EST.1833
BANCO CARREGOSA

Market Discipline

Consolidated Basis **Reference Date: 31 December 2014**

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Note: *Chapter "Credit Risk – Internal Ratings Based Approach" is not included as it is not applicable (n.a.)*

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1. Introductory Note

As provided in notice nº 10/2007, of April 18, from the Bank of Portugal, , this document discloses information on capital investment and risk management of Banco L.J. Carregosa, S.A., hereinafter referred to as “Bank”, “Society” or “Banco Carregosa”.

Regarding the established in the referred normative documents, this report is set on the grounds of a predominantly prudential perspective, complying with the duty of public information disclosure, commonly referred to as “*Pilar III*” of “*Basel II*”, under n. º 1 of the article 29. º from Decree-Law 104/2007, of April 3 and, following the terms set up in the Notice mentioned above.

The reference date of this report “*Market Discipline*” is 31 December 2014, that is to say, it regards the financial year of 2014, without prejudice to the disclosure of relevant events occurred between the report reference date and its publication date.

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2. Responsibility Statement

Concerning the information disclosed in this report, the Executive Committee of the Board of Directors:

- Certifies that all procedures considered necessary were developed and that, to its knowledge, all disclosed information is truthful and reliable;
- Ensures the quality of all disclosed information including the one referred to as well as information with origin in entities included in the economic group in which the Bank is inserted;
- Undertakes to promptly disseminate any significant amendments which occur during the financial year following the reference period, that is to say, in the current financial year of 2015.

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3. Scope of Application

Banco Carregosa is a joint stock company with headquarters in Av. da Boavista nº 1083, in Oporto, registered in the Conservatory of the Commercial Registry of Oporto with a single commercial and tax identification number 503.267.015. The Company is registered in the Bank of Portugal with the code 0235 and in the Portuguese Securities Market Commission as a Financial Intermediary under registration nº 169.

Currently, the Bank´s share capital is 20.000.000, 00 EUR, represented by 200 million of book-entry registered shares with the nominal value of 0, 10 EUR each.

For prudential proposes, at the reference date, the Bank, presented consolidated accounts. For accounting purposes the Bank L. J. Carregosa, S.A. is integrated in an economic group, formed by itself as a parent company and, by the following subsidiaries:

- **CoolLink – Serviços informáticos e de consultoria, Lda**., the company´s main activity comprises "*Trading, import, export, implementation and development of IT programs and solutions, software and other management and business support systems. Provision of IT consultancy services for financial and capital market business, economic and financial consultancy, elaboration of studies for companies and private persons. Marketing promotion and development of products and services for business and management support.*", in which the parent company held, at the reference date of this report, a participation with the nominal value of 25.000,00 EUR, corresponding to 50% of this company´s share capital.
- **Francisco Marques Pereira – SGPS, S.A.** , company in process of transformation, with the following main activity: "*Management of financial investments of other companies as an indirect form of carrying out economic activities",* in which the parent company held, at the reference date of the report, a participation of 76,5% of the share capital, representing 85% of the company´s voting rights.
- **Lisbon-Brokers – Sociedade Corretora, S.A.**., company in process of transformation, with the following main activity: "Buying and selling securities for third parties as well as the following activities *a) processing client portfolios and safekeeping of securities, being able to collect the income and, as long as authorised by the client, exercise other rights in the company; b) the exercise of other activities expressively authorised by the law, as provided for in Article 2 of Decree-Law nº 229/I-88 from July 4.*", in which the parent company held, at the reference date of the report, a direct participation of 34,95% of the share capital (representing 34,5% of the company´s voting rights) and an indirect participation resulting from the participation of its subsidiary Francisco Marques Pereira – SGPS, S.A. The last held, in December 31 of 2013, 58.69% of the share capital of Lisbon Brokers – Sociedade Corretora, S.A., representing 59.09% of the company´s voting rights.
- Retail Properties Fund – Closed-end Real Estate Investment Fund, managed by Atlantic
- SGFII, SA. The Bank held a participation of 70.24%.

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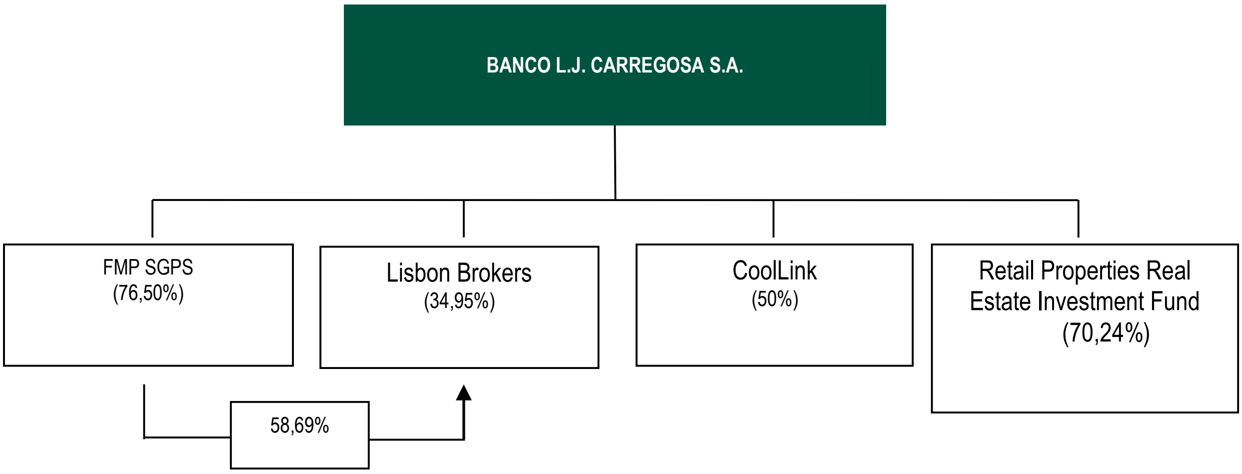

