Market Discipline

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CONTACT

DEVELOPMENT MANAGER	Global Risk Department
TELEPHONE:	21 380 56 65
E-MAIL:	drg.cccam@creditoagricola.pt
RESPONSIBLE FOR APPROVAL:	Executive Board of Directors of Caixa Central

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1. MESSAGE FROM THE EXECUTIVE BOARD OF DIRECTORS OF CAIXA CENTRAL

The Executive Board of Directors (EBD) of Caixa Central de Crédito Agrícola Mutual (hereinafter referred to as Caixa Central or CCCAM), observing a policy of transparency towards its customers, associates, counterparties and employees, discloses the document called “Market Discipline”, in accordance with Regulation (EU) No. 575/2013 – Part VIII of the European Parliament and of the Council and resulting from the requirements laid down under Pillar III of Basel, by which it makes the public disclosure of detailed information on the solvency of Grupo Crédito Agrícola (hereinafter referred to as Group or GCA), its risk management policies and practices and the established assessment and management processes and systems.

Grupo Crédito Agrícola pursues a development strategy that values the close relationship with the customer, which is the brand image of Crédito Agrícola, supporting it in its financial projects and its protection needs, offers quality services adapted to the needs of customers, contributes to the progress of the standard of living of local communities and ensures accessibility of banking services.

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 in the need to adjust the levels of profitability and efficiency, including the strategic management of non-productive assets.

In 2019, the Group maintained comfortable liquidity levels and a favourable and stable solvency position through the maintenance of 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, illustrated in the 67% (net) transformation and at the Common Equity Tier 1 ratio of 16.0% (including net income for the financial year), thus positioning itself at the forefront of the best prepared financial institutions to support the national economy, consolidating its strategy in a dynamic, risk-aware trade policy and aimed at the effective needs of the population and its communities.

In addition, Grupo Crédito Agrícola presented, in 2019, a net result of 131.5 million euros, therefore, maintaining the positive evolution recorded in 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

Caixa Central de Crédito Agrícola Mútuo, CRL, declares that all procedures deemed necessary have been developed and that, to the best of its knowledge, all information disclosed is true and reliable, including that referring to or originating from other entities of Grupo Crédito Agrícola.

Additionally, it undertakes to disclose, in a timely manner, any significant changes occurring in the course of the financial year subsequent to which the present document refers, and points out that, between the end of the financial year to which the present report refers and the date of its disclosure, a relevant external event occurred, the COVID-19 pandemic, with an impact on the national and international economy, and with relevance for the activity and financial situation of the majority of families and companies, with considerable uncertainty remaining as to the duration and magnitude of its effects. The GCA will keep a very close follow-up of the situation and take measures deemed appropriate to mitigate its impacts.

Lisbon, 30 June 2020

3. FRAMEWORK

The Market Discipline report disseminates the main policies and practices of Grupo Crédito Agrícola in risk management, covering its various dimensions. This report follows from part VIII of Regulation (EU) No. 575/2013 of the European Parliament and of the Council and reflects the situation on 31 December 2019 of Grupo Crédito Agrícola, a private financial group of a cooperative nature, which includes the Integrated System of Crédito Agrícola Mútuo (hereinafter called SICAM), a group formed by Caixa Central de Crédito Agrícola Mutual and 79 Associated Caixas (hereinafter referred to as CCAM or Associated Caixas Agrícolas) and several specialised companies. In the indicated organisational structure, Caixa Central stands out, with the powers to supervise, guide and monitor the activity of the Associated Caixas Agrícolas.

In order to maintain a permanent communication with all its stakeholders, the Group considers that this report constitutes an important instrument of this communication, thus falling within the guiding principles of Crédito Agrícola. The document was developed from a predominantly prudential perspective and, in this sense, should be understood as a complementary information to that provided through the Report and Accounts, with the purpose of quantitatively and qualitatively characterising the various risks associated with Crédito Agrícola's banking activity.

3.1 REGULATORY FRAMEWORK

Considering 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 the Caixas Agrícolas aimed 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 June 16).

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 capacity to monitor, follow-up and control risk management activity in SICAM in line with best market practices, with a view at the level of each Caixa Agrícola, a series of complementary initiatives have been continued over the last few years, comprising a strong articulation with the technological aspect and requiring the development of specific internal skills inherent to the Risk Management Function, with a view to bringing the GCA into line with 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;
- Operational risk;
- Liquidity risk;
- Banking book 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 favourable solvency ratio.

3.3 GRUPO CRÉDITO AGRÍCOLA'S ORGANISATIONAL AND BUSINESS MODEL

Grupo Crédito Agrícola presents a cooperative-based banking model, with strong close relationships with its customers. In this context, Grupo Crédito Agrícola's business model is based on the following fundamental vectors:

- Conservative action with limited 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 Associated Caixas Agrícolas.

The activity of Grupo Crédito Agrícola is based on the support of the Caixas Agrícolas – which, with their autonomy and integration in the respective regions, know the realities of the respective business and economic fabric in depth and the challenges that arise for the economic and social progress at the local level. The pursuit of strategic objectives is aimed at strengthening the principles that have guided the GCA in recent years:

- Preservation of the cooperative base;
- Protecting the autonomy of the Associated Caixas Agrícolas;
- Operational and technical integration of the Group.

The objectives presented in the 2020 Activity Plan aim to maintain the sustainability of the current GCA business model, through a demonstration of the ability to adapt to change and an agile response to the challenges it faces, governed by the following guidelines:

- Monitoring social trends in urbanisation and digitalisation in order to strengthen notoriety and competitive position;
- Modernisation of the brand, promoting the concept of a universal bank by rejuvenating the customer base and centrality;
- Guidance of the entire organisation to customer knowledge by offering quality services adapted to customer needs;
- Maintenance and encouragement of a discipline of rigour, simplification and cost efficiency;
- Promote credit concession, oriented towards acceptable levels of risk;
- Ensure standardised, quantified and monitored credit monitoring and recovery processes.

On the other hand, the legislative and normative production in the context of the powers of the financial sector supervisory authorities, where aspects related to own funds, major risks, liquidity risk, interest rate risk, credit risk and the prevention of BC/FT risk deserve special mention, 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.

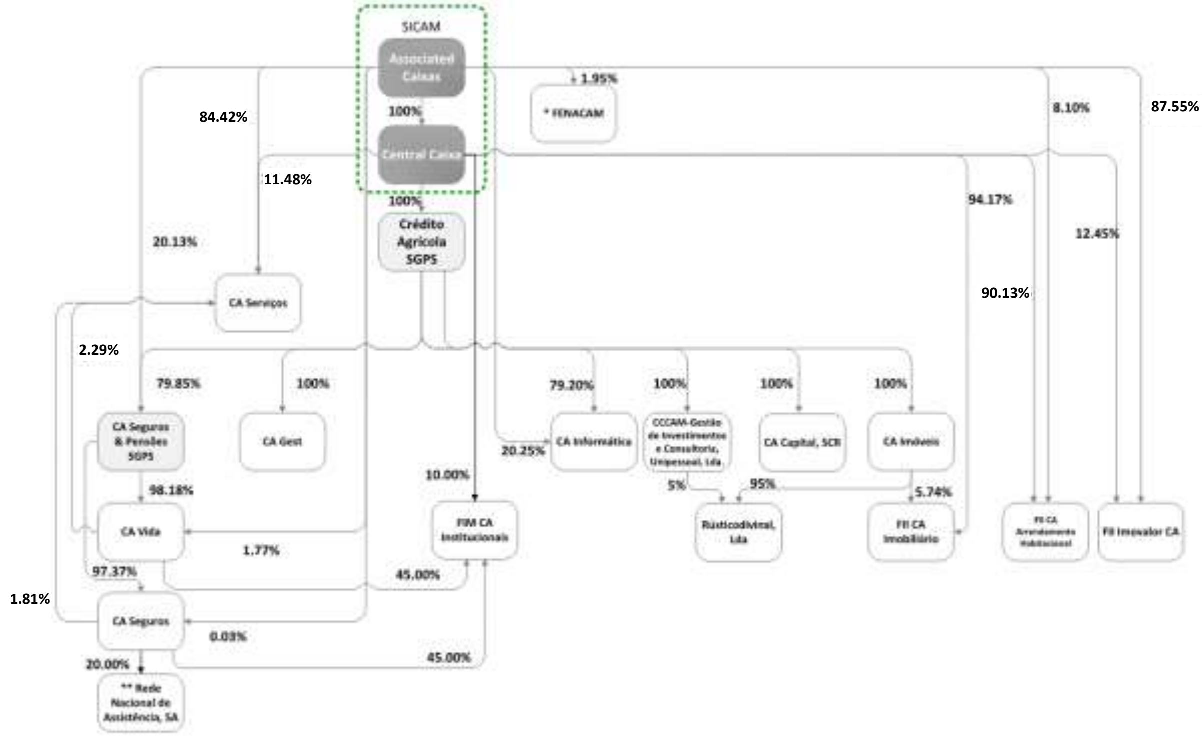
The main lines of business of Grupo Crédito Agrícola, in the context in which they represent the main sources of revenue, are credit and customer deposits, as can be seen in the indicators (observed values and projections) presented under the Group's business plan for the year 2020.

The main lines of business for the GCA are as follows:

Business Lines	Description
Retail banking	Granting credit and attracting customer deposits.
Treasury management (own portfolio)	Management of the Group's treasury through the application of liquidity surpluses of the Caixas Agrícolas.
Payment and settlement systems	Processes relating to the majority of operations and transactions executed in the GCA.
Insurance	Life and non-life insurance marketing.

FIGURE 1 – MAIN BUSINESS LINES OF THE GCA

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



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

FIGURE 2 – GCA ORGANISATIONAL CHART

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 included in its consolidation perimeter as well as Rede Nacional de Assistência, SA.

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 Caixas Agrícolas

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 strategy, reputation, liquidity, interest rate and of concentration.

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

3.4 RISK MANAGEMENT SYSTEM AND RISK MANAGEMENT FUNCTION

The GCA guides its activity and internal procedures through best international risk management practices, also taking into account the guidelines issued by the Basel Committee on Banking Supervision (BCBS) and the Committee of Sponsoring Organizations of the Treadway Commission (COSO), also ensuring the overall compliance with the requirements set out in the Portuguese and European prudential framework.

The organisation of the GCA risk management system follows the principle of segregation of functions, ensuring full functional separation between risk-origination (or taking of) responsibilities and responsibilities dedicated to its management and control. This principle is operationalised in accordance with the three lines of defence model, both at the Caixa Central level and at the level of the CCAMs. The use of this model aims to clarify the distribution of responsibilities, ensuring the decoupling between business and support areas, management and control areas and independent review areas, in particular:

- The first line of defence is responsible for the assumption and management of the risks inherent to its activities and must implement appropriate internal controls for the management and treatment of identified risks. The activities it carries out are conditioned by the limits set by the respective management body.
- The second line of defence, based on the risk management function and compliance function, at the level of the GCA or each CCAM, in general terms, is by developing its action in two distinct aspects: proactive and reactive. On the proactive side, these units contribute to the overall development and performance of the risk management system and to informed decision-making, supporting the activities of the first line of defence and the action of the management body (management and supervisory functions) through information and/or or recommendation. On the reactive side, the second line of defence units independently and objectively ensure the monitoring and control of the Group's activities, identifying any deviations from the established strategy, policies and limits and promoting (or determining) the measures to respond to that deviation.
- The third line of defence is provided by the internal audit function, which evaluates the efficiency and effectiveness of the internal control system and, in particular, the Group's risk management system, ensuring a complete review of the risk management system and, specifically, of each of its elements (including the performance of the first and second lines), identifying weaknesses and opportunities for improvement, presenting recommendations and keeping the Board of Directors (management and supervisory functions) informed on these matters.

The Overall Risk Department (DRG) promotes the proper and effective functioning of the risk management system, with a view to achieving the standardisation and consistency of practices in the Group, as well as compliance with regulatory requirements, making it possible to achieve the essential holistic view of the risk profile of the GCA. Therefore, the risk management function in Caixas Agrícolas is performed in contiguous functional articulation with the DRG. The mentioned functional relationship should cover the main responsibilities and activities of the risk function. To support the exercise of the risk management function, interdisciplinary governance forums, with an executive or advisory nature, are established, including the Risk Committee (RC) and the Assets, Liabilities and Capital Management Committee (ALCCO).

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.

The overall risk policy, the risk management regulations and complementary documents (e.g. specialised standards that establish the rules and procedures in the management of each of the risks) establish the principles, policies and governance, including the responsibilities and competences governing the risk management system and the performance of the risk management function in the Caixas Agrícolas, Caixa Central de Crédito Agrícola Mútuo and the Group, in accordance with the prudential perimeter in force.

Caixa Central's management body approves the Group's risk management system policies, the risk profile and the respective degree of tolerance and the procedures for the identification, assessment, monitoring and control of risks. The elements in question are disclosed internally to the departments of Caixa Central and the Caixas Agrícolas for their adoption and effective implementation.

Caixa Agrícola's management body approves corporate risk management policies, which systematise the guidelines on risk control and management in the Group.

3.4.2 Organisational Structure

Caixa Central's positioning, within the scope of GCA and SICAM, is characterised by a set of functions and responsibilities assigned to it by the Legal System for Mutual Agricultural Credit, namely with respect to the guidance, coordination and control of the banks belonging to SICAM; the provision of services to the Associated Caixas; the management of SICAM's treasury; and the conduct of commercial banking operations under agency agreements – 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 administrative and supervisory bodies are responsible for ensuring the existence of the risk management function from an independent, permanent perspective with material and human resources appropriate to its full performance.

Considering 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 aimed at the progressive adoption of homogeneous processes and procedures. 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.

Caixa Central, in particular the DRG, performs the coordination and supervision of that model in the Group, through a functional reporting structure, without prejudice to the hierarchical dependence on the management body of each Caixa Agrícola, promoting the risk management system and adherence to the respective policies and boosting the improvement of risk control processes in Grupo Crédito Agrícola. In this way, economies of scale are achieved, relieving the Caixas Agrícolas of the need to allocate a large number of resources to the function at local level and favouring homogenous procedures of a strategic nature in the Caixas Agrícolas.

3.4.3 Risk Management Function Activities

The plan of activities of the risk management function is based on setting priorities and the implementation of work programmes for the risk function. As an integrated management tool, it aims to support risk management planning and transversal activities of the risk function, towards a systematic approach to monitoring and controlling material risks, identifying possible deficiencies and action plans to resolve them within the scope of internal control. The plan includes a descriptive component of each activity (including the associated project, if applicable), the objective, the typology of risk(s), the deadline, the one-off or periodic nature, the level of priority, the stakeholders, the existence of precedence(s), the monitoring metrics and the degree of execution. The periodicity of the activities may be annual (e.g. review of policies and regulations, review of the risk profile, preparation of the annual risk management report, participation in the preparation of the annual report and accounts, participation in stress testing exercises, funding and capital plan, ICAAP, ILAAP and recovery plan), quarterly (e.g. monitoring of risk profile indicators, monitoring of exposure to credit risk, liquidity risk and interest rate risk, analysis of the solvency/capital of the institution) and activities without a defined periodicity (e.g. review of policies, rules, regulations, procedures or practices in the risk area, promotion of the application of methodologies and metrics which ensure the correct assessment of the risks incurred, prior analysis of the development of new products and activities in the risk management area, dissemination of instructions, analysis of legal and regulatory aspects).

All risk categories considered material by the risk assessment process are: (i) managed according to dedicated monitoring and control procedures, from an individual and aggregate perspective; (ii) target a dedicated methodology; and (iii) are controlled through specific metrics, tolerance levels and limits.

Considering the results of the other elements of the global risk framework, the Group implements, through the use of instruments that allow the assessment of the resilience of its capital and liquidity in the face of quantified risks, in normal and stress scenarios, a permanent monitoring of the exposures, processes and other situations with an impact on their stability. Monitoring is ensured systematically and objectively using its risk limit system.

The results of the previous phases contribute to the reporting and provision of information on the Group's risks. The reporting process is supported by reporting routines, which, based on an alert/information escalation structure, ensure that information and recommendations reach all relevant bodies for the purpose of managing and supervising the Group.

The risk management function ensures periodic reporting of information on risk, covering at least all material risks and, without prejudice to dedicated/specialised analyses for each of the risk categories (quantitative and qualitative), including a global chapter consolidating the conclusions of each of the material risks (the risk profile) and the opinion of the risk management function on them.

In the preparation and presentation of reports and the information to which the previous paragraphs refer, the risk management function transmits to the management body, as well as to the other recipients of the reports, a forward-looking view, if possible, of risk exposures based on the forecasting of the evolution of main variables and risk factors.

