess the ability to absorb the impact of adverse events through the suitability of own funds and detection of potential vulnerabilities that may result in the need for corrective action.

The exercise sets up an instrument of internal management and prudential supervision through which the regulator monitors the GCA on potential capital needs in a strongly prospective content, based on macroeconomic scenarios. In the main aspects to be monitored, we highlight the evolution of the balance sheet, operating profit or loss and solvency, as well as the detail of the portfolio of resources, credit and securities and, also, of the respective impairments.

The stress tests have three distinct aspects:

Sensitivity Analysis – These are understood as assessments of the impact, under financial conditions, of the variation of a single risk factor.

Scenario Analysis – These are understood as assessments of the joint impact, in financial conditions, of the variation of several risk factors at the same time.

Reverse Stress Test – Identification of the critical points and their degree of severity of the scenario and/or shocks from which the viability or sustainability of the business model would be compromised.

The GCA regularly performs these exercises, namely within the scope of the Group's Recovery Plan, in which reverse stress tests are carried out and also in the context of the Internal Capital Adequacy Assessment Process (ICAAP) that involves conducting sensitivity analyses.

13.1.2 Scope

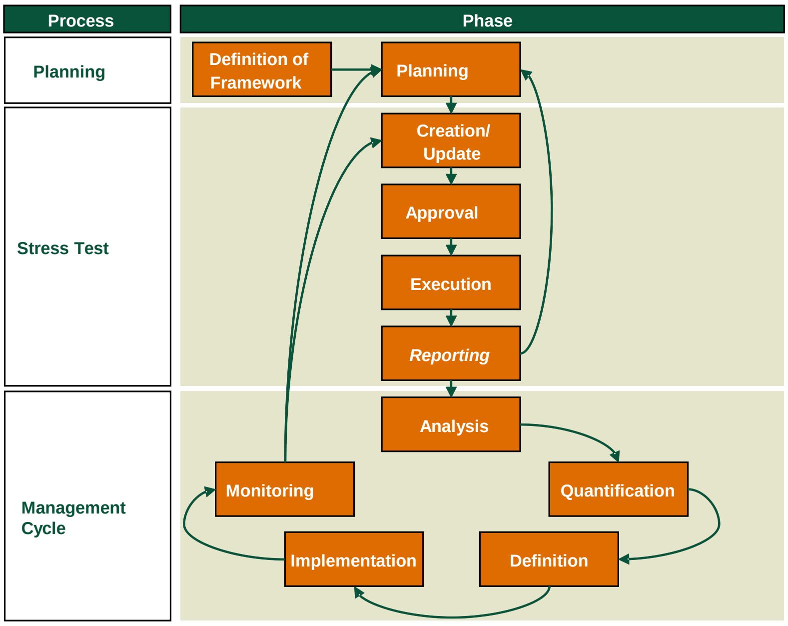
The Stress Tests performed focused on the consolidated position of the GCA.

If the value of the Group's assets and/or off-balance sheet items exposed to a certain risk is less than 1% of the total value of the asset, it is not tested.

13.1.3 Governance model

The governance model defined for the GCA in the process of carrying out the Stress Tests establishes the responsibilities of each body and the incorporation of its results into decision-making and daily activity.

It is carried out in a cyclical way and consists of three processes: Planning, Stress Test and Management Cycle, interconnected by information flows, as translated in the following scheme:

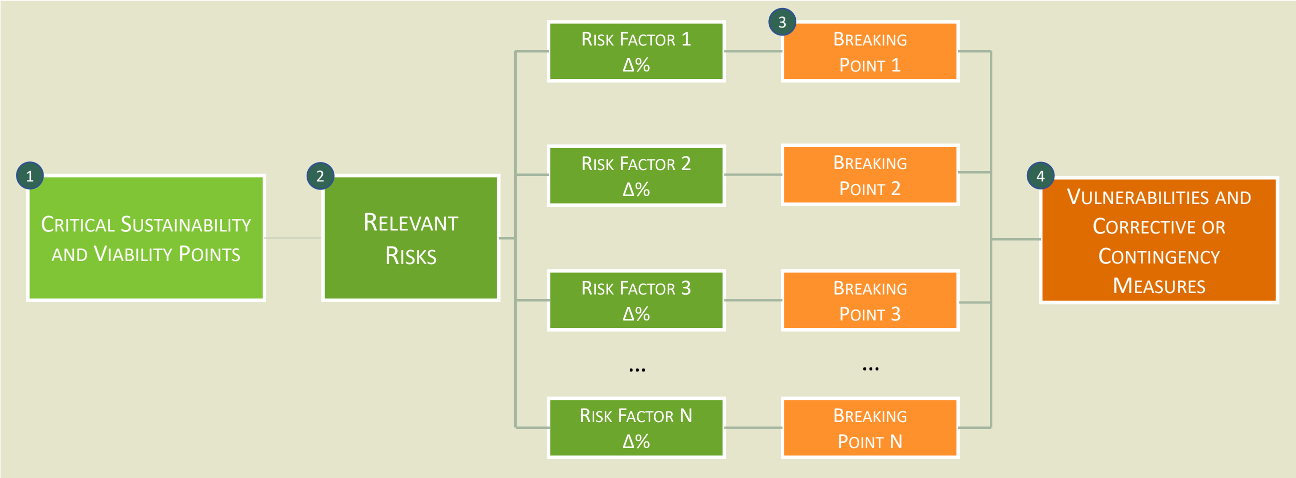


The stress tests aim to assess potential effects, under the financial conditions of an Institution, resulting from changes in risk factors due to exceptional but plausible events, considering all materially relevant risks. They are, therefore, a tool that contributes to prudent risk management, facilitating a better perception of the Institutions' risk profile.