The process of transforming the Companies FMP, SGPS and Lisbon Brokers – Sociedade Corretora, SA (Lisbon Brokers) is still in progress, the Financial Intermediation license of the latter company having been cancelled in 2014.

There are impediments to the transfer of own funds or repayment of liabilities from Lisbon-Brokers – Sociedade Corretora, S.A. and Francisco Marques Pereira - SGPS, S.A. concerning Banco Carregosa, resulting from the dissolution process of both companies. Still, for the same reasons, Lisbon-Brokers – Sociedade Corretora, S.A. own funds are below the minimum level required.

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4. Risk Management Policies

The structure and organization of risk management, described below, are similar to all specific risk categories, given the Bank´s small size, being stated at the internal document "Risk Management Policy". Slight differences at this level will be described in the subparagraphs specific to each risk category.

Due to the statutory transformation of the company into a Bank, which occurred in October 2008, changes in the Internal Control System were introduced, namely in its risk management function, promoting a culture which is focused on this cross –sectoral function which is appropriated to each of the companies structures. The risk management function foresees the identification, evaluation, monitoring and control of all materially significant risks to which the Bank is subject, with the objective to maintain its levels within the limits decided by the Executive Committee.

The Executive Committee establishes the monitoring and risk management as well as capital allocation, according to the strategic goals defined for the organization. In this context, decide on the control mechanisms for the risk aggregate management and monitor its performance as well as its subordinated Departments.

The management and monitoring of each specific risk is the responsibility of the Executive Committee, although the Financial Management plays a major role, in a current context, in treasury management and securities portfolios of the Bank, within the defined discretion limits. This Management is also responsible for the routine management of market risks, interest rate, exchange rate and liquidity, under the supervision of the Executive Board. The Central Management also assumes executive functions, by delegation, mostly impacting on operational risk management.

The Assets and Liabilities Committee (ALCO) assists the Executive Committee, with an advisory role, functioning as a forum of monthly discussion on the uptake and application of resources, through a balance between result and risk. Is composed by the members of the Executive Committee, Financial, Relational Channel, Risk, Origination and Management Directors and by the Responsible for the Management of the Bank´s Portfolio.

The Credit Committee, set up in 2014 and implemented already in 2015, meets on a weekly basis, and has advisory functions in the analysis and follow-up of loans to customers and their processes. It consists of a Central Manager, Financial Manager, and Risk Manager.

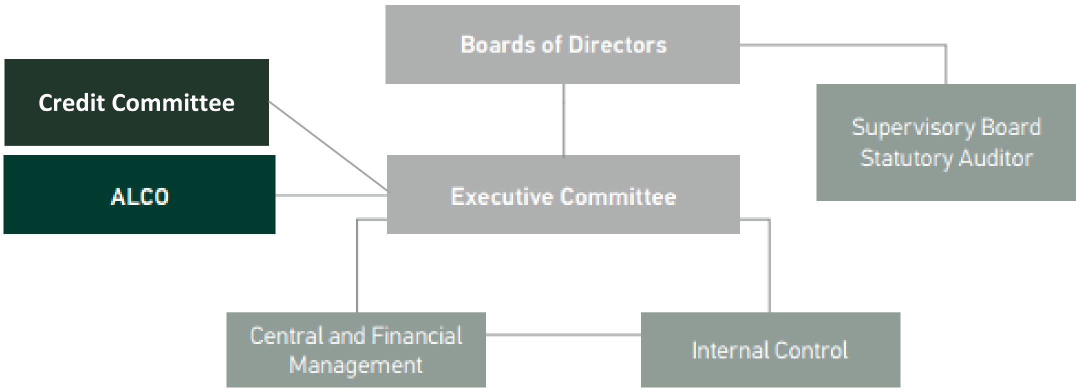
The Departments of Compliance, Risk and Internal Audit, members of the Internal Control Group, perform control functions and risk monitoring, in a current context, providing and compiling information to the Executive Committee and for the remaining bodies with relevant functions in the matters involved.

The Fiscal Council and the Statutory Auditors develop similar functions, but with a more general context, with longer time horizons and a closer connection with the Board of Directors.

In providing vital information for internal administration we also point out the action of the Accounting Department and Management Information.

Among the information of the internal Control, we highlight the realization of projections and scenario analysis / stress testing, whose clearance is the result of an interactive adjustment between the Executive Committee and the Risk Department, with contributions from other relevant bodies in the extended management, control and monitoring functions. Similarly, the assessment of sufficiency of economic capital is an exercise, with material consequences for the internal governance. This is complemented by a set of current information, easier to compute, but more segregated by type of risk. The models used, follow generally accepted theoretical basis of the financial industry, reinforced by the best practices recommended by National and International Regulators.