3.4.4 Risk appetite chart – Risk Profile – Limit system

The Risk Appetite Framework (RAF) model is a central component of GCA's risk management system, which encompasses the following key elements: (i) a declaration of risk appetite; (ii) a system of limits supporting it and the mechanisms for responding to the breach of defined tolerances and their monitoring; (iii) a governance model; and (iv) a model for integrating risk appetite into Group management practices.

The risk appetite of Grupo Crédito Agrícola is defined by its strategic vision and the resulting guidelines, which are reflected in the statements and reference documents of the institution (e.g. business plan document, external corporate presentations given by members of the Executive Board of Directors, communications via the corporate website).

The declaration of risk appetite is directly related to the Group's risk profile, in the latter case, through a set of indicators and risk exposure limits which are incorporated in the regular activity of the GCA, and updated at least annually, or whenever there are significant changes in the corporate strategy or expectations regarding the macroeconomic or sector context. 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.

In general, the integration of risk appetite into GCA management is carried out through: (i) strategic planning, budget and business objectives; (ii) the financing and capital plan; (iii) operational risk management processes, through material risk information; (v) stress testing programme; and (vi) contingency planning, to the extent that its design should be consistent with the limits set in risk appetite. Likewise, risk appetite is reflected in the ICAAP and ILAAP.

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

The GCA 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 nature:

- Warning Limits: the 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 limits of the recovery plan, at which point 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 the "triggers" that motivate the corrective actions provided for in the recovery plan and, in this sense, recommend the factors that trigger the response to a financial crisis situation. In the context of the Group's risk monitoring process and the necessary level of capital and liquidity of the Group, the recognition of a manifestly damaging framework and acute financial imbalance provides the activation of the recovery plan by implementing the contingency measures to be taken to remove the identified imbalances, which are duly accompanied by the units of structure defined in this document and in accordance with the respective governance model.

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.

The process of analysing the risk appetite framework of Grupo Crédito Agrícola, in particular the risk profile and limit system, occurs within the framework of the regular (quarterly) management cycle or whenever there are significant changes in the corporate strategy or expectations in the face of the macroeconomic context and/or the sector, but also through interim analyses associated with the review process of the Recovery Plan, Stress Tests, ICAAP and ILAAP, which assume the risk profile of the GCA as a structural element for each of the analysis aspects carried out from the perspective of risk and capital management, and which are performed in the context of the GCA involving the necessary articulation with other specialised structure areas.

This results from the risk management strategy pursued and is based on the general principle that the institution's main objective is to maintain a comfortable capital and liquidity situation, assuming a tendentially conservative risk profile. In this context, as a declaration of risk appetite, normal banking activity must be characterised by adequate levels of prudence and the fact of observing a systematic policy of retaining results largely defines the evolution of solvency. The definition of the risk profile should ensure a correct specification of the institution's risk profile and its sensitivity to recession or crisis scenarios.

4. CAPITAL ADEQUACY

This chapter illustrates the composition and capital adequacy of the GCA, as well as the methodology for calculating the internal capital (ICAAP) necessary to cover the various risks arising from 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 resistance 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 16.0% (including financial year profit or loss).

Basic own funds are essentially 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 Associated 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 2019:

OWN FUNDS AND SOLVENCY RATIO - GRUPO CRÉDITO AGRÍCOLA				
Million euros	**2017**	**2018**	**2019**	**Δ 19/18**
Total own funds [a]	**1,387**	**1,439**	**1,621**	**12.6%**
Common Equity Tier 1	1,322	1,371	1,570	14.6%
Tier 1	1,322	1,371	1,570	14.6%
Assets and equivalents exposure	**17,089**	**18,211**	**18,915**	**3.9%**
Own funds requirements	**9,008**	**9,035**	**9,810**	**8.6%**
Credit	7,869	7,819	8,724	11.6%
Market	37	85	140	64.4%
Operational	1,100	1,085	923	-15.0%
Credit valuation adjustment (CVA)	2	46	23	-50.5%
Solvency ratios				
Common Equity Tier 1	14.7%	15.2%	16.0%	0.83 p.p.
Tier 1	14.7%	15.2%	16.0%	0.83 p.p.
Total	15.4%	15.9%	16.5%	0.59 p.p.

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

TABLE 1 – OWN FUNDS AND SOLVENCY RATIO – GCA

The composition of GCA's own funds as at 31 December 2019 was as follows:

Values in euros

Capital Adequacy	2019 Amount
OWN FUNDS	**1,469,060,698**
TIER 1 CAPITAL	**1,418,577,419**
COMMON EQUITY TIER 1 CAPITAL	1,418,577,419
Capital instruments eligible as CET1	1,212,687,226
Retained earnings	-58,253,518
Accumulated other comprehensive income	-9,101,374
Other reserves	390,319,754
Funds for general banking risk	0
Transitional adjustments due to grandfathered CET1 capital instruments	248,654
Minority interest given recognition in CET1 capital	0
Transitional adjustments due to additional minority interests	0
Adjustments to CET1 due to prudential filters	-1,565,428
(-) Goodwill	0
(-) Other intangible assets	-77,040,323
(-) Deferred tax assets that depend on future profitability and do not arise from temporary differences net of associated tax liabilities	-6,107,769
(-) Defined benefit pension fund assets	0
(-) Reciprocal cross holdings in CET1 capital	0
(-) Excess of deduction from AT1 items over AT1 capital	0
(-) CET1 instruments of financial sector entities where the institution has a significant investment	-15,056,785
(-) Amount exceeding the 17.65% threshold	-17,553,017
Other transitional adjustments to CET1 capital	0
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	**50,483,280**
Capital instruments and subordinated loans eligible as T2 Capital	50,483,280
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

TABLE 2 – CAPITAL ADEQUACY – OWN FUNDS – GCA

Grupo Crédito Agrícola's statutory capital, divided and represented by registered capital securities with a unit nominal value of 5 Euros, is 1,212,695,896 Euros as at 31 December 2019. Of the total amount of subscribed capital, the amount of 828,845 Euros was transferred to a liability item "Cash repayable share capital", by application of IAS 32 – Financial Instruments (Note 20 to the Annex to Accounts). In the financial year 2019, there were capital increases, one part in the amount of 36,209 thousand Euros by incorporation of reserves and another in the amount of 21,824 Euros by entry of new shareholders.

	31-Dec-19	31-Dec-18
CCAM de Pombal, CRL	56,186,725	56,143,690
CCAM Batalha, CRL	49,721,370	48,378,740
CCAM Costa Azul, CRL	48,646,615	44,015,665
CCAM Alto Douro, CRL	48,301,885	46,502,340
CCAM de Vale de Sousa e Baixo Tâmega, CRL	38,681,950	31,950,930
CCAM Açores, CRL	37,927,755	34,736,405
CCAM do Noroeste, CRL	37,386,940	36,531,330
CCAM da Serra da Estrela, CRL	36,609,795	34,377,585
CCAM Alto Cávado e Basto, CRL	32,983,405	31,729,835
CCAM Terras Sousa, Ave, Basto e Tâmega, CRL	29,604,360	28,472,660
CCAM do Vale do Távora e Douro, CRL	29,340,155	28,090,725
CCAM de Alcobaça, Cartaxo, Nazaré, Rio Maior e Santarém, CRL	25,727,050	23,948,755
CCAM de Trás-os-Montes e Alto Douro, CRL	23,025,370	22,282,005
CCAM P. Varzim, V. Conde e Esposende, CRL	22,064,590	20,416,190
CCAM C. da Rainha, Óbidos e Peniche, CRL	21,735,260	21,658,670
CCAM do Baixo Mondego, CRL	21,109,790	20,178,035
CCAM Beira Douro, CRL	20,948,915	19,427,375
CCAM do Sotavento Algarvio, CRL	19,576,930	19,414,300
CCAM Vale do Dão e Alto Vouga, CRL	18,750,505	17,689,800
CCAM de São Teotónio, CRL	18,137,145	18,011,520
CCAM de Terras de Viriato, CRL	17,968,755	16,447,420
CCAM Lourinhã, CRL	17,110,305	15,603,000
CCAM Alenquer, CRL	15,743,370	15,250,680
CCAM Coimbra, CRL	14,583,040	14,496,215
CCAM Vila Verde e Terras do Bouro, CRL	14,461,420	12,738,550
CCAM S. Bart. Messin. e S. Marcos Serra, CRL	14,121,615	13,328,800
CCAM Douro e Côa, CRL	13,874,675	13,188,800
CCAM da Terra Quente, CRL	13,662,535	13,131,680
CCAM de Pernes e Alcanhões, CRL	13,428,670	13,224,675
CCAM da Bairrada e Aguieira, CRL	13,022,130	7,361,720
CCAM da Zona do Pinhal, CRL	12,999,610	12,871,370
CCAM do Baixo Vouga, CRL	12,393,380	12,322,130
CCAM Ribatejo Norte e Tramagal, CRL	12,078,365	12,006,935

	31-Dec-19	31-Dec-18
CCAM do Guadiana Interior, CRL	12,061,990	11,751,760
CCAM Região do Fundão e Sabugal, CRL	11,599,685	11,523,225
CCAM Beja e Mértola, CRL	11,454,805	11,322,525
CCAM Albufeira, CRL	11,447,790	11,114,585
CCAM de Silves, CRL	11,328,990	10,722,745
CCAM Cadaval, CRL	11,181,205	10,160,050
CCAM Área Metropolitana do Porto, CRL	11,053,745	9,707,120
CCAM Salvaterra de Magos, CRL	10,810,785	10,760,295
CCAM Oliveira do Bairro, CRL	10,695,250	10,320,305
CCAM Coruche, CRL	10,522,910	10,513,335
CCAM Costa Verde, CRL	10,409,730	10,556,690

CCAM Médio Ave, CRL	10,269,880	9,986,490
CCAM Loures, Sintra e Litoral, CRL	10,165,475	9,931,180
CCAM Aljustrel e Almodovar, CRL	10,033,790	9,079,415
CCAM de Cantanhede e Mira, CRL	9,924,180	9,754,565
CCAM de Lafões, CRL	9,806,715	9,057,445
CCAM Paredes, CRL	9,647,710	8,817,415
CCAM Estremoz, CRL	9,117,725	9,109,415
CCAM Nordeste Alentejano, CRL	8,983,410	8,925,520
CCAM do Ribatejo Sul, CRL	8,953,495	8,843,630
CCAM Terras de Miranda do Douro, CRL	8,933,660	8,606,515
CCAM Ferreira do Alentejo, CRL	8,524,700	8,213,540
CCAM Arruda dos Vinhos, CRL	8,238,230	7,932,465
CCAM da Beira Baixa (Sul), CRL	8,157,730	7,316,980
CCAM Oliveira de Azeméis e Estarreja, CRL	7,944,940	7,901,945
CCAM Alentejo Central, CRL	7,865,580	7,669,910
CCAM Beira Centro, CRL	7,848,770	7,398,150
CCAM de Moravis, CRL	7,823,430	7,818,800
CCAM Vila Franca de Xira, CRL	7,652,820	7,424,325
CCAM Arouca, CRL	7,517,030	7,180,015
CCAM Elvas e Campo Maior, CRL	7,396,115	7,222,125
CCAM do Algarve, CRL	7,295,901	7,035,746
CCAM Porto de Mós, CRL	7,250,525	7,112,915
CCAM Oliveira do Hospital, CRL	7,129,970	6,874,945
CCAM Alcácer-Sal e Montemor-Novo, CRL	6,761,565	6,696,730
CCAM Mogadouro e Vimioso, CRL	6,670,065	6,527,170
CCAM Sobral de Monte Agraço, CRL	6,403,745	6,005,860
CCAM Sousel, CRL	6,333,195	6,286,590
CCAM do Norte Alentejano, CRL	6,266,305	6,229,390
CCAM Azambuja, CRL	6,000,510	5,826,565
CCAM Serras de Ansião, CRL	5,989,670	5,836,050
CCAM Entre Tejo e Sado, CRL	5,707,380	5,762,345
CCAM Borba, CRL	5,658,665	5,650,680
CCAM de Albergaria e Sever, CRL	5,552,035	5,426,330
CCAM Vale de Cambra, CRL	5,221,920	5,182,360
CCAM Vagos, CRL	5,167,795	5,132,250
CCAM Anadia, CRL (1)		5,549,105
	1,212,695,896	1,159,749,506

(1) As mentioned in Note 1, in 2019 the merger between CCAM da Bairrada e Agueira and CCAM de Anadia took place.

TABLE 3 – STATUTORY CAPITAL CORRESPONDING TO THE MEMBERS OF THE CAIXAS AGRÍCOLAS

On 31 December 2019, the GCA had subordinated loans eligible as own funds amounting to 51,640,603 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€	48.58%	6.314.896€
19-03-2014	31-01-2024	11.000.000€	81.71%	8.987.952€
24-07-2019	24-07-2027	4.000.000€	100.00%	4.000.000€
23-06-2015	23-06-2020	8.000.000€	9.58%	766.284€
23-06-2015	23-06-2024	8.000.000€	89.55%	7.163.656€
23-06-2015	30-06-2020	4.000.000€	9.96%	398.467€
19-03-2014	31-12-2022	20.956.724€	60.02%	12.578.625€
29-04-2015	30-11-2022	12.000.000€	58.32%	6.998.905€
29-04-2015	15-12-2021	1.500.000€	39.16%	587.349€
29-04-2015	15-12-2022	6.500.000€	59.15%	3.844.469€

TABLE 4 – SUBORDINATED LOANS ELIGIBLE AS OWN FUNDS

With reference to 31 December 2019, the breakdown of Own Funds Requirements were as follows:

Values in euros

Own Funds Requirements	2019 Amount	2019 Requirements
TOTAL RISK EXPOSURE AMOUNT	**9,752,374,514**	**780,189,961**
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	8,667,509,406	693,400,752
Standardised Approach (SA)	8,667,509,406	693,400,752
SA exposure classes, excluding securitisation positions	8,667,509,406	693,400,752
Central governments or central banks	5,996,657	479,733
Regional governments or local authorities	112,930,193	9,034,415
Public sector entities	64,586,674	5,166,934
Multilateral development banks	0	0
International organisations	0	0
Institutions	45,454,473	3,636,358
Corporates	2,066,647,938	165,331,835
Retail	1,750,098,364	140,007,869
Secured by mortgages on real estate	1,381,131,196	110,490,496
Exposures in default	759,633,771	60,770,702
Items associated with particularly high risk	803,803,367	64,304,269
Covered bonds	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0
Collective investment undertakings (CIU)	139,191,615	11,135,329
Equity	358,818,816	28,705,505
Other items	1,179,216,341	94,337,307
SA securitisation positions	0	0
of which: resecuritisation	0	0
MARKET RISK AND FOREIGN EXCHANGE RISK	**140,019,875.79**	**11,201,590.06**
Market	68,473,559.99	5,477,884.80
Foreign Exchange	71,546,315.81	5,723,705.26
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	**922,042,578.78**	**73,763,406.30**
OpR Basic Indicator Approach (BIA)	922,042,578.78	73,763,406.30
ADDITIONAL RISK EXPOSURE AMOUNT DUE TO FIXED OVERHEADS	**0.00**	**0.00**
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	**22,802,653.90**	**1,824,212.31**
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**

TABLE 5 – OWN FUNDS REQUIREMENTS

4.2 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

In light of the objective of promoting a rigorous assessment and determination of the level of internal capital underlying the risk profile of financial institutions, as essential conditions for the implementation of sustainable business strategies, assuming they are supported by adequate controls, Banco de Portugal published Instruction no. 3/2019 defining the principles for the implementation of the Internal Capital Adequacy Assessment Process, hereinafter referred to as ICAAP and which incorporates the guidelines at European level into the national regulatory framework. In this context, the "supervisory expectations on ICAAP and ILAAP and harmonised information collection on ICAAP and ILAAP" of the European Central Bank (ECB), the "guidelines on ICAAP and ILAAP information collected for SREP purposes" of the European Banking Authority (EBA), as well as the ECB's "guide" on the internal capital adequacy assessment process, are highlighted.

The ICAAP intends to guide financial institutions in the assessment and quantification of the main risks to which they are exposed, thus representing a relevant management tool in decision-making with regard to risk levels to be taken and the control and mitigation activities to be undertaken.

Therefore, it is intended that the process should take into consideration the necessary degree of comfort with regard to the level of capital that is intended to be assumed, in view of scenarios, which tend to be prudent, with a prospective nature.

The governance model established in the GCA to address the ICAAP gives Caixa Central de Crédito Agrícola (Caixa Central or CCCAM) powers to manage and ensure its exercise on a consolidated basis. In this context, the process of defining the ICAAP framework is conducted by the Overall Risk Department (DRG) of Caixa Central, with the support of the various specialised structure units and approved by the Executive Board of Directors (EBD) of Caixa Central, and is also submitted to the opinion of the General and Supervisory Board (GSB).