In particular, the reverse stress tests allow us to identify the critical points in the respective financial situation from which the viability or sustainability of the business model would be compromised. Next, the scope of the tests carried out by the GCA is defined. Given the nature of the reverse stress testing exercise, the relevant risks to reach the critical points that make GCA's business model unfeasible were thus considered.

Given the complexity of the exercise and the need to perceive the total impact on the Group's financial conditions, a one-year time horizon was defined.

The scheme below presents the methodology defined for the analysis of scenarios of reverse stress tests, which is broken down into four sequential steps.



13.1.4 Methodology

The general methodology underlying the design of the Stress Tests is intended to guarantee the adherence of the tests carried out to the Group's reality and to the current and foreseeable macroeconomic framework and takes into account the external and internal environment.

After performing the tests, reports on management and reporting to Banco de Portugal are prepared.

13.1.5 Recovery Plans

In order to identify the measures likely to be adopted to correct a possible situation of financial imbalance in a timely manner, or even to mitigate the probability of its occurrence, Decree-Law no. 31-A/2012, of 10 February introduced in the RGICSF (art. 116-D), the obligation for credit institutions authorised to receive deposits to present a recovery plan to Banco de Portugal.

This legal guideline aims to contribute to the system's financial stability by obliging credit institutions to draw up a plan to deal with situations of actual or potential financial crisis, thus ensuring that they are in a position to react in a swifter and more structured manner in situations of potential financial difficulty.

In line with this concern, Banco de Portugal published Notice No. 12/2012, subsequently revoked by Notice No. 3/2015, a document that is assumed as the current regulatory instrument for preparing recovery plans by credit institutions at national level. The recovery plans are also governed by Commission Delegated Regulation (EU) 2016/1075.

In compliance with these regulatory provisions, Grupo Crédito Agrícola has updated and revised its Plan notwithstanding the soundness shown over the last few years with regard to capital adequacy and its level of liquidity.

In accordance with international good practice, the adequacy of a Recovery Plan will be all the greater if it adheres to the following principles:

REQUIREMENTS OF THE RECOVERY PLAN		
	ADEQUACY	• The plan should be perfectly suited to the economic environment and the Institution's reality, so that the contingency measures effectively fulfil the purpose of bridging capital or liquidity shortfalls.
	CREDIBILITY	• The Recovery Plan should be credible to all stakeholders (i.e. associates, customers, creditors, depositors, regulatory authorities, etc.); • Therefore, this plan should set out the correct mode of communication and disclosure in relation to them in order to preserve their confidence in the GCA.
	DIVERSIFICATION	• The Plan should contemplate several measures, ensuring greater adaptability to the internal and external environment and a greater variety of alternatives; • The measures to be implemented will depend on the circumstances in which the institution finds itself at the time of the shortfall.
	DURATION	• Their implementation should take place in the shortest possible time and according to the impact of the event.

However, the specificity of each Institution that is part of the GCA should be emphasised so that the characteristics of the plan should be fully adjusted to this reality. Consequently, in the particular case of the GCA, the principles set out above should be complemented by others that reflect that same specificity.

Namely:

- Interdependence – Caixa Central de Crédito Agrícola Mútuo (hereinafter referred to as Caixa Central or CCCAM) and the Caixas de Crédito Agrícola Mútuo (hereinafter referred to as Caixas Agrícolas or CCAM) are characterised by their strong connection, and solidarity mechanisms are foreseen. These are naturally considered when defining recovery measures;

- Autonomy – Although the Recovery Plan should cover the whole Group, this need to cover the whole should be reconciled with the autonomous nature of each Caixa, which may result in the adoption of specific recovery measures, complementary to the measures recommended for the Group;
- Focus on Caixa Central – The structure of the Integrated System of Crédito Agrícola Mútuo (hereinafter referred to as SICAM) is supported by Caixa Central, which is responsible for the supervision, guidance and monitoring of the activities of the associated Caixas Agrícolas. From the foregoing, its role as coordinator of the recovery measures implemented is reinforced.

The anticipation of potential risk scenarios and recovery measures that allow to bridge any identified capital and liquidity constraints are the fundamental vectors of a Recovery Plan. The impact of the contemplated scenarios is reflected not only in liquidity imbalances, but above all in the worsening of the Group's solvency ratio, requiring a quick response.