Given the dimension of the Bank we adopted an operational structure centralized on the Executive Committee, as can be observed by the flowchart in Annex V. However, the risk management of the Company is thus executed by two parallel communicating systems, with different time horizons:



4.1 Credit Risk

The Bank analyses the credit risk on all its assets, excluding assets included in the portfolio valued at fair value and other deduced from original own funds, as well as on some off-balance elements potentially subject to this type of risk.

The Executive Board is responsible for managing this risk, although, on an operational basis, the Finance Management plays an important role in everything related to the allocation of sight deposits and term deposits, and the management of securities portfolios.

Specifically in terms of loans to Customers, a Credit Committee was set up in 2015, which gives advice on credit processes, their awarding and monitoring.

As risk mitigation techniques we highlight the requirement of solid and net collateral for loans to clients and the existence of netting arrangements, especially in certain positions with other credit institutions. It is also considered, as a risk mitigation technic, the recording of provisions for expected losses.

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4.2. Market Risk

For the assessment of market risk we analyse the securities portfolio at fair value. The Financial Department is responsible for managing these assets, with short-term horizons, within the limits of discretion set by the Executive Committee and by the Trading Portfolio Management Policy.

Monthly, the results and allocation are presented in the Assets and Liabilities Committee (ALCO). This Committee, then, recommends actions that are taken into consideration by the Executive Committee and the Financial Department itself.

4.2.1. Interest Rate Risk

We consider, as Interest rate risk, the likelihood of adverse impacts on income or capital, resulting from:

- Maturity lags or interest rate reset;
- Use of different benchmarks between lending and deposit operations;
- Existence of options embedded in financial instruments;
- Market movements, resulting from changes in the interest rate, particularly on debt securities, in the bank´s portfolios.

The Bank assumes the existence of this risk on all balance sheet items directly sensitive to the interest rate. As risk mitigation techniques, we emphasize:

a) The allocation of assets and liabilities tries to maintain cross-checks between the index benchmarks, preferring short and medium term applications, rather than long-term investments;

b) The use of hedging instruments of interest rate risk in term deposits liabilities.

4.2.2. Exchange Rate Risk

The Finance Department is responsible for monitoring the exposure to foreign currency, maintaining the intent of the Executive Committee to cover this risk, whenever possible. The Finance Department presents the exposure and coverage in ALCO which issues appropriate recommendations.

Assuming a marginal exposure to this risk, the Bank considers that the value calculated for the minimum prudential requirements is sufficient to cover possible shocks in this market.

4.3. Operational Risk

The management of operational risk is the responsibility of the Executive Committee, although the Central Management assumes some of this responsibility in the day to day management, by the delegations assigned to them. The everyday control and monitoring are the responsibility of the Risk, Compliance and Internal Audit Departments.

Firstly, as a risk mitigation technique, we highlight the culture that the Executive Committee wishes to instill in all employees of the Bank, of diligence and critical evaluation, attentive and constant of the risk. We add, in this respect, the incentive to the accumulation and internal diffusion of knowledge through training courses and workshops, with several focused on the issues of Internal Control.

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The Code of Banco Carregosa is a document known to all Employees and an essential tool in operational risk control. In connection with this document there is a risk matrix, on which we record the operational risk occurrences, with their respective characterization, including quantification of the financial impacts.

Check points are in place to monitor the Bank's various critical steps, in particular reconciliations, approvals, and other checks, aiming to segregate control, implementation and recording functions.

To reduce risk, insurance has been taken out to provide coverage for physical damage to equipment and human resources.

The Internal Control Departments prepare reports on cases of potential and actual risk, which are then submitted to the Executive Board, aiming to coordinate and integrate the operational areas in them. The size of the Bank and the inter-departmental proximity have a didactic function, which prevents complex human relationship situations and allows the quick resolution of operational problems.

For prudential purposes the Bank calculates the capital requirements by the basic indicator method. In the last few years, there has been a significant growth of the product of the activity, which was reflected in the requirements for operational risk, which was not accompanied in the same proportion of operating losses.

Economic requirements for operational risk are obtained by summing the results of several models:

- Renewal / Repair of Tangible Assets – 99.9 percentile of the VAR method, by Montecarlo model, with 10,000 simulations;
- Costs related to the activation of the Business Continuity Plan;
- Impact of other events.

4.3.1. Compliance Risk

The Bank gives special attention to the risk of Compliance, not so much for its financial impact, but for the willingness to comply with all legal regulations. For this reason, the Compliance Department was reinforced in both human and technical means, through a system of prevention of money laundering and terrorism financing. Nevertheless, we understand that the control of this risk is not only centered on the Compliance Department, but at the Organization as one.

The code of Banco Carregosa plays a central role in mitigating the risk of Compliance. The code is composed of several documents covering all the activities of the Bank, including the management of internal regulations. Each document that is created or modified is revised by all Departments involved and approved according to the rules established for the approval of each hierarchical level of the document. Management of the Code is under the responsibility of the Compliance Department, which must evaluate its suitability and fulfilment as well as study the amendments to the legal provisions in force and its impact on the Bank, with the assistance of the Departments involved. The Code is available to all employees in the Employee Portal.