The aforementioned governance formalises and implements a set of communication and reporting flows aimed at ensuring the suitability, scope, adherence and communication necessary for this process. In other words, the framework formalises all the concepts underlying the ICAAP, attributing to Caixa Central's DRG the role of the main promoter of this whole process, documenting it and communicating it to the other units of structure of the Group. In this context, the ICAAP framework is based on a governance model with the overall structure and responsibilities illustrated below:

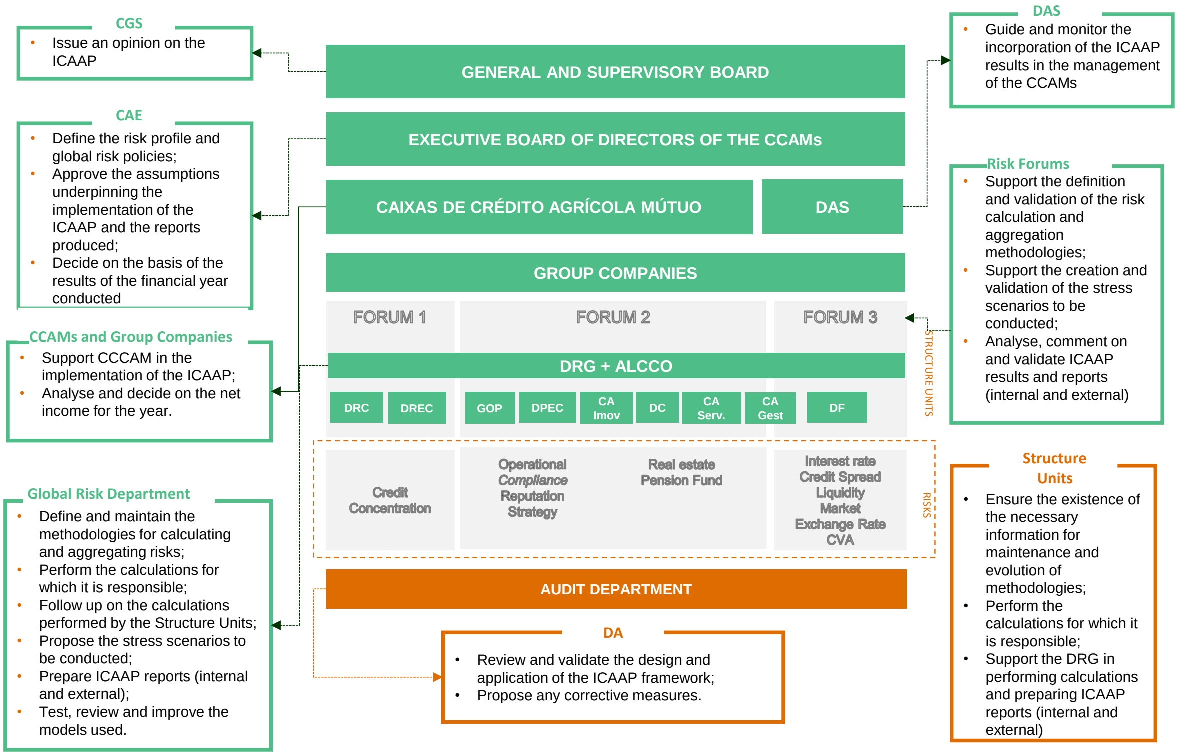


FIGURE 3 - ICAAP GOVERNANCE MODEL

The GCA considers as internal capital the amount of regulatory own funds, with the inclusion of the net income for the year in relation to the reference date, noting the fact that the instruments that make up the Group's main and complementary own funds are stable and appropriate to the purpose inherent to internal capital, i.e. to meet unexpected losses, and regular practices of retained earnings prevail in the Group in order to strengthen the cooperative-based own funds. The results of the ICAAP, with reference to 31 December 2019, indicate the total adequacy of the internal capital of Grupo Crédito Agrícola as observed in previous periods.

The ICAAP baseline scenario is based on projections carried out under the FCP (Funding and Capital Plan) and for the purpose of this year the risks relevant to the Group's activity were considered as well as the risks quantified within the regulatory framework (Pillar 1).

The ICAAP exercise comprises a set of processes, divided into three components, as illustrated below:

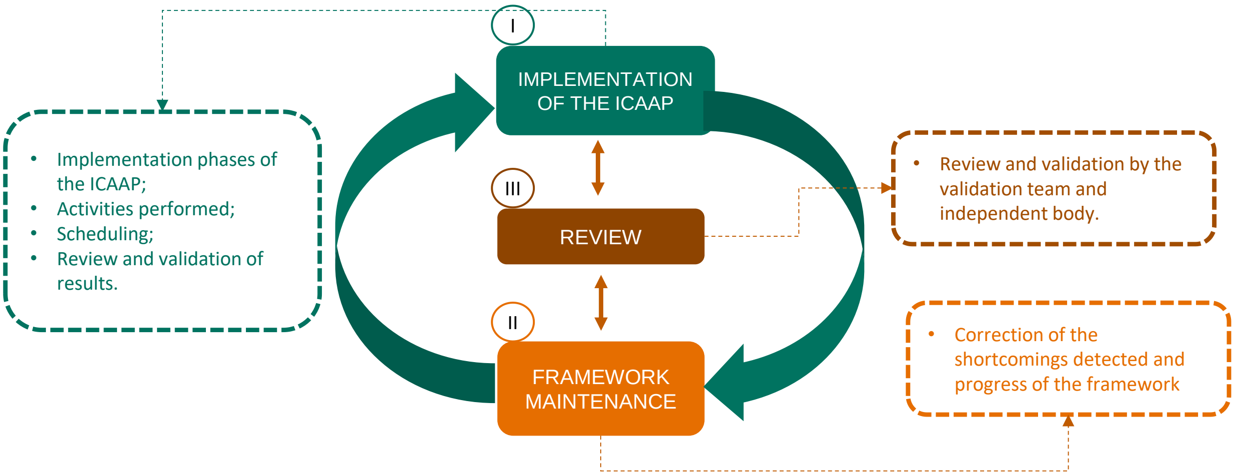


FIGURE 4 - ICAAP *FRAMEWORK* COMPONENTS

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 the independent validation area of the Overall Risk Department and an independent body, as defined in Instruction 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. The processes associated with each component of the ICAAP framework are described in detail in the respective regulations. The ICAAP exercise combines expected developments at the level of internal and external factors (including macroeconomic and financial developments) to assess the impact on the adequacy of the credit institution's capital over a medium-term horizon. The baseline scenario is in line with the assumptions underlying the business plans and budget of the institution and covers a time horizon of 3 years, in line with the Funding and Capital Plan.

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 calculating internal capital for risk of information systems and compliance risk, it was considered that they should be analysed in conjunction with the calculation of operational risk.

Although they do not meet the material relevance requirements, 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 adoption of the standard method and standard approach respectively outlined by Banco de Portugal for the purpose of calculating regulatory own funds requirements. Internal capital requirements associated with pension fund risk, credit spread risk and property risk were also quantified, the latter, 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 the three-year period (the time horizon for the quantification of risks 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 2019, presents a scenario (baseline), which is based on the Activity Plan for Grupo Crédito Agrícola and on the macroeconomic scenario foreseen for 2020 of the Funding and Capital Plan, with reference to December 2019.

The baseline scenario corresponds to the projections for the Portuguese economy based on signs of cooling (a reduction in real GDP growth by 4 p.p. compared to the values observed in 2018 (2.6% vs 2.2%)), resulting from less optimistic expectations regarding economic developments, essentially due to disruptive factors of a geopolitical nature (e.g. trade tensions and Brexit). The values observed in GDP since the subprime financial crisis show that the Portuguese economy registered GDP contractions in 2009 (subprime crisis) and 2011, 2012 and 2013 (Period of Financial Assistance from the IMF (Troika), with growth over the last 6 years (in the last 4, with annual rates above 2.0%). Macroeconomic variables (e.g. employment, investment, net exports and consumption) fell sharply in the period 2009-2012 (subprime & troika), reaching an unemployment rate of 16.8% in 2012. Nevertheless, as of late 2013, the unemployment rate started to show a decreasing trend, reaching 6.7% in 2019 (lowest since 2003). The health crisis caused by the covid-19 pandemic has taken historical proportions at a global scale. Portugal was no exception and declared a state of emergency on 19/03/2020 and a state of calamity on 03/05/2020, with visible social, economic and financial impacts. In this sense, both Banco de Portugal and other reference institutions at national and international level have made projections for the evolution of the Portuguese economy, but these have proved to be of limited consistency. Banco de Portugal estimates a 3,7% drop in GDP in 2020, while the European Commission and the International Monetary Fund estimate decreases of 6,8% and 8%, respectively. With regard to employment, the most conservative scenario is that of the IMF, which forecasts an unemployment rate of 13.9% in 2020, compared with 9.7% and 10.1% forecast by the European Commission and Banco de Portugal, respectively. The financial markets anticipate differentiated impacts by sector of activity, and it should be noted that the projections of the Stoxx Europe 600 for 2020 are more penalising in the tourism, automotive, fuel, insurance and real estate sectors. Markets anticipate that the performance of banks in 2020 will be less affected than the average for other sectors, so the recovery will also be slower in 2021 and 2022. Based on the expected performance of the various sectors of activity, an exercise was carried out to assess the impacts of the "Covid-19 shock" on the CA Group's three-year budget, structured into three scenarios: baseline (or probable), optimistic and pessimistic.

The baseline scenario assumes a recovery to the GDP levels recorded in 2019 (pre-covid) by the end of 2022.

From the baseline scenario (recovery in 2 years), the following was derived:

I. an optimistic scenario in which the "V-shaped" recovery is more pronounced and faster;

II. a pessimistic scenario that assumes a 2nd vaccine-free outbreak in the 4th quarter of 2020 (recovery “in W”).

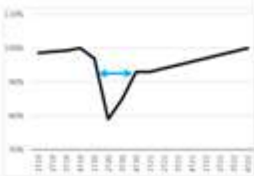
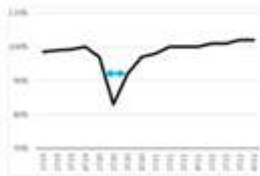
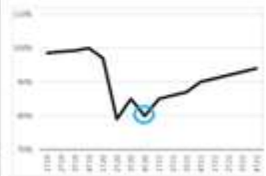
	Baseline Scenario			Optimistic Scenario			Pessimistic Scenario		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Δ GDP$_{year\ N/year\ N-1}$	-10.8%	6.8%	4.3%	-7.0%	7.9%	2.0%	-14.1%	2.1%	6.3%
Characterisation of the recovery									
Δ Weight of tourism GVA in total GVA compared to 2019*	22.1%	22.2%	22.3%	23.1%	23.7%	23.7%	21.2%	20.3%	20.4%
% unemployment rate**	12.4%	8.6%	6.9%	10.3%	6.4%	5.5%	14.2%	11.8%	9.5%

FIGURE 5 – EVOLUTION SCENARIOS OF THE PORTUGUESE ECONOMY – ICAAP EXERCISE

In this context, for the ICAAP exercise the baseline scenario characterised above was considered, estimating, in the projections made by Grupo CA, a drop in GDP of 10.8% in 2019 and growth of 6.8% and 4.3% in 2021 and 2022, respectively. In terms of employment, projections for the unemployment rate are 12.4% in 2020 and 8.6% and 6.9% in 2021 and 2022, respectively.

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 Risk quantification/assessment methodologies

This topic aims to describe the characteristics of the models and methodologies for risk quantification and assessment, detailing the assumptions and parameters used for the risk categories covered by the ICAAP exercise.

- **Credit risk**

In the context of calculating internal capital requirements for credit risk, the GCA applies the standard method for calculating the regulatory requirement for customer credit portfolio, CIU applications and corporate debt securities applications (provided for in Regulation (EU) No. 575/2013) and an additional requirement for the applications of sovereign debt securities. Thus, the internal capital requirement of the baseline scenario corresponds to the three-year capital projection of the Funding and Capital Plan (Pillar 1) added to the internal capital requirement for applications in sovereign debt securities, as shown in the following figure:

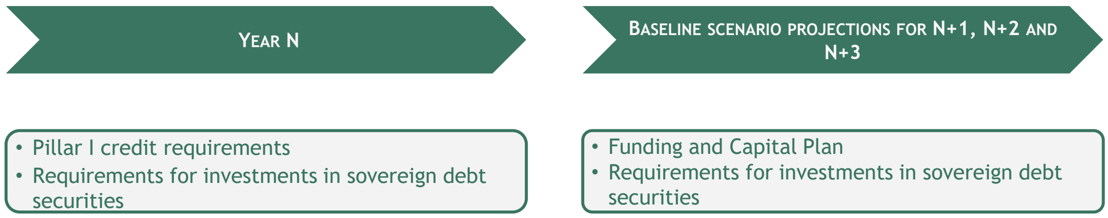


FIGURE 6 – METHODOLOGY FOR CALCULATING THE INTERNAL CAPITAL REQUIREMENT – CREDIT RISK

- **Interest rate risk**

The calculation of capital requirements for the interest rate risk of the banking book was performed through the simulation of three sensitivity analyses presented below. The internal capital requirements of the ICAAP scenario will result from the most serious scenario of the simulations considered:

i. Value at Risk (VaR) methodology – historical simulation – confidence level 99%;

ii. Positive parallel shift of the yield curve of 100 bp, measured through the static repricing gap – BdP Instruction 19/2005;

iii. Parallel shift of +100bp based on the IRRBB regulatory framework.

- **Liquidity risk**

In order to quantify the capital requirement for liquidity risk, the occurrence of reputational damages that may affect the Group's image is simulated. The methodology adopted consists of a serious loss of trust from the institution's clients and, of course, a substantial reduction in deposits, which would have an impact on the financial margin. In this regard it is important to mention the conservative liquidity policy of the GCA, which translates into a transformation ratio clearly below the average of the national financial system, and even significantly below 100%, a situation that has little significant impact on the quantification of the liquidity risk within the scope of the simulations performed. The loss of liquidity resulting from the flight of deposits implies a (positive) impact at the net interest margin level, applying the average rate of deposits to business clients to calculate the respective interest. In order to compensate for the decrease in its main source of funding (customer deposits), the GCA would have to fund itself in equal proportion by applying the highest yield of the portfolio over the last 12 months, with the consequent (negative) impact on the net interest income. The total impact on net interest income and consequently on net income, which in turn affects internal capital under liquidity risk, results from the sum of the two components mentioned above, when this is materially relevant.

- **Operational risk**

The Standardised Measurement Approach – SMA method allows an estimate of the capital to be allocated to Operational Risk to be gauged, having as pillars the simplicity and comparability inherent to a standardised approach. This method also considers risk sensitivity by combining the information collected from the Financial Statements with experience in the face of operational losses. The new methodology incorporated into the internal capital adequacy assessment process, Standardised Measurement Approach – SMA, defines the quantification of operational risk as the result of the following equation:

FIGURE 7 – STANDARD MEASUREMENT APPROACH – SMA (OPERATIONAL RISK)

The internal capital requirements for operational risk are calculated by multiplying the internal capital allocated to operational risk by the regulatory weight, as demonstrated in the following calculation.

FIGURE 8 – CALCULATION INTERNAL CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

- **Reputation risk**

Events with an impact on an institution's reputation often have repercussions at the level of its liquidity, namely through the flight of deposits and/or an increase in the cost of funding. In this way, notwithstanding the fact that a large part of the reputational risk is incorporated in the liquidity risk, the investment required to recover GCA's reputation was considered additionally. The 2019 FCP (Funding and Capital Plan) and the Contingency Plan (established under the Recovery Plan to deal with a crisis situation) are the sources of information used to quantify this risk. The values resulting from the FCP correspond to the projections made on the Group's assets, as well as to the value observed in December 2019. The methodology begins with an analysis and identification of the costs associated with restoring the image (Contingency Plan Costs) of the institution arising from events with an impact on the Group's reputation. Brand and reputation are key strategic elements for the Financial System, since the risk of reputation can mean the loss of trust of customers and the market in general. In this sense, it is essential to manage these intangibles in the best way to ensure the survival of the activity/business. To strengthen reputation and mitigate risks, it is necessary to communicate, conduct and deliver excellent experiences in the dimensions by which the bank is known and judged, that is, in the quality of the commercial offer, ethics and good corporate management, good financial results, innovation focused on adding value, socially responsible initiatives and behaviours. Keeping these dimensions in mind is essential to generate a positive image in stakeholders that trigger valuable attitudes and behaviours. And at the level of more mass communication with a higher degree of coverage, TV, Radio, Press and Digital represent the most relevant national media. In terms of comprehensive but more sectorial communication, the Public Relations and Sponsorship initiatives stand out. Finally, and not least, initiatives carried out in conjunction with the media, such as conferences and observatories, reveal the main communication channels as established under the GCA communication plan set out in its recovery plan.