In this regard, the GCA drew up baseline scenarios, potentially adverse for its activity, and, based on its risk profile, established recovery indicators and measures.

The GCA believes that, if necessary, the measures contemplated contribute to the financial rebalancing of the Group acting in particular on the capital requirement or risk-weighted assets, the recovery of adequate levels of liquidity and take into account the specifics of its legal structure and organisational model.

The proposed Plan is supported by a Governance Model that safeguards communication and cross-sectional implementation and although it should be valid for the Group as a whole, it is important to highlight its application, if necessary, at the level of each CCAM, and it is up to the model to monitor and reconcile these two universes.

Due to the dynamism, volatility and uncertainty that characterise its activity, the Recovery Plan must be subject to continuous revision, increasing its flexibility and adaptation to adverse situations, and to an evolution process, making up for any shortcomings that may have been pointed out in the meantime.

In compliance with the recommendations set out, it is understood that the GCA Recovery Plan complies with the safeguarding of the Group's solvency and liquidity ratios, ensuring an immediate response to any short-term challenges that may arise.

13.2. SCENARIO ANALYSIS

The Portuguese economy is especially vulnerable to the adverse international environment, in particular due to the shocks in foreign demand for national goods and services. The particularly severe scenario naturally incorporates a drop in confidence and a fall in demand visible in the reduction of consumption and in gross fixed capital formation.

For the baseline scenario of Grupo Crédito Agrícola's Recovery Plan, the projections made for the year 2017 in the Funding and Capital Plan were used as a starting point, according to what was established by Banco de Portugal in that context.

Grupo Crédito Agrícola identified the following adverse scenarios in order to define the set of events that test the effectiveness of recovery measures and the adequacy of the indicators included in the Recovery Plan; Scenario 1 – Systemic, Scenario 2 – Idiosyncratic and Scenario 3 – Combined (systemic and idiosyncratic events).

To this end, the reverse stress tests methodology was used to identify critical points in the respective financial situation which would compromise the viability or sustainability of the business model. Given the complexity of the exercise and the need to perceive the total impact on the Group's financial conditions, a one-year time horizon was defined.

- Scenario 1 – Systemic, was based on systemic events taking into account, in particular, events such as the insolvency of significant counterparties affecting financial stability, adverse fluctuations in asset prices in one or more markets, macroeconomic slowdown.

- Scenario 2 – Idiosyncratic, is the result of a series of events that could have serious negative consequences on Grupo Crédito Agrícola and therefore, in its definition, the following events have been taken into account; the insolvency of significant counterparties, serious credit losses, adverse fluctuations in the prices of assets to which the GCA is predominantly exposed, reputational damage, serious loss of liquidity and serious loss of operational risk.
- Scenario 3 – Combined (systemic and idiosyncratic events), results from the combined effect of events of a systemic nature, that is, likely to have serious negative consequences on the financial system or the economy, with idiosyncratic events, which have serious consequences only in the Group, occurring simultaneously and interacting with each other. To simulate the impact on financial conditions and risk indicators of the GCA the following events were considered; Insolvency of significant counterparties affecting financial stability, macroeconomic slowdown, adverse asset price movements in one or several markets, reputational damage, severe loss of liquidity and severe loss of operational risk.

13.3. TEST RESULTS

The stress tests carried out at the level of scenario analysis attested that the Group's own funds are adequate to the degree and profile of risk assumed, absorbing the simulated impacts.

The solvency ratios of the level established by the regulator are evident, even when faced with a worsening scenario and the considerable liquidity that characterises the Group (combined with a loan-to-deposit transformation ratio significantly lower than the limit considered adequate), which translates into a level of security and protection against adverse events.

The assessment of the results obtained allows us to conclude that the scenarios that put GCA's business model in a situation, or at risk of insolvency if the recovery measures were not successfully implemented, although plausible, are of an extreme nature and therefore result in an overly severe impact on current financial conditions. It should also be noted that the results presented should be considered in light of the complexity and difficulty of the exercise in question, which derives in part from the volatility of the economic and financial environment and the methodology used, namely through the use of reverse stress tests, as previously mentioned.

The results achieved are such as to confirm the Group's appreciable level of resilience, maintaining at all times its characteristic financial solidity, which does not prevent the definition of a set of indicators to be monitored regularly and the planning of recovery measures that may contribute to the mitigation and resolution of capital insufficiencies, should they occur in a scenario of extreme adversity.

It is concluded that the Group has adequate conditions to respond to macroeconomic challenges and ensure the normal development of its activity, including responding to the growing needs of its customers, while maintaining at all times the financial soundness that characterises it.

Considering, however, the possibility of abnormal events of a significant magnitude having an impact on its operating conditions, the Group has been adopting measures aimed at strengthening its solidity, which include:

- Greater rigour in assessing credit risk and monitoring the portfolio;
- Development of an operational risk management model, associated with the continuous improvement of the Business Continuity Plan and the continuous improvement of internal control systems, namely identification of processes and controls.

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