The analysis and adequacy of procedures depends on the contribution of all Departments, which are responsible for identifying possible improvements, as well as situations of non-compliance of the procedures previously established.

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The Management of Events (Complaints, Suggestions or client´s Requests for Clarification) is the responsibility of the Compliance Department. From its analysis, whenever it is considered appropriate, Compliance checks the adequacy of procedures. If its inadequacy is verified, amendments to be made are studied by the Departments of Internal Control.

For the improvement of the existing procedures, we also highlight the training courses offered by the Department of Human Resources.

All contracts of the Bank follow standardized models developed by the Legal Department, controlled by the Departments of Compliance and Marketing. In the control of liabilities towards third parties, the Bank pays special attention to the proper completion of contracts, particularly to the account opening process.

Clear procedures of verification and approval are defined, for sensitive procedures, such as account opening. Whenever, due to the nature of the contracting parties, the Bank considers that its duties of identification and diligence should be reinforced, the processes are subject to prior checking by the Compliance Department.

4.3.2. Information Systems Risk

Data systems contain private financial and personal information considered sensitive and confidential. Access to these systems is limited, exclusively, to the Bank's employees and personnel under contract, that with appropriate prior framework, is involved in the development or operation of the system or whose work involves recording, reviewing, or retrieving that data. The system of access and permissions was set based on differentiated levels per user, in order to ensure adequate access to the database of the Bank.

Thus, recognizing the "information" as a valuable asset, Banco Carregosa has implemented sophisticated security systems and backups, at the level of servers, as well as at the level of communications with redundant machines and telephone lines, among others.

As support to the practice currently in force, , the Bank's IT infrastructure and its use is regulated by the Policy for Use of Computers *and IT Equipment*, which is known by employees. Systems redundancy and contingency are presented in the *Plan of Business Continuity and Recovery in Case of Disaster*.

The risk of information systems is measured together with the operational risk, through the presented models, either by assets renovation / repair, or by the losses caused by the unavailability of systems.

4.3.3. Reputational Risk

The Reputation Risk is analysed by the Bank at various levels:

- The Compliance Department analyses complaints, suggestions and requests for information from clients;
- In the analysis of risk occurrences its reputational risk is identified;
- The Communications Department regularly analyses the image of Banco Carregosa, and also coordinates the relationship with the media.

The control and monitoring of this risk is an everyday responsibility of the Department of Communication that, on one hand, guides the Bank's Employees communication with external entities, especially with the Media. The Executive Committee and the Board of Directors meet this risk with particular care, and the mode of action in a crisis scenario is prepared in the Contingency Plan.

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4.3.4. Liquidity Risk

The Bank tries to maintain on a permanent basis comfortable liquidity levels to face adversity.

As a main mitigation technique of liquidity risk we point out the position of treasury management in particular, and the posture of the applications regarding the resources in general. In addition to this technique, the availability of assets with the Central Bank to meet unplanned liquidity needs and, for extraordinary situations, the Bank maintains lines of credit with other credit institutions.

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5. Capital Adequacy

5.1 Qualitative Information

The clearance of own funds is made in accordance with the regulations in force, as stated in the EU Regulation nº 575/2013. To this end, accounting information included in the financial statements is used, with special focus on the amounts recorded in the equity, supplemented with extra accounting information.

The total own funds correspond to the algebraic sum of the original own funds (Tier 1) with ancillary own funds (Tier 2), after the application of deductions to these elements.

The main positive elements of own funds at December 31, 2013 consisted of:

- Paid-up capital: capital of the Bank is represented by 200 million nominative shares, with nominal value of € 0.10 each, being fully subscribed and paid;
- Issue Premium: refers to the premiums paid by shareholders in capital increases;
- Reserves: refers to the amount of income generated over the exercises, but retained in the Company in the form of legal reserves, other reserves and / or retained earnings;
- Net Result of the Financial Year: value of the net results of the current year and the previous year when certified.
- Transitional measures

The deductions from own funds consist of:

- Positive Differences of the First Consolidation (goodwill): amount of registered *Goodwill*, applicable on a consolidated basis;
- Intangible assets : amount of intangible assets, especially costs in establishing brands and data processing system;
- Customer deposits rated above the threshold set by the Bank of Portugal, according to Instruction No. 28/2011 or Instruction No. 15/2012, depending on its constitution, according to the EU Regulation nº 575/2013.

In the economic perspective, Banco Carregosa calculates the capacity to absorb risks through a similar methodology to the one used for calculation of own funds, with slight changes, that reflect the vision of the management:

1. Elimination of deduction of customer deposits with a rate above the threshold set by the Bank of Portugal, since the operations which exceed the said thresholds are covered by applications that produce higher rates, with negligible distortions on the time to maturity or until the interest rate reset;
2. Elimination of the transitional provisions on revaluation reserves and integration of revaluation reserves resulting from gains and losses in sovereign bonds;
3. Integration of net income for the current year or the previous year, to be certified.

The Executive Committee of Banco Carregosa distributes economic capital by the various business segments, depending on the strategy outlined with the Board of Directors.