In this way, the contingency plan costs calculation contemplates the following communication actions and respective investment:

- National advertising communication (Television, Radio, Press and Digital)
- National public relations and sponsorships (implementation and support for socially responsible initiatives)
- Relations with national media

- **Strategy risk**

The requirements for strategy risk consist of calculating a buffer on internal capital resulting from the negative variation recorded in net income due to non-compliance with the strategy defined by the Group for a 3-year time horizon. The methodology begins with an analysis of risk factors that may affect the strategy defined by the GCA, presenting as an example:

- Competition pressure and degradation of the level playing field towards new types of competitors (from other sectors);
- Inadequacy of people and resources and degradation of the organisational climate (e.g. resistance to change);
- Reduced perception of customer profile and needs (including an appropriate individual risk reading);
- Changes to the regulatory and legal framework;
- Lack of insight into the economic and social framework (macro and micro) and market behaviour;
- Complexity of the governance model, including decision-making processes in the context of crisis.

Grupo CA develops a bancassurance strategy based on a distribution model still strongly based on retail banking (physical branches and ATM network). The business model favours the transformation of deposits obtained from customers into credit granted to corporate, institutional and household/individual customers and the development of cross-selling opportunities that generate direct and indirect value for the Group (e.g. off-balance sheet resources that contribute to customer loyalty and the generation of complementary margin, insurance that contributes to the protection of mortgage loans and loans to non-financial companies). In this context, the main strategy risk factors derive from the behaviour of the credit portfolio (including new contracts and renewals), in terms of growth, quality (e.g. guarantees) and profitability (including risk cost and capital).

- **Market risk**

The GCA complies with the calculation of the own funds requirement for exposure risk determined in accordance with Art. 92 (3) (b) i) of the CRR and consequently quantifies capital requirements for market risk according to the standard approach for exposure risk (Pillar 1). Map C18.00 (r010, c070; r011,060; r250, c060) with reference to December year N concerns the source of information used within the quantification of market risk requirements.

In order to calculate the regulatory capital ratios, the GCA considers the capital requirements for trading book activities with regard to position risk, calculating the amount of positions at risk by multiplying the capital requirements by 12.5.

- **Exchange rate risk**

In the same perspective as market risk, exchange rate risk was not marked as materially relevant. Notwithstanding its exclusion as a materially relevant risk, the internal capital requirement for exchange rate risk was assessed by adopting the standard regulatory methodology. This methodology considers the total net short position, excluding the position in derivatives, in order to make a more conservative quantification of requirements. The internal capital requirement for exchange rate risk is obtained by applying the regulatory weighting of 8% to the maximum value of the sum of the net balances of short and long positions by foreign currency, converted into euros.

$$\boxed{\text{ECONOMIC CAPITAL}} = \boxed{8\%} \times \boxed{\text{MAX}} \left(\boxed{\sum \textit{Net balances of short positions}} \; ; \; \boxed{\sum \textit{Net balances of long positions}} \right)$$

FIGURE 9 - OWN FUNDS REQUIREMENTS CALCULATION FORMULA FOR FOREIGN EXCHANGE RISK

- **Concentration risk**

The calculation/assessment of the GCA internal capital requirements for concentration risk follows the guidelines issued by the Bank of Spain, based on the calculation of the Individual Concentration Index (ICI) and the Sectoral Concentration Index (ICS).

ICI and ICS are determined based on the elements of GCA assets registered in various databases, in particular the ETRICC table, which ensures that the information used is fully reconciled. To calculate ICI and ICS, the institution must consider direct total exposure, which includes credits, loans, fixed and variable income securities, unused amounts, off-balance sheet items, guarantees provided through CDs – applying a 100% CCF – and any other form of financial support. For this purpose, exposures to general government and deposit-taking entities, as well as securitised assets treated as such in the calculation of own funds and exposures associated with other derivatives should not be considered. The internal capital requirements for concentration risk are obtained by adding the requirements applied for the two indices referred to above (ICI and ICS).

- **Real estate risk**

The methodology of property risk evaluation presupposes the quantification of the potential unexpected loss resulting from the variation in the price of real estate assets recorded in the balance sheet, considering the total value of real estate in the portfolio on a determined reference date and over which the real estate impacts foreseen in a previously prepared scenario are applied, taking into account the specificities of the different segments (residential, commercial and agricultural/agricultural land). Real estate risk naturally presupposes an expectation of devaluation of the price of properties recorded on the balance sheet (non-current assets held for sale) and in real estate funds. In this context, real estate risk assumes a complementary nature to the real estate risk intrinsic to credit risk, in view of the expected valuation/devaluation of the value of guarantees received from the credit portfolio, measured by the LGD risk parameter and reflected in the impairment value. In this sense, in order to incorporate the unexpected losses, the internal capital requirements associated with real estate risk result from the application of the variation of the price index to the net value of the properties of the respective impairments.

- **Pension Fund Risk**

In order to encompass the materially relevant risks to which the Group is or may come to be exposed, the risk of the Pension Fund is included, considering the VaR (Value at Risk) methodology. The internal capital requirements for hedging pension fund risk are quantified through an internal effort scenario aimed at capturing unexpected losses, which results from the effect of a devaluation of fund assets using the VaR (Historical Simulation) methodology. A shock on the liabilities side of the pension fund was considered, in particular by increasing longevity and decreasing the discount rate. However, considering that the Group currently foresees the evolution of these two variables in the opposite direction, it was decided to take on a more conservative scenario for maintaining the fund's responsibilities.

- **Credit valuation assessment (CVA) risk**

“Credit valuation adjustment” or “CVA” means an adjustment to the mid-market valuation of the portfolio of transactions carried out with a counterparty. The 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. In this way, the capital 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. The CVA risk was not classified as materially relevant either due to the inexistence of a significant derivatives portfolio or due to the quantification of the minimum capital requirement for its coverage. In this sense, it was included, but maintaining the constant value in relation to the prudential reporting (COREP) under Pillar 1 of Basel.

- **Compliance Risk**

Compliance risk corresponds to a subcategory of operational risk. In this sense, the Standardised Measurement Approach – SMA method will allow us to measure an estimate of capital to be allocated to Compliance Risk, having as pillars the simplicity and comparability inherent to a standardised approach. The Compliance risk methodology begins with an analysis by conducting a qualitative questionnaire in terms of compliance risk, operational risk and risk of information systems, so each questionnaire is assigned a value for the weighting. Internal capital requirements for Compliance risk are calculated based on the weighting of the questionnaire for each risk in the total amount of internal capital requirements for operational risk.

4.2.3 Quantification of materially relevant risks

The financial year with reference to 31 December 2019 marked the introduction of a review process of the majority of risk assessment methodologies, with the aim of quantifying the respective unexpected losses and, in this context, the comparison with the results of the previous year should be carried out in light of this fact. The results of the ICAAP, with reference to 31 December 2019, indicate the total adequacy of the internal capital of Grupo Crédito Agrícola as observed in previous periods.

The ICAAP baseline scenario is based on projections carried out under the FCP (Funding and Capital Plan) and for the purpose of this year the risks relevant to the Group's activity were considered as well as the risks quantified within the regulatory framework (Pillar 1).

The following is the enumeration of the results obtained for the risks included in the analysis:

(thousand euros)

Risks	Internal Capital Requirements				Δ Internal Capital			
	2019	2020	2021	2022	2019	2020	2021	2022
Credit Risk	715,789	710,339	694,772	700,838	0	0	0	0
Operational Risk	73,822	73,446	72,070	70,892	0	0	0	0
Interest Rate Risk	48,917	54,108	60,536	69,266	0	0	0	0
Credit Spread Risk	11,061	11,061	11,061	11,061	0	0	0	0
Concentration Risk	6,513	6,629	6,483	6,540	0	0	0	0
Exchange Rate Risk	5,724	5,724	5,724	5,724	0	0	0	0
Market Risk	5,478	5,478	5,478	5,478	0	0	0	0
Reputation Risk	2,350	2,545	2,757	2,999	0	0	0	0
Real Estate Risk	0	8,627	0	0	0	0	0	0
Pension Fund Risk	2,948	2,948	2,948	2,948	0	0	0	0
Liquidity Risk	0	0	0	0	0	0	0	0
Strategy Risk	0	0	0	0	0	-7,790	-11,955	-14,254
CVA Risk	1,824	1,824	1,824	1,824	0	0	0	0
Total	**874,427**	**882,729**	**863,653**	**877,569**	**0**	**-7,790**	**-11,955**	**-14,254**

FIGURE 10 – TOTAL INTERNAL CAPITAL AND INTERNAL CAPITAL REQUIREMENTS

For the entire time period of the projection, internal capital levels are higher than the internal capital requirements, thus highlighting the fact that internal capital is adequate to cover the significant risks to which the Group is exposed. The quantification, by risk typology, reveals, for the year 2020, a value of internal capital requirements of 883 million euros and a level of internal capital in the amount of 1,593 million euros.

(thousand euros)

Risk Coverage by Internal Capital	ICAAP 2020				Previous ICAAP
	2020	2021	2022	2023	
Internal Capital Requirements	874,427	882,729	863,653	877,569	786,505
Internal Capital	1,620,680	1,592,787	1,608,670	1,656,645	1,385,049
Internal Capital/Internal Capital Requirements	185%	180%	186%	189%	176%

FIGURE 11 – RISK COVERAGE BY INTERNAL CAPITAL

Internal capital levels are largely higher than the internal capital requirements (above 180%) for the entire period of the projection, thus emphasising that internal capital estimates prove appropriate to cover the relevant risks to which the Group is exposed.

The GCA does not envisage changes in the composition of its own funds, as a result of their soundness 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) less than 100%.

Caixa Central establishes limits on the transformation ratio of the Caixas Agrícolas, as well as a rigorous 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 should remain below the limit which 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 maintains 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.

The results of the ICAAP and stress tests allow the GCA not to envisage in the medium term any need for changes in the composition of its own funds, as a result of their soundness and adequacy. Considering the internal capital and the volume of internal capital requirements for the different risks, it is observed that the internal capital is adequate for the Group's risk profile and that the level of capitalisation safeguards the interests of all stakeholders, giving the Group a solid margin for growth and affirmation in the context of the markets where it operates. In conclusion, 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.

4.2.4 Quantitative Information

The unexpected losses estimated under Instruction No. 3/2019, which gives financial institutions the initiative to construct their own methodologies, resulted in the determination of internal capital amounting to 1,620 million euros and internal capital requirements equivalent to 874.4 million euros for the baseline scenario.

4.3 FUNDING AND CAPITAL PLAN

Capital management in Grupo Crédito Agrícola involves the continuous monitoring and control of capital levels, the assessment of capital needs to meet the risks to which the Group is subject, as well as the necessary projection of potential capital needs considering a set of factors with a potential impact at this level, namely the macroeconomic environment and the strategic objectives of the Group. The capital planning aspect aims, in the first instance, at projecting the main accounting and prudential aggregates with the main purpose of highlighting potential capital and liquidity needs in a markedly forward-looking manner.

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. 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 and possible external restrictions).

The year under review, with reference to 31 December 2019, was based on projections for a macroeconomic context particularly affected by the health crisis caused by the covid-19 pandemic. 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 (Regulation 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 and Credit Valuation Adjustment Risk (CVA)

This chapter defines the concepts of counterparty credit risk and credit valuation adjustment (CVA) risk and presents the strategy adopted in the management of these risk categories, and a quantitative analysis of GCA exposure is also presented.

5.1 Counterparty Credit Risk

Counterparty credit risk is defined in Article 272 of Chapter 6 of Title II of the CRR, according to which Counterparty Credit Risk (or CCR) is the "risk that the counterparty to a transaction defaults before the final settlement of the related cash flows".

5.1.1 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. 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.

5.1.2 Monitoring strategies/processes and sustained effectiveness of hedging operations and risk reduction factors

The principles governing the counterparty limits for the Interbank Monetary Market, for foreign exchange market operations and for derivatives are disclosed through internal regulations. Cases not included in the aforementioned limits are subject to a case-by-case decision by the EBD, which also updates the counterparty limits, although, at any time, it is possible to review or suspend a limit assigned 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.

5.1.3 Quantitative information

The breakdown of GCA's foreign exchange and derivative financial instrument transactions at 31 December 2019 is as follows:

Values in euros

	31-Dec-19			
	Notional value	Assets	Liabilities	Net
Forward foreign exchange transactions				
Forward foreign exchange trading				
Purchases	2,105	129,049	(1,854)	127,195
Sales	2,089	-	-	-
	4,194	129,049	(1,854)	127,195
Swaps				
Interest rate swaps	12,902,500	375,181	(300,793)	74,387
Bonds				
Debt securities	105,544,000	114,953,092	-	114,953,092
Total	**118,450,694**	**115,457,322**	**(302,647)**	**115,154,674**

TABLE 6 – FOREIGN EXCHANGE TRANSACTIONS AND INTEREST RATE SWAPS

On 31 December 2019, the GCA has two interest rate swaps with maturities in March 2025 and with fixed rates of 0.41% and 0.298%.

5.2 CREDIT VALUATION ADJUSTMENT RISK (CVA)

"Credit Valuation Adjustment" or "CVA" means that defined in Article 381 of Title VI of Part IV of CRR and which consists of the adjustment to the average market valuation (mid-market) 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 Bank, but not the current market value of the Bank's credit risk to the counterparty.

5.2.1 Quantitative information

The own funds requirements for CVA risk are established for all OTC derivatives, with the exception of credit derivatives recognised for the purpose of reducing credit risk-weighted exposure amounts.

Values in euros

	EXPOSURE VALUE			OWN FUNDS REQUIREMENTS	TOTAL RISK EXPOSURE AMOUNT
		of which: OTC derivatives	of which: SFTs		
CVA total risk	7,503,823.20	7,503,823.20	0.00	1,824,212.31	22,802,653.90
Based on the Standardised Approach	7,503,823.20	7,503,823.20	0.00	1,824,212.31	22,802,653.90

TABLE 7 – VALUE OF CREDIT VALUATION ADJUSTMENT FOR DERIVATIVE INSTRUMENTS – OTC

The interbank activity of the GCA in 2019 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 European regulations under 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 for classification in ‘default’ in accordance with Article 178 of Regulation (EU) No. No. 575/2013, in addition to necessarily including any exposure identified with impairment losses by the institution, namely, past due loans, i.e. materially relevant exposures past due for more than 90 days, and/or unlikelihood of payment/ foreseeability of default (the debtor is considered unlikely to pay its credit obligations in full, including, for example, customers with multiple indications of financial distress, restructured loans that are in quarantine and the entire obligations of a debtor (company) whenever at least one transaction from that customer is classified as in 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 – CUSTOMER CREDIT PORTFOLIO

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 'data warehouse' aimed at integrating all the 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 and rating models are periodically carried out in order to keep their calibration up to date, in line with the evolution observed in the market and the respective macroeconomic constraints. In addition, the economic group and risk management and control system, the credit limit management and control system, the support tools for the credit monitoring and recovery processes, and the management tool for guarantees and collateral received, have enabled significant improvement in the field of credit risk management, not only through the increased quality of the support information, but also through the means they have provided for efficient monitoring of the credit portfolio.

The GCA has a Strategic Plan for the Management of Non-Productive Loans underway with the aim of establishing Grupo Crédito Agrícola's approach and objectives in relation to effective management for an active reduction of Non-Performing Loans (NPLs) in a feasible timeframe, as well as, being sufficiently ambitious as to the results to be achieved for each relevant segment of the portfolio. This defines the approach and the objectives considered with regard to the effective management and reduction, in a credible and viable manner, of the stocks of non-performing loans at customer type level and in the overall credit portfolio. In the course of 2019, the continuity of actions related to the consolidation of the strategic plan is highlighted. The NPL ratio amounted to 9.2% on 31 December 2019, with a significantly favourable evolution. The active reduction measure associated with the cancellation of loans considered unrecoverable, as well as the presence of specialised tools and the improvement of installed capacity in the monitoring and recovery of credit, enabled a significant decrease in exposure to NPL.

6.2.2 Credit risk analysis process

The procedures associated to credit risk analysis allow monitoring its conformity, effectiveness and efficiency, obeying a set of fundamental principles, such as: an assessment of the borrower's repayment capacity through a vision of its activity and of its consolidated banking relationship; obtaining in-depth knowledge of the customer, resulting from the experience of the relationship and the information gathered about it; the application of homogeneous methodologies, criteria and practices in risk assessment; adequate segregation of functions; risk assessment carried out independently, impartially, rigorously and in accordance with the ethical and professional criteria governing the GCA and in accordance with the policies and procedures defined, respecting the prudential rules to which the Group is subject.