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Segment	%
Negotiation	3,50%
Portfolio Management	1,50%
Treasury	25,00%
Own portfolio	50,00%
Credit	15,00%
Administrative units	5,00%
Total	**100,00%**

5.2. Quantitative Information

5.2.1. For the purpose of own funds

	31/dec/14	31/dec/13
1. Total Own Funds for Solvency Purposes	**33.898.899**	**33.655.583**
1.1. Original own funds	**33.898.899**	**33.962.751**
1.1.1. Eligible Capital	20.369.257	20.369.257
1.1.1.1. Paid-up capital	20.000.000	20.000.000
1.1.1.2. (-) Company´s own shares	0	0
1.1.1.3. Shares issuance premiums	369.257	369.257
1.1.1.4. Quase-equity instruments	0	0
1.1.2. Reserves and Eligible Results	12.823.122	14.144.571
1.1.2.1. Reserves	12.823.122	9.060.917
1.1.2.2. Eligible minority interests	0	0
1.1.2.3. Results of the last financial year and interim results for the current year	375.227	5.536.052
1.1.2.4. (-) Net profits arising from the capitalization of future income from the securitized assets	0	0
1.1.2.7. Revaluation differences eligible for own funds	0	-452.399
1.1.3. Fund for general banking risks	0	0
1.1.4. Other elements eligible for own funds	0	0
1.1.5. (-)Other deductible items to own funds	-174.646	-.208.455
1.1.5.1. (-) Intangible assets	-174.646	-208.455
1.1.5.2. (-)Surplus regarding the eligibility limits of the instruments included in original own funds	0	0
1.1.5.3. (-)Other elements deductible from original own funds	0	-342.621
1.2. Additional Own Funds		
1.2.1. Additional own funds - Upper Tier 2	0	203.579
1.2.2. Additional own funds - Lower Tier 2	0	0
1.2.3. (-)Deductions from additional own funds	0	0
1.3. (-)Deductions from original and additional own funds	**0**	**-510.747**
1.3.a.Of which: (-)from original own funds	0	-307.168
1.3.b.Of which: (-)from additional own funds	0	-203.579
1.4. (-)Deductions from total own funds	0	-510.747
1.5. Total additional own funds eligible to cover market risk	0	0

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1.6. Memo items:		
1.6.1. (+) Surplus / (-) Insufficient value and “provisions" adjustments in risk weighted Exposure amounts applying IRB approach.	0	0
1.6.2. Nominal value of the subordinated loan capital recognised as a positive element of own funds	0	0
1.6.3. Minimum Capital Requirement	0	0
1.6.4. Reference own funds for purposes of limits for large exposures	33.898.899	33.655.583

Unit: Euros

5.2.2. Capital Requirement Purposes

	31-dec-14	31-dec-13
1. Capital Requirement Purposes	**14.300.503**	**13.186.771**
1.1 Capital requirement purposes for credit risk, counterparty credit risk and incomplete transactions - Standard Method	**10.774.224**	**9.645.419**
1.1.1. Exposure classes in standard method excluding securitization positions.	10.774.224	9.670.743
1.1.1.1. Central Governments or Central Banks	0	0
1.1.1.2. Regional Governments or Local Authorities	0	0
1.1.1.3. Administrative bodies and non-commercial undertakings	0	0
1.1.1.4. Multilateral Development Banks	0	0
1.1.1.5. International Organizations	0	0
1.1.1.6. Institutions	4.520.071	3.635.503
1.1.1.7. Companies	3.272.672	3.570.986
1.1.1.8. Retail portfolio	0	0
1.1.1.9. Exposures secured by real estate property	17.500	44.332
1.1.1.10. Over-due items	158.236	1.981
1.1.1.11. Covered bonds	82.428	508.806
1.1.1.12. Exposures on collective investment undertaking (UCIs)	0	0
Equity exposures	32.872	0
Elements associated to particularly high risks	108.015	0
1.1.1.13. Other elements	2.582.430	1.909.135
1.1.2. Securitization positions in Standard Approach	0	0
1.1.3. (-) Provisions for general credit risks	0	-316.541
1.2. Settlement Risks	**0**	**0**
1.3. Capital Requirements for Position risks, Exchange rate risks and commodities risk	**811.027**	**826.100**
1.3.1. Position risk, Exchange rate risks and commodities risks – Standard Method	811.027	826.100
1.3.1.1. Debt instruments	350.713	115.450
1.3.1.2. Equity	261.336	355.456
1.3.1.3. Exchange rate risks	198.978	355.195
1.3.1.4. Commodities risks	0	0
1.4. Capital requirement purposes for operational risk	**2.715.252**	**2.715.252**
1.4.1. Basic Indicator Approach	2.715.252	2.715.252
1.5. Capital requirement purposes – Fixed Overheads	**0**	**0**
1.6. Transactional capital requirements or other capital requirements	**0**	**0**

Unit: Euros

5.2.3. For the purpose of capital adequacy

CAPITAL ADEQUANCY – PART 3	**31-Dec-14**	**31-Dec-13**
Excess (+) / Shortage (-) of own funds	**19.598.396**	**20.468.812**
Solvency Ratio (%)	**18.96%**	**20.4%**

Unit: Euros

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6. Counterparty Credit Risk

6.1 Qualitative Information

At the end of 2014, the Bank held positions in OTC derivatives whose risk was fully covered by unrealised losses in the same portfolio, with the same counterparty, with which it maintains a contractual netting agreement. The Bank used the method of valuation at the market price for these positions, for prudential purposes. The limit management of these positions is made together with the securities of the own portfolio, deposits and credits.