6.2.3 Decision-making process

In order to reconcile the commercial interest with the proper management of the underlying credit risk, a set of variables is identified which, as a whole, define the level of risk of the client and the transaction. The use of scoring and rating models as methodologies to support the decision-making process stands out.

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 complies with the principle of the prior classification of the Customer/Operation by assigning a Risk Degree (rating or scoring), as well as the setting of Credit Limits where 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 supported on a tool that allows the monitoring and systematisation of credit throughout the pre-recovery phase, as well as 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 individual monitoring of each operation, customer or group of customers, with the objective of monitoring the evolution of the probability of receiving expected future cash flows and the adoption of measures to minimise the probability of the 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

The procedures associated with the management of the portfolio of overdue credit, non-performing loans and non-productive loans aim to achieve their resolution, profitability and recovery through a specific and autonomous area that evaluates the potential for recovering a customer's responsibilities, once the occurrence of payment default or the unlikelihood of payment has been verified, through renegotiation, the execution of existing guarantees or other litigious means. This process is supported by a specialised tool called "JVRIS" that presents a set of capabilities to optimise the tasks associated with the credit recovery activity.

6.3 COVERAGE AND RISK REDUCTION POLICIES – CUSTOMER CREDIT PORTFOLIO

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:

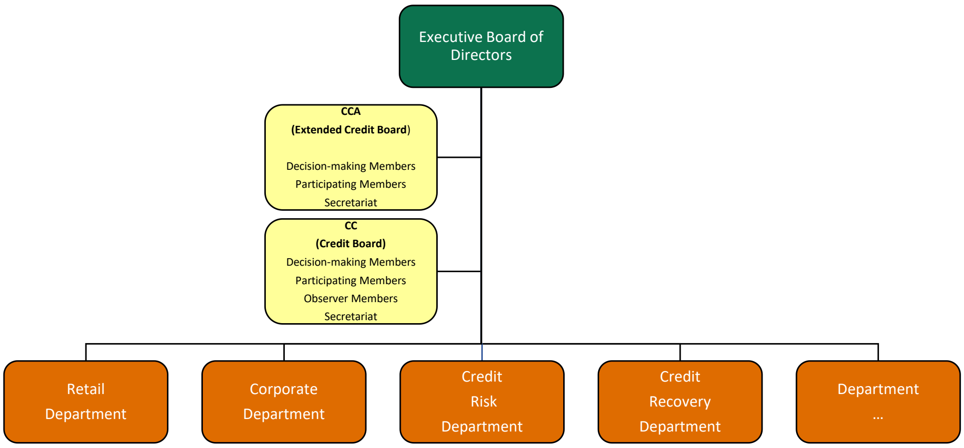


FIGURE 12 – BODIES PARTICIPATING IN THE CREDIT RISK MANAGEMENT CYCLE

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 those associated with the current definition of 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 2019:

Analysis according to Type of Customer	2019		2018	
Relative weight	Balance Used 2019	Overdue Credit 2019	Balance Used 2018	Overdue Credit 2018
Other Financial Institutions	1.19%	0.00%	0.00%	0.00%
Regional and Local Governments	5.18%	0.00%	5.19%	0.00%
Non-profit institutions	2.44%	0.99%	2.51%	0.55%
Financial Companies	0.04%	0.00%	1.56%	1.66%
Sole Proprietors/Independent Professionals	10.29%	8.68%	10.30%	8.25%
Individuals	34.03%	28.72%	35.52%	29.91%
Companies	46.83%	61.61%	44.91%	59.63%
Total Value	100.00%	100.00%	100.00%	100.00%

TABLE 8 – DISTRIBUTION OF CREDIT PORTFOLIO BY CUSTOMER TYPE

The credit portfolio, by product type, presented the following structure as of 31 December 2019:

Analysis according to Product Family	2019		2018	
Relative weight	Balance Used 2019	Overdue Credit 2019	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	0.04%	0.11%	0.04%	0.07%
Credit Cards - Individuals	0.38%	0.58%	0.36%	0.48%
Other Loans - Companies	0.27%	2.12%	0.38%	1.86%
Business Loans - Sole Proprietors	1.38%	3.59%	1.63%	3.69%
Leasing	2.22%	0.50%	2.16%	0.46%
Commercial Paper	3.32%	0.00%	2.76%	0.00%
Other loans - Individuals	2.68%	16.51%	3.65%	18.63%
Investment Credit - Sole Proprietors	4.55%	3.39%	4.43%	3.37%
Consumer Credit - Individuals	5.37%	3.89%	5.59%	3.03%
Business Loans - Companies	17.76%	28.73%	18.50%	30.63%
Mortgage Loans - Individuals	29.58%	9.28%	30.16%	8.88%
Investment Credit - Companies	32.42%	31.30%	30.34%	28.90%
Total Value	100.00%	100.00%	100.00%	100.00%

TABLE 9 – DISTRIBUTION OF CREDIT PORTFOLIO BY PRODUCT FAMILY

6.4 CREDIT RISK MANAGEMENT – SECURITIES

The credit risk of the securities portfolio is largely associated with the portfolio of sovereign securities/financial investments and arises from the probability of a loss occurring, as a result of default by the counterparty to a transaction, before the final settlement of the respective financial flows.

6.4.1 Securities portfolio credit risk strategy and management

The evaluation, management and monitoring of results associated with the activity in financial markets is established under the Investment Policy, which establishes the concepts, principles, rules and business model applicable to the control of the activity in financial markets, and other guidelines approved by the Executive Board of Directors (EBD).

6.4.2 Limit-setting methodology

The process of allocating limits to financial institutions is based on the credit rating attributed by rating agencies and also on an internal model where country risk, time function, product type and result of economic and financial analysis are considered.

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 the mitigation of concentration and counterparty risks to be implemented progressively. 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.

In this methodology, the maximum exposure per issuer results from the following:

i. VaR underpinning a benchmark rating considered prudent and representative of investment policy; and

ii. Total own funds 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. According to this methodology, the credit limits are duly aligned with the characteristics at the level of the counterparties' rating and, therefore, the credit risk profile of the issuers.

6.4.3 Control methodologies

The control of the limits is carried out with reference to the market value of the exposures. Verification of exceeding any limit set by more than 10% of the reference value and which leads to the verification of negative factors (e.g., reduction in the issuer's rating; increase in the PD associated with the issuer's rating level; reduction in the level of Total Eligible Own Funds) should be communicated to Caixa Central’s EBD within 48 hours after its detection, requiring the approval by this body of an action plan aimed at reframing the level of exposure verified within the defined limits.

6.5 VALUE AND IMPAIRMENT CORRECTIONS

6.5.1 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 rules for the classification and measurement of financial assets and liabilities, namely:

- Establishes requirements for the classification and measurement of financial instruments and, for certain types of purchase or sale contracts, for non-financial items;
- Defines the methodology for recognising impairment losses of financial assets based on expected loss model;
- It presents 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 the 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:

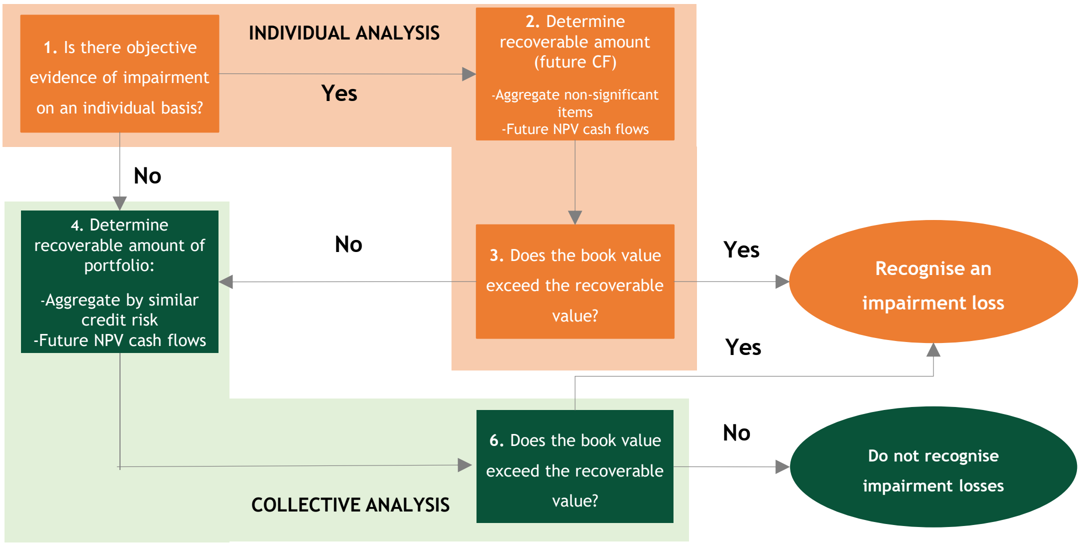


FIGURE 13 – IMPAIRMENT CALCULATION FLOW

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	**5,815,277**	**34.6%**	**650,790**	**81.8%**	**6,466,067**	**36.7%**	**100,553**	**55.5%**	**189,147**	**82.1%**	**289,701**	**70.4%**	**1.7%**	**29.1%**	**4.5%**
Large	1,749,752	10.4%	121,654	15.3%	1,871,406	10.6%	47,711	26.3%	40,299	17.5%	88,010	21.4%	2.7%	33.1%	4.7%
Corporate and SME	2,577,090	15.3%	334,196	42.0%	2,911,286	16.5%	29,494	16.3%	91,732	39.8%	121,226	29.5%	1.1%	27.4%	4.2%
Construction and real estate activities	1,488,435	8.9%	194,940	24.5%	1,683,375	9.6%	23,348	12.9%	57,117	24.8%	80,465	19.6%	1.6%	29.3%	4.8%
Individuals, of which:	**4,909,532**	**29.2%**	**137,301**	**17.3%**	**5,046,834**	**28.7%**	**76,159**	**42.1%**	**41,143**	**17.9%**	**117,302**	**28.5%**	**1.6%**	**30.0%**	**2.3%**
Mortgage	3,187,576	19.0%	23,474	3.0%	3,211,050	18.2%	22,958	12.7%	5,506	2.4%	28,463	6.9%	0.7%	23.5%	0.9%
Consumer	843,789	5.0%	68,469	8.6%	912,259	5.2%	34,357	19.0%	24,410	10.6%	58,767	14.3%	4.1%	35.7%	6.4%
Other	**673,404**	**4.0%**	**7,361**	**0.9%**	**680,765**	**3.9%**	**921**	**0.5%**	**78**	**0.0%**	**999**	**0.2%**	**0.14%**	**1.06%**	**0.15%**
Sub-total	**11,398,213**	**67.8%**	**795,452**	**100.0%**	**12,193,665**	**69.3%**	**177,633**	**98.1%**	**230,368**	**100.0%**	**408,002**	**99.2%**	**1.6%**	**29.0%**	**3.3%**
Investments in securities	**5,408,999**	**32.2%**	**0**	**0.0%**	**5,408,999**	**30.7%**	**3,463**	**1.9%**	**0**	**0.0%**	**3,463**	**0.8%**	**0.06%**	**0.00%**	**0.06%**
Total	**16,807,212**	**100.0%**	**795,452**	**100.0%**	**17,602,664**	**100.0%**	**181,096**	**100.0%**	**230,368**	**100.0%**	**411,464**	**100.0%**	**1.1%**	**29.0%**	**2.3%**

Exposure = Maturing capital + Overdue capital (>1 day) + Overdue interest (total) + Accrued interest + Off balance sheet

TABLE 10 – CREDIT IMPAIRMENTS BY SEGMENT INDIVIDUAL AND COLLECTIVE ANALYSIS – GCA

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	**5,450,885**	**34.0%**	**317,535**	**52.7%**	**174,234**	**74.4%**	**697,647**	**71.0%**	**409,655**	**82.1%**	**6,466,067**	**36.7%**
Large	1,604,152	10.0%	56,712	9.4%	33,865	14.5%	210,543	21.4%	100,737	20.2%	1,871,406	10.6%
Corporate and SME	2,480,817	15.5%	150,188	24.9%	66,721	28.5%	280,280	28.5%	186,339	37.3%	2,911,286	16.5%
Construction and real estate activities	1,365,916	8.5%	110,635	18.4%	73,649	31.5%	206,824	21.0%	122,579	24.6%	1,683,375	9.6%
Individuals, of which:	**4,485,454**	**28.0%**	**284,622**	**47.3%**	**59,854**	**25.6%**	**276,757**	**28.2%**	**83,669**	**16.8%**	**5,046,834**	**28.7%**
Mortgage	2,989,322	18.7%	144,857	24.1%	18,298	7.8%	76,871	7.8%	27,512	5.5%	3,211,050	18.2%
Consumer	749,606	4.7%	31,424	5.2%	22,281	9.5%	131,230	13.4%	74,120	14.9%	912,259	5.2%
Other	**672,427**	**4.2%**	**0**	**0.0%**	**0**	**0.0%**	**8,337**	**0.8%**	**5,791**	**1.2%**	**680,765**	**3.9%**
Sub-total	**10,608,766**	**66.2%**	**602,157**	**100.0%**	**234,088**	**100.0%**	**982,741**	**100.0%**	**499,115**	**100.0%**	**12,193,665**	**69.3%**
Investments in securities	**5,408,999**	**33.8%**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**	**5,408,999**	**30.7%**
Total	**16,017,765**	**100.0%**	**602,157**	**100.0%**	**234,088**	**100.0%**	**982,741**	**100.0%**	**499,115**	**100.0%**	**17,602,664**	**100.0%**

Exposure = Maturing capital + Overdue capital (>1 day) + Overdue interest (total) + Accrued interest + Off balance sheet

TABLE 11 – SEGMENT CREDIT PORTFOLIO – GCA

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	**31,898**	**75.9%**	**20,151**	**74.5%**	**7,533**	**81.5%**	**237,652**	**69.4%**	**143,381**	**71.9%**	**289,701**	**70.4%**	**0.6%**	**6.3%**	**34.1%**
Large	9,604	22.8%	2,337	8.6%	1,047	11.3%	76,069	22.2%	37,995	19.1%	88,010	21.4%	0.6%	4.1%	36.1%
Corporate and SME	12,947	30.8%	8,316	30.8%	3,960	42.9%	99,963	29.2%	67,390	33.8%	121,226	29.5%	0.5%	5.5%	35.7%
Construction and real estate activities	9,347	22.2%	9,497	35.1%	2,526	27.3%	61,621	18.0%	37,996	19.1%	80,465	19.6%	0.7%	8.6%	29.8%
Individuals, of which:	**6,211**	**14.8%**	**6,883**	**25.5%**	**1,705**	**18.5%**	**104,208**	**30.4%**	**55,944**	**28.1%**	**117,302**	**28.5%**	**0.1%**	**2.4%**	**37.7%**
Mortgage	1,150	2.7%	2,680	9.9%	117	1.3%	24,633	7.2%	10,257	5.1%	28,463	6.9%	0.0%	1.8%	32.0%
Consumer	2,951	7.0%	1,124	4.2%	682	7.4%	54,691	16.0%	29,816	15.0%	58,767	14.3%	0.4%	3.6%	41.7%
Other	**482**	**1.1%**	**0**	**0.0%**	**0**	**0.0%**	**517**	**0.2%**	**33**	**0.0%**	**999**	**0.2%**	**0.07%**	**0.00%**	**6.21%**
Sub-total	**38,590**	**91.8%**	**27,034**	**100.0%**	**9,238**	**100.0%**	**342,377**	**100.0%**	**199,358**	**100.0%**	**408,002**	**99.2%**	**0.4%**	**4.5%**	**34.8%**
Investments in securities	**3,463**	**8.2%**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**	**3,463**	**0.8%**	**0.06%**	**0.00%**	**0.00%**
Total	**42,053**	**100.0%**	**27,034**	**100.0%**	**9,238**	**100.0%**	**342,377**	**100.0%**	**199,358**	**100.0%**	**411,464**	**100.0%**	**0.3%**	**4.5%**	**34.8%**

Exposure = Maturing capital + Overdue capital (>1 day) + Overdue interest (total) + Accrued interest + Off balance sheet

TABLE 12 – IMPAIRMENT AND DEGREE OF COVERAGE BY SEGMENT – GCA

6.5.2 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.

6.5.3 Quantitative information

The movement occurred in GCA impairments during the 2019 financial year and the 2018 financial year was as follows:

Values in euros

	31-Dec-18	2019				31-Dec-19
Description	Closing balance	Reinforcements	Write-backs and annulments	Uses and write-offs	Transf.	Closing balance
Impairments						
Impairment for Assets at FVTOCI (Note 24)	810,480	1,418,706	(1,611,724)	(28)	-	617,434
Impairment for Assets at amortised cost (Note 10)	474,555,079	319,001,594	(321,776,136)	(73,158,553)		398,621,985
Other impairments:						
- Non-current Assets held for sale (Note 17)	171,129,006	12,534,217	(8,304,494)	(9,414,489)	(368,749)	165,575,492
- Other assets (Note 16)	34,846,298	2,168,039	(3,333,019)	(418,391)	368,749	33,631,675
- Tangible fixed assets (Note 13)	9,335,805	1,155,276	(1,484,078)	(51,518)	-	8,955,485
- Other intangible assets (Note 14)	33,858	47,398	-	(47,398)	-	33,858
	690,710,526	335,122,556	(335,025,373)	(82,991,461)	-	598,446,586
Provisions						
- Pensions and other post-employment defined benefit liabilities	144,502	390,000	(114,666)	(57,283)	-	362,553
- Legal issues and pending tax disputes	78,852	-	(78,852)	-	-	-
- Guarantees provided and irrevocable commitments	15,391,495	18,957,053	(22,214,532)	(165)	-	12,133,850
- Other provisions	1,129,379,953	102,908,286	(100,062,615)	(249,365,745)	-	882,859,879
	1,144,994,802	122,255,339	(122,470,665)	(249,423,193)	-	895,356,282
Total	**1,835,705,328**	**457,377,895**	**(457,496,038)**	**(332,414,654)**	**-**	**1,493,802,869**

Description	Reinforcements	Write-backs and annulments	31-Dec-2019	Income Statement
Impairments				
Impairment for Assets at FVTOCI (Note 24)	1,418,706	(1,611,724)	(193,017)	Impairments or reversals of impairments of financial assets not measured at fair value through profit or loss - Financial assets at FVTOCI
Impairment for Assets at amortised cost (Note 10)	319,001,594	(321,776,136)	(2,774,542)	Impairments or reversals of impairments of financial assets not measured at fair value through profit or loss - Financial assets at AC
Other impairments:				
- Non-current Assets held for sale (Note 17)	12,534,217	(8,304,494)	4,229,723	Profit or loss on non-current assets and groups for divestment classified as held for sale not eligible as discontinued operations
- Other assets (Note 16)	2,168,039	(3,333,019)	(1,164,981)	Impairment or reversal of impairment of non-financial assets - Other
- Tangible fixed assets (Note 13)	1,155,276	(1,484,078)	(328,802)	Impairment or reversal of impairment of non-financial assets - Tangible fixed assets
- Other intangible assets (Note 14)	47,398	-	47,398	Impairment or reversal of impairment of non-financial assets - Other intangible assets
Provisions				
- Guarantees provided and irrevocable commitments	18,957,053	(22,214,532)	(3,257,480)	Provisions or reversal of provisions - Commitments and guarantees granted
- Pensions and other post-employment defined benefit liabilities	390,000	(114,666)	275,334	
- Legal issues and pending tax disputes	-	(78,852)	(78,852)	
- Other provisions	102,908,286	(100,062,615)	2,845,671	
			3,042,153	Provisions or reversal of provisions - Other provisions

	31-Dec-17	2018				31-Dec-18
Description	Closing balance	Net reinforcements, of write-backs and annulments	Uses and Disposals	Transf.	Adjustments	Closing balance
Impairments						
Impairment for Assets at FVTOCI (Note 24)	2,405,934	(1,595,613)	-	-	159	810,480
Impairment for Assets at amortised cost (Note 10)	665,818,070	505,076	(191,768,067)	-	-	474,555,079
Other impairments:						
- Non-current assets held for sale (Note 17)	174,382,483	1,813,288	(5,066,765)	-	-	171,129,006
- Other assets (Note 16)	33,975,560	659,374	-	-	211,364	34,846,298
- Tangible fixed assets (Note 13)	8,725,401	1,028,083	(417,678)	-		9,335,805
- Other intangible assets (Note 14)	33,858	-	-	-	-	33,858
	885,341,306	2,410,209	(197,252,510)	-	211,523	690,710,526
Provisions						
- Pensions and other post-employment defined benefit liabilities	191,646	(139,670)	92,526	-	-	144,502
- Legal issues and pending tax disputes	78,852	-	-	-	-	78,852
- Guarantees provided and irrevocable commitments	20,075,402	(4,125,241)	(558,666)	-	-	15,391,495
Other provisions						
- Technical provisions of insurance activity	1,346,108,600	(200,005,574)	(25,892,280)	-	-	1,120,210,746
- Other provisions	7,103,225	2,587,165	(521,183)	-	-	9,169,207
	1,373,557,725	(201,683,320)	(26,879,603)	-	-	1,144,994,802
Total	**2,258,899,031**	**(199,273,111)**	**(224,132,113)**	**-**	**211,523**	**1,835,705,328**

TABLE 13 – PROVISIONS AND IMPAIRMENTS – GCA

6.6 CONCENTRATION RISK

6.6.1 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.

6.6.2 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:

- 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.

- 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;
- 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.

6.6.3 GCA portfolio analysis

6.6.3.1 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.

6.6.3.2 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'.

6.6.4 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 sectoral concentration index in the GCA is 9.37%, reflecting a not very significant concentration in absolute terms, and remaining in line with the value reached in 2018 (9.31%).

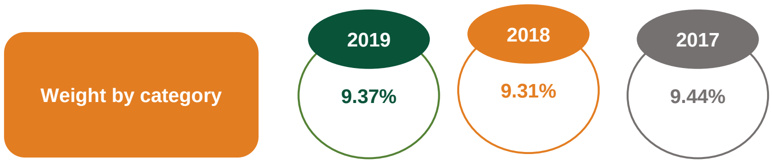


FIGURE 14 – SECTORAL CONCENTRATION INDEX

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 2019, a value of approximately 0.39%, which reflects a not very significant concentration by counterparty. Compared to 2018, there is a slight decrease in the value of the index, which stood at 0,51%.

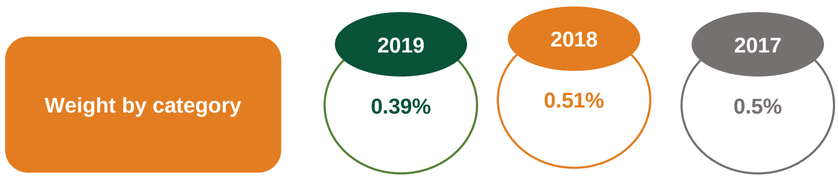


FIGURE 15 – INDIVIDUAL CONCENTRATION INDEX

6.6.5 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 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 by defined risk 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 real estate, commerce, agriculture and manufacturing industries constitute the greatest representation of the credit granted to non-financial companies.

In 2019, GCA's credit portfolio increased by +6.6% compared to the previous year, from 9.9 billion euros in 2018 to 10.6 billion in 2019. There was an increase in the loan portfolio to individuals in 2019 of around 50 million euros (+1.2%).

INDIVIDUALS AND SOLE PROPRIETORSHIPS	2017	2018	2019	Abs. Δ	Δ %
Values in million euros, except %					
Credit to Individuals	**4,470**	**4,093**	**4,144**	**50**	**1.2%**
Mortgage Loans	2,777	2,905	3,046	141	4.8%
Consumer Credit	409	458	481	23	5.0%
Credit Cards	31	34	37	4	10.6%
Leasing	34	37	39	1	3.8%
Other Credit for Disbursement of Funds *	1,219	659	541	-118	-18.0%

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

TABLE 14 – EVOLUTION OF THE GCA CREDIT PORTFOLIO PRIVATE AND SP SEGMENT

In the corporate segment there was an overall growth of +10.3%, as a result of the generally favourable economic environment.

COMPANIES	2017	2018	2019	Abs. Δ	Δ %
Values in million euros, except %					
Credit to Companies	**4,965**	**5,867**	**6,471**	**604**	**10.3%**
Pledged Current Accounts	409	450	450	0	-0.1%
Commercial Discounts	19	18	14	-4	-23.2%
Leasing	145	176	195	18	10.5%
Financing	4,393	5,222	5,812	590	11.3%
of which Commercial Paper	291	273	350	77	28.2%
Weighted average rate of the portfolio of credit to companies	**3.16%**	**2.73%**	**2.53%**	**-0.2 p.p.**	

TABLE 15 – EVOLUTION OF THE GCA CREDIT PORTFOLIO CORPORATE SEGMENT

Analysis according to Sector of Activity (CAE)	2019		2018	
Relative weight	Balance Used 2019	Overdue Credit 2019	Balance Used 2018	Overdue Credit 2018
Activities of households as employers of domestic staff and undifferentiated goods producing activities of households for own use	0.01%	0.00%	0.00%	0.00%
Mining	0.38%	0.23%	0.37%	0.33%
Electricity, gas, steam, hot and cold water and air conditioning supply	0.56%	0.01%	0.34%	0.00%
Arts, entertainment, sports and recreation activities	0.76%	0.28%	0.78%	0.22%
Education	0.88%	0.68%	0.97%	0.98%
Water supply; sewerage, waste management and decontamination	1.41%	0.30%	1.30%	0.32%
Information and communication activities	0.22%	0.61%	0.26%	0.42%
Administrative and support service activities	1.74%	0.94%	1.58%	1.22%
Other service activities	1.52%	0.60%	1.65%	0.67%
Transport and storage	2.03%	1.83%	1.90%	1.92%
Financial and insurance activities	3.53%	1.01%	4.22%	3.53%
Human health and social work activities	4.08%	1.83%	4.23%	1.11%
Professional, scientific and technical activities	5.33%	0.95%	4.36%	0.78%
Public Administration and Defence; Compulsory Social Security	8.20%	0.00%	8.64%	0.00%
Hotels, restaurants and similar activities	7.40%	4.39%	7.41%	5.07%
Construction	**7.78%**	**24.20%**	**7.86%**	**23.62%**
Real estate activities	**13.31%**	**11.64%**	**11.66%**	**10.00%**
Manufacturing industries	**11.14%**	**13.59%**	**11.71%**	**15.88%**
Agriculture, livestock, hunting, forestry and fishing	**15.46%**	**15.22%**	**15.48%**	**14.26%**
Wholesale and retail trade	**14.27%**	**21.70%**	**15.28%**	**19.68%**
Total Value	100.00%	100.00%	100.00%	100.00%

TABLE 16 – EVOLUTION OF THE GCA CAE CREDIT PORTFOLIO

The percentage of credit granted to agricultural activity and fisheries grew 8.3 pp between 2018 and 2019, corresponding to 15.46% of the total portfolio, while credit to the construction sector grew by 11.6%.

With regard to the claims ratio of the credit portfolio, with reference to 31 December 2019, it should be noted that non-performing loans to customers amounted to €939 million, which represents a NPL ratio (gross) of 9.2%, recording a significantly favourable evolution arising, to a large extent, from the strategic management plan for non-performing loans (NPL) underway in the Group. In turn, the net NPL of impairment ratio stood at 6.1%. The degree of impairment NPL coverage (total) reaches 42.2%.

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

	2019	
Own Funds Requirements	**Amount**	**Requirements**
TOTAL RISK EXPOSURE AMOUNT	**9,752,374,514.19**	**780,189,961.14**
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	8,667,509,405.72	693,400,752.46
Standardised Approach (SA)	8,667,509,405.72	693,400,752.46
SA exposure classes, excluding securitisation positions	8,667,509,405.72	693,400,752.46
Central governments or central banks	5,996,656.57	479,732.53
Regional governments or local authorities	112,930,193.47	9,034,415.48
Public sector entities	64,586,674.34	5,166,933.95
Multilateral development banks	0.00	0.00
International organisations	0.00	0.00
Institutions	45,454,472.97	3,636,357.84
Companies	2,066,647,938.01	165,331,835.04
Retail	1,750,098,364.50	140,007,869.16
Secured by mortgages on real estate	1,381,131,195.59	110,490,495.65
Exposures in default	759,633,770.67	60,770,701.65
Items associated with particularly high risk	803,803,367.44	64,304,269.40
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)	139,191,614.81	11,135,329.18
Equity	358,818,816.41	28,705,505.31
Other items	1,179,216,340.94	94,337,307.28
SA securitisation positions	0.00	0.00
of which: resecuritisation	0.00	0.00

TABLE 17 – GCA OWN FUNDS REQUIREMENTS

Exposure to the Corporate class represents the segment with the highest capital consumption, with around 24% 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 20% of the total requirements.

The contractual residual terms of financial instruments in 2019 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 financial assets at amortised cost, are normally concentrated in the medium and long term, namely in residual periods above 5 years.

31-12-2019 (in thousand euros)	Contractual residual periods							
	Sight	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash, cash balances at central banks and other demand deposits	794,221	0	0	0	0	146,369	247,051	1,187,641
Financial assets held for trading (nominal value)	-	-	-	-	-	89,411	26,046	115,457
Non-trading financial assets mandatorily stated at fair value through profit or loss	-	-	-	-	-	-	48,670	48,670
Financial assets at FVTOCI	-	53,500	203,816	206,251	348,165	138,900	27,494	978,126
Financial assets at amortised cost (nominal value)	353,156	412,665	1,437,867	2,552,306	1,760,524	7,829,212	206,423	14,552,153
Hedging derivatives	-	0	-	-	-	131,034	-	131,034
	353,156	466,165	1,641,683	2,758,557	2,108,690	8,188,557	308,633	15,825,440
Liabilities								
Financial liabilities measured at amortised cost	4,162,128	2,047,871	5,702,407	1,779,650	804,110	1,859,198	8,529	16,363,893
Hedging derivatives	-	-	-	-	-	138,655	-	138,655
	4,162,128	2,047,871	5,702,407	1,779,650	804,110	1,997,853	8,529	16,502,548
Net exposure	(3,808,972)	(1,581,706)	(4,060,724)	978,907	1,304,579	6,190,704	300,104	(677,109)

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, cash balances at central banks	505,551	204,670	-	-	-	-	710,221
Financial assets at FVTPL	-	102,648	-	19,932	1,794	-	124,375
Financial assets at FVTOCI	-	150,019	241,797	578,186	106,076	-	1,076,079
Securities at amortised cost (gross balance)	-	722,276	537,332	3,703,878	11,688,763	-	16,652,249
Hedging derivatives	-	-	-	-	40,723	-	40,723
	505,551	1,179,614	779,130	4,301,997	11,837,356	-	18,603,647
Liabilities							
Financial liabilities measured at amortised cost	21,854	8,759,364	5,093,072	2,003,870	145,572	32	16,023,763
	21,854	8,759,364	5,093,072	2,003,870	145,572	32	16,023,763
Net exposure	483,697	(7,579,750)	(4,313,942)	2,298,127	11,691,784	(32)	2,579,884

TABLE 18 – DISTRIBUTION OF FINANCIAL INSTRUMENTS BY GCA RESIDUAL TERMS

On 31 December 2019 and 2018, the credit quality of financial assets according to the internal benchmark rating can be summarised as follows:

Values in euros

Assets	2019 Aaa	Aa1	Aa2	Aa3	A1 to A3	Baa1 to B3	C	Undetermined	Total
Financial assets at FVTPL (negotiation, bonds FVTPL, and FVTPL	-	-	-	-	991	113,963	-	48,660	163,613
Financial assets at FVTOCI	-	-	-	-	-	942,148	-	35,977	978,126
Securities at amortised cost	-		1,038	10,725	25,183	4,259,659	-	94,261	4,390,866
	0	0	1,038	10,725	26,174	5,315,770	0	178,899	5,532,605

Assets	2018 Aaa	Aa1	Aa2	Aa3	A1 to A3	Baa1 to B3	C	Undetermined	Total
FVTPL)	-	-	-	-	-	160,915	-	9,862	170,777
Financial assets at FVTOCI	-	-	-	-	-	541,715		488,701	1,030,416
Securities at amortised cost	-	2,995	-	-	-	4,721,864	-	79,094	4,803,953
	0	2,995	0	0	0	5,424,494	0	577,657	6,005,146

TABLE 19 – CREDIT QUALITY OF GCA FINANCIAL ASSETS

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 acceptance scoring models, 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 **2019**
Original exposure by exposure class	
Central governments or central banks	5,996,656.57
Regional governments or local authorities	112,930,193.47
Public sector entities	64,586,674.34
Multilateral development banks	0.00
International organisations	0.00
Institutions	45,454,472.97
Corporates	2,066,647,938.01
Retail	1,750,098,364.50
Secured by mortgages on real estate	1,381,131,195.59
Exposures in default	759,633,770.67
Items associated with particularly high risk	803,803,367.44
Covered bonds	0.00
Claims on institutions and corporates with a short-term credit assessment	0.00
Collective investment undertakings (CIU)	139,191,614.81
Equity	358,818,816.41
Other items	1,179,216,340.94