6.2. Quantitative information

6.2.1. Counterparty credit risk for basic indicator purposes

Exposures	Original Exposures	Risk Mitigation Techniques	Fully adjusted exposure	Montante da posição ponderada pelo risco	
				2014	2013
REPO	0			0	69.683
Trading Portfolio Derivatives	270.747	-270.747	0	0	0
Total				**0**	**69.683**

Unit: Euros

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7. Credit Risk – General Aspects

7.1 Concepts and Definitions – Qualitative Information

Credit risk is the probability of occurrence of negative impacts on results or capital, due to the inability of the counterparty to meet its financial commitments to the institution, including possible restrictions on the transfer of payments from abroad. Credit risk exists, primarily in credit exposures (including securitised credit), credit lines, guarantees and derivatives.

Overdue loans: Part of a loan that has not been settled by the debtor 30 days after the agreed date for the purpose. Its systematization obeys the rules established by the Notice 3/95 of Bank of Portugal, where applicable, being instituted a mandatory report for consolidation purposes in which overdue loans is disaggregated by type and class of credit (I, II, III e IV, V a IX e da X à XII);

Nonperforming loans: Loans classified in the criteria defined in no. 4 of Bank of Portugal Notice 3/95. Generally correspond to the maturing part of a loan in which the overdue component reaches a certain level of significance (25% of the outstanding capital) or which non-compliance period exceeds a certain number of months. May include other credits specifically classified as such, either by rules of the Bank of Portugal or of Banco Carregosa;

Impaired Credit: It is considered as such when there are objective evidence of impairment losses on receipts contractually established, according to IAS 36 and 39 and Notice 3/95 of the Bank of Portugal;

Credit default: According to Instruction No. 3/95 of the Bank of Portugal, it is considered the credit which is overdue for more than 90 days, plus the non performing due credit.

Upon initial recognition, all credits are recorded at nominal value in accordance with the notice 1/2005 of the Bank of Portugal. Provisions are established in accordance with the rules set out in Notice 3/95 as a criterion for hedging.

The Bank analyses the credit risk on all its assets, excluding assets included in the portfolio which are evaluated at fair value and others which are deduced from own capital, as well as some off-balance sheet elements potentially subject to this type of risk

As risk reduction technique, we highlight the demand for firm and credible guarantees for loan operations to clients and the existence of compensation arrangements, especially in certain positions with other credit institutions. Guarantees for loans to clients and compensation arrangements amounted, in the reference date to 100 million euros. For prudential purposes, only 10.3 million euros are considered, which, after application of supervisory volatility adjustments and restricted to the value of the hedged exposure, amounted to 7.75 million euros. For the calculation of economic capital and for the analysis of impairments some non-eligible collateral for the prudential method are considered, with internal volatility adjustments. On the collateral used by the internal method, with a value of 90.5 million euros, internal volatility adjustments of 24.5 million euros were applied, estimating a reduction of the gross exposure of 48.2 million euros on loans to clients.

Furthermore, it is considered as a technique for risk reduction, the recording of provisions for expected losses. Specifically for credit transactions, the Bank established an internal model. Since mid-2013 the Bank began to assign internal risk ratings to the loans to clients, to which associates a probability of default. The Bank decided to adopt the

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credit ratings provided by Ignios, between 1 and 10. Level 1 corresponds to the highest PD, of 25%, and to 10 the lowest, of 0%. To these levels, the Bank added a level 0 with a PD of 100% for situations of non-performing loans.

The Bank uses the prudential methods to analyse the concentration of credit risk, as provided for in the Instruction No. 5/2011 of the Bank of Portugal. To this end, the Bank analyses its exposure to each client and to each group of clients. Customers are grouped by the probability of going into default simultaneously, given their relations with each other. From exposure to each group of clients we determine a gini index. In parallel, we analyse the concentration by a similar index, integrating a rating and time to maturity factor. These indicators are sent daily to the Executive Committee for the majority of the assets - own portfolios and Term Deposits.

For prudential purposes, the Bank uses the following methods, in accordance with the EU Regulation nº 575/2013, on what relates to the Credit risk:

- Standard Method;
- Valuation at market price for Counterparty Risk;
- Integral method on financial collateral, as a risk mitigation technique.

For the internal calculation of capital requirements, the Bank created a stochastic model, based on Vasicek´s multifactorial model, by Monte Carlo method with 25,000 simulations. This model allows estimating the credit risk and respective concentration risk by position, by entity and group of related entities and by sector.