TABLE 20 – EXPOSURE BY GCA RISK CLASS

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. Additionally, criteria have been established to determine the value of this collateral at the initial moment of the operation, how this value should be calculated a posteriori and how the coverage levels that were the basis for the approval of the credit risk should be maintained, thus considering the future (but possible) depreciation of the asset/collateral in the analysis phase of the operation. 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	2019		2018	
Relative weight	**Balance Used 2019**	**Overdue Credit 2019**	**Balance Used 2018**	**Overdue Credit 2018**
Mortgages on Movable Property	0.16%	0.25%	0.15%	0.20%
Insurance	0.34%	0.11%	0.31%	0.15%
Pledge over Rights	0.35%	0.11%	0.40%	0.06%
Commercial pledge	0.58%	0.59%	0.64%	0.54%
Guarantees provided by Credit Institutions	1.34%	0.25%	1.20%	0.15%
Other Institutional Guarantees	1.42%	0.00%	1.20%	0.00%
Other Real Guarantees	1.50%	0.06%	1.52%	0.04%
Financial Pledge	1.86%	0.24%	2.00%	0.29%
No guarantee	7.36%	3.25%	7.52%	5.26%
Personal guarantees	9.83%	12.22%	10.55%	11.35%
Other Mortgages on Real Estate	**38.21%**	**56.76%**	**36.85%**	**57.88%**
Mortgages on Residential Real Estate Borrower	**37.04%**	**26.16%**	**37.66%**	**24.09%**
Total Value	100.00%	100.00%	100.00%	100.00%

TABLE 21 – EVOLUTION OF THE GCA CREDIT PORTFOLIO TYPE OF GUARANTEE

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	20,950,128,307.38	-916,299,382.78	20,033,828,924.58	-128,064,628.43	-148,362,429.92	-276,427,058.37	276,427,058.36	20,033,828,924.57	20,033,828,924.57
of which: SME	5,558,778,179.64	-44,909,957.21	5,513,868,222.42	-112,874,796.39	-103,882,286.50	-216,757,082.90	216,680,264.47	5,513,791,404.00	5,513,791,404.00
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:	20,950,012,380.38	-916,299,382.78	20,033,712,997.58	-128,064,628.43	-148,362,429.93	-276,427,058.35	276,427,058.36	20,033,712,997.58	20,033,712,997.58
On-balance sheet exposures subject to credit risk	19,320,851,777.45	-904,294,430.89	18,416,557,346.54	-126,628,725.14	-119,601,811.67	-246,230,536.81	246,230,536.81	18,416,557,346.54	18,416,557,346.54
Off-balance sheet exposures subject to credit risk	1,628,958,296.97	-12,004,951.89	1,616,953,345.08	-1,435,903.29	-28,760,618.26	-30,196,521.54	30,196,521.55	1,616,953,345.08	1,616,953,345.08
Exposures / Transactions subject to counterparty credit risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Securities financing 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	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Derivatives & Long Settlement Transactions	318,232.96	0.00	318,232.96	0.00	0.00	0.00	0.00	318,232.96	318,232.96
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
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%	6,527,992,427.22	-3,141,254.93	6,524,851,172.26	0.00	0.00	0.00	0.00	0.00	6,795,945,156.01
2%	187,093,980.72	0.00	187,093,980.72	0.00	0.00	0.00	0.00	0.00	187,093,980.72
4%	0.00	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	0.00
20%	666,643,042.40	-386,081.11	666,256,961.29	0.00	0.00	0.00	0.00	0.00	671,393,489.17
35%	3,340,513,022.15	-7,676,508.10	3,332,836,514.05	0.00	0.00	0.00	0.00	0.00	3,332,836,514.05
50%	544,820,321.83	-3,252,609.93	541,567,711.89	0.00	0.00	0.00	0.00	0.00	541,567,711.89
70%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
75%	3,791,263,402.76	-23,269,261.07	3,767,994,141.70	0.00	0.00	0.00	0.00	0.00	3,579,453,947.68
100%	4,335,403,326.79	-595,879,572.17	3,739,523,754.62	0.00	0.00	0.00	0.00	0.00	3,664,416,132.99
150%	1,343,619,330.00	-282,694,095.48	1,060,925,234.52	0.00	0.00	0.00	0.00	0.00	1,048,342,538.55
250%	212,779,453.53	0.00	212,779,453.53	0.00	0.00	0.00	0.00	0.00	212,779,453.53
370%	0.00	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	0.00
Other risk weights	0.00	0.00	0.00	0.00	0.00	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 AN ECAI	OF WHICH: WITH A CREDIT ASSESSMENT DERIVED FROM CENTRAL GOVERNMENT
	160	170	180	190	200	215	220	230	240
TOTAL EXPOSURES	357,301,524.37	559,272,941.13	628,641,586.96	71,737,292.61	18,914,788,253.83	9,117,163,682.22	8,667,509,405.72	83,158,328.03	307,285,962.21
of which: SME	113,115,533.79	458,472,622.73	316,516,556.51	34,160,764.74	4,875,639,493.76	3,613,559,573.99	3,163,905,297.49	0.00	0.00
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:	357,301,524.37	559,272,941.14	628,641,586.96	71,737,292.62	18,914,672,326.84	9,117,124,871.90	8,667,470,595.37	0.00	0.00
On-balance sheet exposures subject to credit risk	0.00	0.00	0.00	0.00	18,416,557,346.55	8,682,645,016.23	8,256,808,743.11	0.00	0.00
Off-balance sheet exposures subject to credit risk	357,301,524.37	559,272,941.14	628,641,586.96	71,737,292.62	497,912,674.32	434,131,388.41	410,313,385.00	0.00	0.00
Exposures / Transactions subject to counterparty credit risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Securities financing 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	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	318,232.96	387,277.61	387,277.61	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	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	0.00	0.00
BREAKDOWN OF TOTAL EXPOSURES BY RISK WEIGHTS:	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0%	4,833.14	21,221,338.85	5,093,568.00	3,880,754.06	6,776,416,467.79	0.00	0.00	0.00	0.00
2%	0.00	0.00	0.00	0.00	187,093,980.72	3,741,879.61	3,741,879.61	0.00	0.00
4%	0.00	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	0.00
20%	65,471.14	6,713,863.16	29,942,140.24	918,772.02	650,985,857.38	130,197,171.47	130,197,171.47	13,762,159.25	106,495,165.83
35%	5,467,481.40	15,927,814.26	42,698,002.90	470,011.72	3,293,277,779.79	1,152,647,222.93	1,108,922,692.59	0.00	0.00
50%	993,153.35	6,363,156.21	30,258,419.53	520,714.64	520,354,823.82	260,177,411.91	244,208,839.90	11,348,238.56	349,187.30
70%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
75%	327,276,045.26	368,145,653.06	225,357,858.34	25,119,603.54	2,844,982,450.80	2,133,736,838.09	1,791,500,619.21	0.00	0.00
100%	16,442,705.44	113,978,173.51	159,055,235.01	37,834,646.92	3,477,263,271.24	3,477,263,271.24	3,429,538,315.98	58,047,930.22	200,441,609.08
150%	7,051,834.65	26,922,942.08	136,236,362.93	2,992,789.72	951,634,168.76	1,427,451,253.15	1,427,451,253.15	0.00	0.00
250%	0.00	0.00	0.00	0.00	212,779,453.53	531,948,633.81	531,948,633.81	0.00	0.00
370%	0.00	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	0.00
Other risk weights	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

TABLE 22 – RISK-WEIGHTED EXPOSURE AMOUNTS AFTER APPLICATION OF CREDIT RISK MITIGATING FACTORS -GUARANTEES

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	1,319,919,830.29		17,147,974,245.41	
Equity instruments	0.00	0.00	49,685,100.09	49,685,100.09
Debt securities	1,319,919,830.29	1,359,577,388.54	4,535,355,808.82	4,738,243,812.91
Other assets	0.00		12,562,933,336.50	

- Encumbered assets, encumbered received collateral and associated liabilities

Values in euros

Encumbered assets, encumbered received collateral and associated liabilities

	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	934,807,112.17	1,319,919,830.29

Table 23 – Information on asset encumbrance

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 2019, the encumbered securities corresponded to the Portuguese, Italian and Spanish public debt. 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, Grupo Crédito Agrícola has been expanding the catalogue of processes, including the respective risks and controls, for subsequent close articulation with the operational risk infrastructure and which is characterised by incremental objectives in the respective approach to evolution, particularly with regard to the risk events matrix, self-assessment questionnaires and the overall process of gathering events and losses. The GCA operates according to a business model that presents a set of specificities, in particular the significant dispersion of decision-making power, control structures and some heterogeneity of size and business characteristics. In this context, the Group manages operational risk on a centralised basis in Caixa Central, so as to allow the formulation of a consolidated and complete view of GCA's operational risk profile and the effectiveness of the management framework for that risk. The DRG of Caixa Central is responsible for putting this framework into operation, although some of its components are the responsibility of the person in charge of the Risk Management Function at the CCAMs.

During 2019, the Group observed significant evolution in operational risk management by expanding its catalogue of processes, including the respective risks and controls, and achieving the implementation, in a pilot phase, of an operational risk infrastructure, associated with the Governance, Risk and Compliance (GRC) tool, and which is characterised by incremental objectives in the respective evolution approach, in particular with regard to the risk event matrix and the global event and loss collection process. The entire process is supported by a global management model, consisting of a conceptual structure, strategic objectives, internal government, regulatory framework, monitoring and reporting, including the definition of self-assessment of risks and controls, the database of loss events and the main key risk indicators. Nevertheless, the Group applies, among others, the following means of mitigating operational risk:

- Automation of accounting processes associated with the most significant part of the credit portfolio;
- Segregation of functions in the performance and accounting of transactions;
- Internal standards of Hygiene and Safety at Work;
- Internal physical safety standards for the premises;
- Insurance (e.g. buildings, theft, etc.);
- Internal standards of information security;
- Business Continuity Plan for the Group's information systems.

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.

Valores em euros

Values in euros

	RELEVANT INDICATOR				
	YEAR-3	YEAR-2	PREVIOUS YEAR	OWN FUNDS REQUIREMENTS	TOTAL OPERATIONAL RISK EXPOSURE AMOUNT
BANKING ACTIVITIES SUBJECT TO THE BASIC INDICATOR APPROACH	492,909,514.28	484,192,599.41	498,166,012.36	73,763,406.30	922,042,578.78

TABLE 24 – CAPITAL REQUIREMENT FOR OPERATIONAL RISK COVERAGE – BASIC INDICATOR METHOD

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 illustrating 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 liquidity risk assessment process is based on four approaches, depending on the time dimension:

- Cash planning: preparation of cash flow charts showing cash payments and receipts to be made on the same day and, in a forward-looking manner, planning the Group's daily liquidity over a very short-term horizon (i.e. up to seven days);
- Quantification of liquidity needs: projecting contractual and contingent cash flows, and clearance of their specific and cumulative gaps;
- Liquidity reserve assessment: assessment of the quality, sufficiency and availability of net assets to cover possible liquidity needs;
- Assessment of funding sources: analysis of the sufficiency and diversification of available funding sources as a resource instrument to cover possible liquidity needs.

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 evaluate structural liquidity, the static and dynamic gaps (incorporating the budgeted evolution of the activity) of liquidity are calculated considering the aggregation over a series of time intervals of all the cash-flows (payment of interest and amortisation of capital) generated by contracted operations, both active and passive (on- and off-balance sheet).

As regards other assessment methodologies and liquidity risk exposure indicators, various types of internal and external reporting are carried out to enable both the areas involved in ALCCO and senior management to monitor and decide on the management of this risk in a timely manner, such as monitoring the daily net position (reported to Banco de Portugal), taking into account the valuation of the portfolio, treasury operations contracted, maturity of operations in the portfolio and forecast evolution of resources, the additional metrics for monitoring liquidity within the scope of the COREP – ALMM prudential reporting and metrics for monitoring the concentration risk 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.

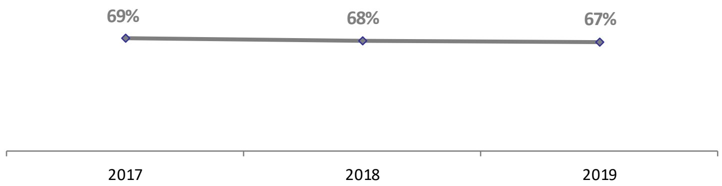


FIGURE 16 – NET TRANSFORMATION RATIO

Funding from the ECB stood at 945 million euros in December 2019, which corresponds to a collateral pool of 1.4 billion euros, and it should be noted that the assets eligible for this type of operations totalled 2.0 billion euros on the same date.

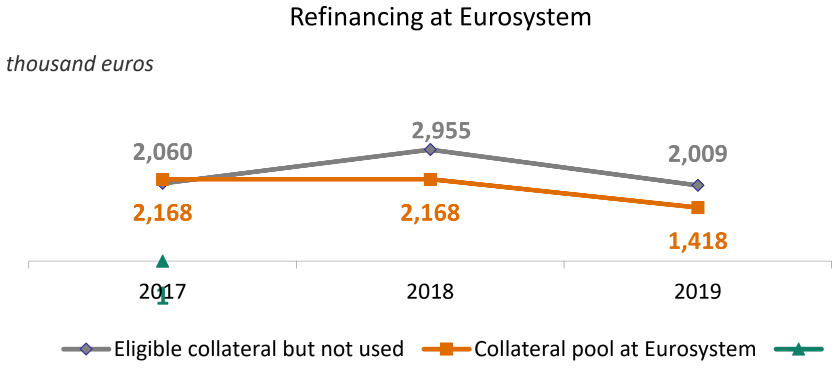


FIGURE 17 – REFINANCING OF THE EUROSYSTEM

11.2.3 Internal Liquidity Adequacy Assessment Process (ILAAP)

The Internal Liquidity Adequacy Assessment Process (ILAAP) was prepared in accordance with Banco de Portugal Instruction No. 2/2019, the guidelines of the EBA - Guidelines on information within the scope of the ICAAP and ILAAP collected for the purposes of the SREP (EBA/GL/2016/10) and good market practices, and represents the assessment of Grupo Crédito Agrícola itself ('GCA') with regard to its liquidity situation, including with regard to strategy, management and planning capabilities. 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 the above rules and guidelines in its framework and respective support and reporting documentation, endeavouring 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.

Considering the result of the analysis of the evolution of the Liquidity Risk indicators, it is possible to conclude that the GCA is in compliance with the regulatory requirements and has adequate liquidity margins to face regulatory, market and business evolution, namely considering that the limits defined, for the monitoring of the risk tolerance level, which materialise the risk appetite, are more conservative than the regulatory ones. In this regard, we would highlight the robustness of the transformation ratio, which, as at 31 December 2019, stood at 67%, remaining consistently below 90% (since 2005), even in the context of volatile funding markets, demonstrating the resilience of customer deposits as the main source of funding. The surplus resources are generally invested in high quality and highly liquid assets. In this regard, it should be noted that, as at 31 December 2019, the portfolio of assets eligible to guarantee refinancing operations reached a net value of more than €3.7 billion and the ratio between available liquidity and customer resources in SICAM increased to 30.4%, notwithstanding the increase in SICAM's customer resources to €15.3 billion at the end of 2019.

On the other hand, the evolution of the Liquidity Coverage Ratio (LCR), which on 31 December 2019 reached a value of 471%, considerably above the limit set internally for the purpose of risk profile and appetite, demonstrates the maintenance on the balance sheet of a portfolio of high-quality liquid assets, thus ensuring resistance to a scenario of adverse financing conditions, since they represent instruments that are convertible into immediate liquidity or liable for use in security-backed financing operations, virtually immediately and without relevant loss of value. Even considering a longer review period, the GCA maintains comfortable funding levels. The Net Stable Financing Ratio (NSFR) reached 157% in December 2019, higher than the risk profile established for the GCA, which stands at 105%.

The GCA has adequate procedures and mechanisms in place for the identification, management and control of events that may have an impact on its liquidity risk. In addition, risk management procedures and mechanisms are in place, which are properly executed according to the Group's risk profile and strategy. At the GCA level, ILAAP is supported by a number of internal policies, procedures, reports and analyses, including a risk appetite framework, liquidity and financing risk management model, financing strategy, guarantee management and liquidity reserves, cost allocation benefits, intraday liquidity risk management, liquidity risk management framework, Investment policy, funding and capital plan, liquidity contingency plan, liquidity stress tests and risk function regulation.

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 respective regulations and are permanently assessed by 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 time horizon of 1 month, of the account balance with Banco de Portugal, in the case of positions in euros, and the balance of accounts with foreign counterparties, in the particular case of 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.