7.2. Quantitative Information

7.2.1. Exposures

Exposures	Original Exposures		Original Exposures (average)	
	31-12-2014	31-12-2013	2014	2013
1. Original Exposures by Risk Class				
Public Administration	9.591.979	70.779.734	53.215.881	74.433.666
Credit Institutions	94163391.65	0	109.914.237	0
Companies	70513707.17	0	69.931.907	0
Equity Exposures	410.900	61.533.252	601.141	90.701.287
Covered Bonds	6.750.927	63.016.154	8.616.074	39.920.275
Exposures secured by real estate property	539483.27	0	884.468	0
High Risk Elements	1.108.414	28.354.477	1.335.407	23.625.876
Mortgage Bonds (Other items)	40.887.978	1.713.047	47.786.649	998.871
Past due items	6.826.611	12.720.141	1.532.657	3.180.035
Total	**230.793.392**	**238.235.071**	**231.308.842**	**233.118.267**

Unit: Euros

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7.2.2. Geographical Distribution of Exposures

Geographical Distribuition of Exposure	Region									
	Portugal		Europe		Brazil		Others		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
1. Original Exposures by Risk Class										
Public Administration	1,9%	28,0%	2,2%	2,0%	0,0%	0,0%	0,0%	0,0%	4,2%	30,0%
Institutions	29,4%	13,0%	8,5%	9,0%	2,4%	3,0%	0,5%	1,0%	40,8%	26,0%
Companies	23,2%	14,0%	0,6%	9,0%	2,4%	2,0%	4,4%	0,0%	30,6%	26,0%
Equity Exposure	0,2%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,2%	0,0%
Covered Bonds	2,9%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	2,9%	0,0%
Exposures secured by real estate property	0,2%	6,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,2%	6,0%
High Risk Elements	0,5%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,5%	0,0%
Other elements	11,9%	11,0%	0,0%	0,0%	0,0%	1,0%	5,8%	0,0%	17,7%	12,0%
Past due items	0,0%	0,0%	2,8%	0,0%	0,0%	0,0%	0,2%	0,0%	3,0%	0,0%
Total	**70,3%**	**73,0%**	**14,0%**	**20,0%**	**4,8%**	**6,0%**	**10,9%**	**1,0%**	**100,0%**	**100,0%**

Unit: Percentage

7.2.3. Sectoral Distribution of Exposures

Sectoral Distribution of Exposures	Sector									
	Financial Sector		Other Companies		Pub. Adm.		Private		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
1. Original Exposure by Risk Class										
Public Administration	0,0%	0,0%	0,0%	0,0%	4,2%	30,0%	0,0%	0,0%	4,2%	30,0%
Credit Institutions	40,8%	23,0%	0,0%	3,0%	0,0%	0,0%	0,0%	0,0%	40,8%	26,0%
Companies	7,5%	1,0%	23,1%	25,0%	0,0%	0,0%	0,0%	0,0%	30,6%	26,0%
Equity Exposures	0,2%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,2%	0,0%
Covered Bonds	2,9%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	2,9%	0,0%
Exposures Secured by real estate property	0,0%	5,0%	0,1%	1,0%	0,0%	0,0%	0,1%	0,0%	0,2%	6,0%
High Risk Elements	0,2%	0,0%	0,3%	0,0%	0,0%	0,0%	0,0%	0,0%	0,5%	0,0%
Other items	0,0%	1,0%	1,5%	0,0%	0,0%	0,0%	16,2%	11,0%	17,7%	12,0%
Past due items	0,0%	0,0%	2,8%	0,0%	0,0%	0,0%	0,2%	0,0%	3,0%	0,0%
Total	**51,6%**	**30,0%**	**27,7%**	**29,0%**	**4,2%**	**30,0%**	**16,5%**	**11,0%**	**100,0%**	**100,0%**

Unit: Percentage

7.2.4. Breakdown of past due exposures and Impaired exposures

Exposures	Past due exposures	Impaired exposures	Valuation adjustments and provisions
Initial Balance	**6.826.611 €**	**819.343 €**	**5.270.757 €**
Sectorial Distribution			
Private	434.741 €	58.679 €	229.225 €
Financial Sector	0 €	380.664 €	380.664 €
Other companies	6.391.870 €	380.000 €	4.660.868 €
Geographical Distribution			
Portugal	434.741 €	819.343 €	650.739 €
Espanha	6.391.870 €	0 €	4.620.018 €

Unit: Euros

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7.2.5. Value Adjustments and Positions

Provisions Value Adjustments	31-Dec-14	31-Dec-13
Initial Balance	**1.510.110**	**1.255.111**
Appropriations	15.679.632	764.143
Utilizations	-5.394.692	-12.782
Value Readjustments	-963.099	-496.790
Exchange Rate Adjustments	119	429
Final Balance	**10.832.071**	**1.510.110**

Unit: Euros

7.2.6. Exposures by Residual Maturity

Risk Classes	Residual Maturity											
	0 Days		Up to 1 year		Up to 5 years		Up to 10 years		re than 10 ye		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
1. Original Exposures by Risk Class												
Public Administration	1,8%	15,0%	2,2%	13,0%	0,1%	2,0%	0,0%	0,0%	0,0%	0,0%	4,2%	30,0%
Credit Institutions	12,4%	6,0%	24,6%	12,0%	2,7%	7,0%	1,2%	1,0%	0,0%	0,0%	40,8%	26,0%
Companies	0,7%	2,0%	17,3%	10,0%	7,3%	5,0%	3,7%	9,0%	1,6%	1,0%	30,6%	26,0%
Equity Exposures	0,2%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,2%	0,0%
Covered Bonds	0,0%	0,0%	0,0%	0,0%	2,9%	0,0%	0,0%	0,0%	0,0%	0,0%	2,9%	0,0%
Exposures secured by real estate property	0,0%	0,0%	0,1%	0,0%	0,0%	5,0%	0,0%	1,0%	0,1%	0,0%	0,2%	6,0%
High risk elements	0,5%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,5%	0,0%
Other elements	7,3%	5,0%	8,8%	4,0%	1,6%	3,0%	0,0%	0,0%	0,0%	0,0%	17,7%	12,0%
Past due items	3,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	3,0%	0,0%
Total	**25,7%**	**28,0%**	**53,0%**	**39,0%**	**14,6%**	**21,0%**	**4,9%**	**11,0%**	**1,7%**	**1,0%**	**100,0%**	**100,0%**