In order 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;
- 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 Funding 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:

- Static liquidity gap;
- Dynamic liquidity gap;

[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.

- Liquidity ratio.

In parallel, ALCCO is responsible for:

- Validate the investment and hedging strategies best suited to the overall management of Caixa Central and Grupo Crédito Agrícola balance sheet, including those relating to portfolios of assets and specific resources acquired or to be acquired as part of its own activity or as a result of the launch of commercial campaigns to be developed by the various Group entities;
- Validate the annual and multi-annual Budget, individual and consolidated, ensuring that it is in line with the defined balance sheet risk limits, namely interest rate and liquidity;
- Appraise and validate the periodic updates to the Funding and Capital Plan, ensuring that they are appropriate to the risk profile and respective balance sheet risk limits defined, namely interest rate and liquidity.

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 pointed out that to meet any liquidity needs, the GCA, in addition to its natural funding base, also has complementary financing instruments at its disposal, with particular emphasis, due to the amounts involved, on the repo 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

In order 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 conducts a monthly follow-up 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 scope of ALCCO, permanently monitors its structural liquidity position and maintains funding strategies appropriate to its Medium- and Long-Term Activity 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 and updating a Liquidity Contingency Management Plan (which incorporates the procedures for assessing and monitoring the liquidity situation and the response actions in the event of a liquidity crisis) is to assess the impact of a liquidity crisis situation, by anticipating potential risk scenarios and recovery measures to overcome any identified liquidity constraints so that the negative consequences associated with their 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 developed. 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;
- Exceeding the alert and activation limits of the risk profile with regard to the indicators of exposure to liquidity risk

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 reviewed on an annual basis shortly after the approval of the Business Plan for the following year, without prejudice to extraordinary adjustments, which may be dictated at any time according to the evolution of circumstances.

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 471%, is considerably above the internally defined limit.

12. BANKING BOOK 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. Interest rate risk refers to the risk of exposure of the Group's balance sheet to adverse interest rate movements affecting interest rate sensitive instruments, considering the following subcategories:

- Gap risk: risk associated with mismatches in the maturities and/or refixing periods of the interest rate of financial instruments, covering changes to the temporal structure of interest rate-sensitive instruments that occur consistently throughout yield curve (parallel) or modulated by period. This risk sub-category is divided between the risk of repricing risk, relating to the deadline lag, and the yield curve risk, relating to non-parallel changes in the curve;
- Basis risk: risk arising from the imperfect correlation between incoming and paid rates on different interest rate sensitive instruments with similar rate-changing characteristics; and
- Option risk: risk arising from the existence of options in which the institution or the Group may change the level and timing of cash flows from instruments sensitive to interest rates, in which the holder will exercise the option if it is in his interest (automatic options, embedded or explicit) or in cases where changes in interest rates result in a change in customer behaviour (embedded behavioural options).

Interest rate risk can therefore have an impact (i) on the current net value of interest rate sensitive instruments, in the remaining period of validity or until their settlement, resulting from changes in the current value and timing of future cash flows (economic value), or (ii) the expected future profitability in interest rate sensitive instruments (financial margin).

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 establishes limits for the maintenance of interest rate risk at prudent levels through the monitoring of indicators of exposure to interest rate risk, evaluating the risk appetite of the banking book expressed both at the level of economic value and at the level of the financial margin. 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, asset and liability cash flows are calculated and the corresponding interest rate risk sensitive gap is determined. 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, if necessary, may use interest rate and foreign exchange derivatives with the strict objective 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.

- **Static Repricing Gap**

The Static Repricing Gap is based on the balance sheet on the date of the analysis, in the calculation of the Static Repricing Gap the interest rate sensitive assets are classified in time intervals according to the remaining term until their next repricing or maturity date (whichever occurs first). For each time interval, the difference (gap) between assets and liabilities subject to interest rate revision is calculated, thus obtaining a measure of the balance sheet's net exposure to parallel interest rate variations. 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.

- **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 the risk. This methodology incorporates in the analysis the full repricing of rates associated with each balance sheet item, 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.

It is also important to emphasise the integration of the provisions established through Instruction No. 34/2018 of Banco de Portugal, in the process of adopting the best practices from an internal and regulatory point of view associated with the management of interest rate risk in the banking book (Interest Rate Risk in the Banking Book - IRRBB) by the GCA. Already in early 2020, Banco de Portugal, amended Instruction No. 34/2018 to Instruction No. 3/2020, in order to update the standardised reporting of the exposure to interest rate risk resulting from activities not included in the trading book and the impact on the change in economic value and net interest income of a sudden and unexpected change in interest rates of 200 basis points on the yield curve.

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 - specialised 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 2019, the exposure of the balance sheet to interest rate risk according to its maturity or date of refixing, excluding derivatives, is as follows:

Amounts in thousands 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	**852.870**	**5.423.973**	**6.968.464**	**912.555**	**606.137**	**1.562.395**	**16.326.394**
Cash, cash balances at central banks and other demand deposits	794.131	146.369	0	0	0	0	940.501
Financial assets held for trading	0	20	10	0	0	89.411	89.441
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	454.768	345.999	2.900	33.165	113.800	950.632
Financial assets at amortised cost	58.649	4.275.816	5.476.105	909.655	572.972	3.052.534	14.345.730
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	547.000	1.146.350	0	0	-1.693.350	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	**2.895.907**	**3.319.944**	**5.698.967**	**1.777.238**	**804.110**	**1.859.199**	**16.355.365**
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	2.895.907	3.319.937	5.698.967	1.777.238	804.110	1.859.198	16.355.357
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	1	0	0	0	0	0	1
Liabilities included in disposal groups classified as held for sale	0	0	0	0	0	0	0
Net Exposure	**-2.043.038**	**2.104.029**	**1.269.497**	**-864.683**	**-197.973**	**-296.804**	**-28.971**

TABLE 25 – EXPOSURE OF THE BALANCE SHEET TO INTEREST RATE RISK

The interest rate risk sensitivity analysis to which Caixa Central was exposed on 31 December 2019, based on the simulation, on sensitive assets and liabilities, of changes in reference rates from -200 basis points to +200 basis points shows the following results:

Amounts in thousands of euros

	Impact resulting from the change in the reference interest rate	
	-200 b.p.	+200 b.p.
Assets	**251.418**	**-557.666**
Cash, cash balances at central banks and other demand deposits	-6.722	10.793
Financial assets held for trading	8,378	-22,489
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	17.177	-38.381
Financial assets at amortised cost	338.624	-797.952
Investments held to maturity	0	0
Other non-derivative non-negotiable financial assets	0	0
Derivatives - Hedge accounting	-106.039	290.364
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	**160.753**	**-469.596**
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	160.753	-469.596
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	**90.665**	**-88.070**

Amounts in thousands of euros

	Impact resulting from the change in the reference interest rate	
	-200 bp	+200 bp
Assets	**-42.838**	**163.363**
Cash, cash balances at central banks and other demand deposits	-1.363	2.724
Financial assets held for trading	-662	1.596
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	-4.880	12.019
Financial assets at amortised cost	-27.194	120.996
Investments held to maturity	0	0
Other non-derivative non-negotiable financial assets	0	0
Derivatives - Hedge accounting	-8.739	26.027
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	**-35.642**	**104.491**
Financial liabilities held for trading	0	0
Financial liabilities recorded at fair value through profit or loss	0	0
Negotiable financial liabilities	-35,642	104,491
Financial liabilities measured at amortised cost	0	0
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	**-7.196**	**58.872**

TABLE 26 – INTEREST RATE RISK SENSITIVITY ANALYSIS

The sensitivity analysis map shows us the variation in the theoretical market value of the various Assets and Liabilities items in various scenarios of variation in market interest rates (i.e. 200 bp, -200 bp), by updating the cash flows associated with each operation in the different market scenarios considered. The variation in absolute terms of Residual Value (Assets less Liabilities) can be interpreted as the Impact on the Economic Value of Equity and on the Group's Financial Margin, respectively.

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 2018 and 2019, 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.

	31-12-2019				in thousand euros
	Fixed Rate	Variable Rate	Sub-total	Not subject to interest rate risk	Total
Assets					
Cash, cash balances at central banks and other demand deposits	-	1,152,394	1,152,394	35,247	1,187,641
Financial assets held for trading	-	115,457	115,457	-	115,457
Non-trading financial assets mandatorily stated at FVTPL	-	-	-	48,660	48,660
Financial assets at FVTOCI	395,615	555,017	950,632	27,494	978,126
Financial assets at amortised cost	5,338,984	8,955,622	14,294,606	257,547	14,552,153
	5,734,599	10,778,490	16,513,089	368,948	16,882,038
Liabilities					
Liabilities held for trading	-	303	303	-	303
Financial liabilities measured at amortised cost	8,824,616	26,565	8,851,181	7,512,712	16,363,893
Instruments representing equity	-	-	-	958	958
Other subordinated liabilities	-	94,713	94,713	369	95,083
	8,824,616	121,581	8,946,197	7,514,039	16,460,237
Net exposure	(3,090,017)	10,656,909	7,566,892	(7,145,091)	421,801

	31-12-2018				in thousand euros
	Fixed Rate	Variable Rate	Sub-total	Not subject to interest rate risk	Total
Assets					
Cash, cash balances at central banks and other demand deposits	-	796,521	796,521	-	796,521
Financial assets at FVTPL	113,977	8,664	122,642	48,134	170,775
Financial assets at FVTOCI	1,030,416	-	1,030,416	-	1,030,416
Financial assets at amortised cost	6,229,626	8,456,952	14,686,578	8,037	14,694,615
	7,374,019	9,262,137	16,636,156	56,171	16,692,327
Liabilities					
Financial liabilities measured at amortised cost	10,720,861	4,982,155	15,703,016	(7,364)	15,695,652
Instruments representing equity	-	-	-	958	958
Other subordinated liabilities	-	95,723	95,723	377	96,100
	10,720,861	5,077,878	15,798,739	(6,029)	15,792,710
Net exposure	(3,346,842)	4,184,259	837,417	62,200	899,617

TABLE 27 – INTEREST RATE RISK EXPOSURE (NON-INSURANCE ACTIVITY – IFRS 9)

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

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 200 bp yield curve, measured through the Static Repricing Gap, is 58,872 thousand Euros (+200 bp) and -7,196 thousands of Euros (-200 bp). 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 -88,070 thousand Euros (+200 bp) and 90,665 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, like market risk, it is also pointed out as a risk that is not materially relevant for Crédito Agrícola, given that the small number of international trade operations of SICAM originate in or are destined for the euro area. 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 objective of making it possible to monetise treasury positions, in particular through the performance of financial transactions results, 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.

The monitoring of portfolios under the management of Caixa Central is carried out, in particular, through the regular assessment of their composition, average duration, profitability and risk, in this case through VaR (Value at Risk) analyses, in the case of matters covered by the ALCCO Committee. 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 Monitoring the interest rate risk of thetrading book

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. The capital requirement for market risk, calculated in accordance with Basel, stood at EUR 5.5 million as at 31 December 2019.

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 to Funding Capital Plan of the banking system. The GCA also performs regular stress testing 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) and the Internal Liquidity Adequacy Assessment Process (ILAAP) which also 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. It is therefore a tool that contributes to the prudent and appropriate management of economic risks and internal capital, evaluating them in the context of stress tests, 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 constitutes an internal management and prudential supervision instrument through which the regulator monitors the GCA on potential capital needs in a markedly forward-looking content based on macroeconomic scenarios defined under the Funding Capital Plan (FCP). 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 critical points and the respective degree of severity of the scenario and/or shocks which would compromise the viability or sustainability of the business model.

13.1.2 Scope

The stress tests performed focused on the consolidated position of the GCA. The materiality value of the risks is defined from 1% of the total value of the asset.

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:

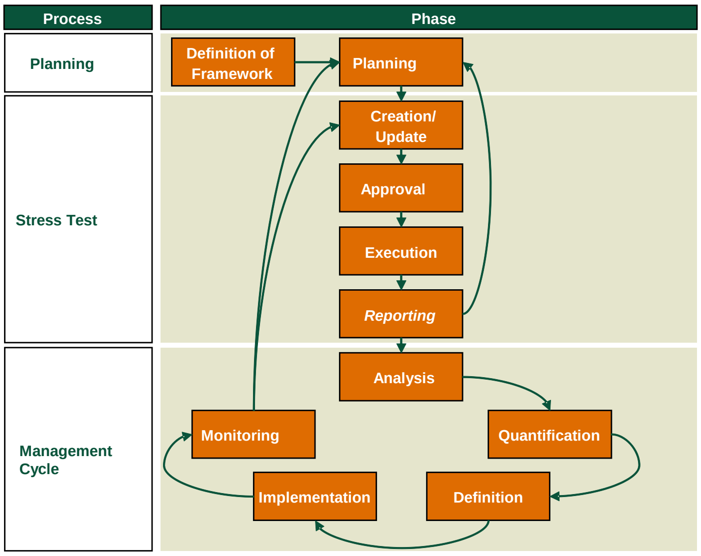


FIGURE 18 – STRESS TEST CYCLE

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.

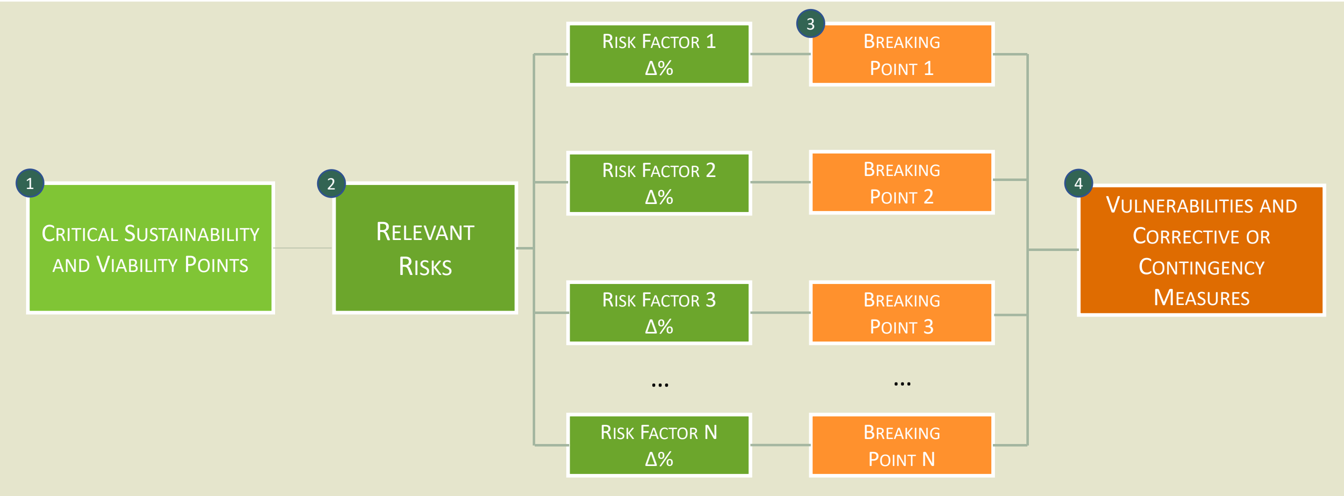


FIGURE 19 – REVERSE STRESS TESTS

13.1.4 Methodology

The general methodology underlying the design of the stress tests aims to ensure the adherence of the tests performed to the reality of the Group and to the current and foreseeable macroeconomic environment 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 Plan

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.

According to international best practices, the adequacy of a Recovery Plan will be 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.

FIGURE 20 – PRINCIPLES RECOVERY PLAN

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, and in the particular case of GCA, the principles set out above should be complemented by others that reflect that same specificity, namely:

- Interdependence – CCCAM and the CCAMs are marked for their strong connection, where solidarity mechanisms are envisaged. These are naturally considered when defining recovery measures;
- Autonomy – Although the Recovery Plan should cover the whole Group, the need to cover the whole should be reconciled with the autonomous nature of each Caixa, for which specific contingency measures already exist;
- Focus on Caixa Central – The SICAM structure is supported by Caixa Central, which is responsible for the supervision, guidance and monitoring of the activities of the Associated Caixas. The above reinforces its role as coordinator of the contingency measures implemented.

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, we used as a starting point the projections made for 2020 in the FCP in accordance with what was established by Banco de Portugal in that context. The following adverse scenarios were identified 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. In this sense, we also used the methodology of reverse stress tests, which 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. 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.

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 resorting to reverse stress tests. 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 significant magnitude, with an impact on its operating conditions, the Group has been adopting measures to strengthen its soundness, including: i. Deepening the rigour of credit risk assessment and monitoring; and ii. Developing the operational risk management model, associated with the continuous improvement of the Business Continuity Plan and the internal control systems, namely at the level of the identification of processes and controls.