Unit: Percentage

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8. Credit Risk – Standard Method

8.1 Qualitative Information

Banco Carregosa adopts, by default, the credit ratings assigned by Standard & Poor's agency for debt securities. With regard to credit of Central Administrations we use, in addition to the Standard & Poor's, the ratings of Moody's and Fitch, in accordance with EU Regulation nº 575/2013.

The registration process is based on the ratings for the issues in question, where available. When there are no ratings for issues, we look for the rating assigned to the issuer. Each month, the Risk Department checks the credit ratings of debt securities in the Bank's own portfolio and counterparty deposits or other relevant assets against Bloomberg registers. The differences are reported to the Operations Department for register correction.

8.2. Quantitative Information – Standard Method

CREDIT RISK (STANDARD METHOD)	Risk Weight						
	0%	20%	50%	100%	150%	Outros	Total
1. Exposures by Risk Class							
Public Administration	9.591.979	-	-	-	-	-	9.591.979
Credit Institutions	-	11.917.771	53.129.107	27.146.427	552.500	1.417.587	94.163.392
Companies	-	-	2.743.130	67.747.947	22.630	-	70.513.707
Equity Exposures	-	-	-	410.900	-	-	410.900
Covered Bonds	-	6.750.927	-	-	-	-	6.750.927
Exposures secured by real estate property	-	-	522.976	-	-	16.507	539.483
High Risk Elements	-	-	-	-	1.108.414	-	1.108.414
Other Elements	32.007	-	-	40.855.971	-	-	
Past due items	-	-	-	6.826.611	-	-	6.826.611
Total	**9.623.986**	**18.668.699**	**56.395.213**	**142.987.857**	**1.683.544**	**1.434.094**	**230.793.392**
2. Exposures by Risk Class (risk weights reserve base)							
Public Administration	9.591.979	-	-	-	-	-	9.591.979
Credit Institutions	-	9.952.071	52.953.899	27.146.427	552.500	1.417.587	92.022.484
Companies	-	-	2.743.130	39.502.885	22.630	-	42.268.645
Equity Exposures	-	-	-	410.900	-	-	410.900
Covered Bonds	-	6.750.927	-	-	-	-	6.750.927
Exposures secured by real estate property	-	-	435.854	-	-	2.343	438.197
High Risk Elements	-	-	-	-	686.900	-	686.900
Other Elements	32.007	-	-	32.280.378	-	-	32.312.385
Past due items	-	-	-	1.977.955	-	-	1.977.955
Total	**9.623.986**	**16.702.998**	**56.132.883**	**101.318.544**	**1.262.030**	**1.419.929**	**186.460.371**
3. Total of risk-weighted exposures							
Public Administration	-	-	-	-	-	-	-
Credit Institutions	-	159.233	2.118.156	2.171.714	66.300	4.668	4.520.071
Companies	-	-	109.725	3.160.231	2.716	-	3.272.672
Equity Exposures	-	-	-	32.872	-	-	32.872
Covered Bonds	-	108.015	-	-	-	-	108.015
Exposures secured by real estate property	-	-	17.434	-	-	66	17.500
High Risk Elements	-	-	-	-	82.428	-	82.428
Other Elements	-	-	-	2.582.430	-	-	2.582.430
Past due items	-	-	-	158.236	-	-	158.236
Total	**-**	**267.248**	**2.245.315**	**8.105.484**	**151.444**	**4.734**	**10.774.224**

Unit: Euros

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9. Techniques of Credit Risk Mitigation

9.1 Qualitative Information

The main technique for reducing credit risk is recourse to the provision of financial collateral by securities, liquid and traded on regulated markets, cash balances and term deposits. However, for other loans, the Bank accepts personal guarantees, real and real estate collateral. All guarantees are evaluated regularly, in particular traded securities, which are evaluated several times a day.

These amounts started being considered for prudential purposes in the year 2010 and are already consistent with the Bank´s conservative policy of risk-taking and therefore fundamental for the approval and management of credit risk process.

In 2011, the Bank started to include real estate collateral, where applicable, like exposures secured by real estate, pursuant to notice 5/2007 for prudential purposes.

In some cases, compensatory arrangements are also prudentially recognised, which concern bank overdraft that offset exposures from the same institutions. These compensatory arrangements are set out in the contracts held with the referred credit institutions.

Since that, for prudential purposes real estate collateral has small importance and were not considered personal credit protections, these values are not presented in the table: Techniques of Credit Risk Mitigation - Standard Method.

9.2. Quantitative Information

9.2.1. Techniques of Credit Risk Mitigation - Standard Method

Techniques of Credit Risk Mitigation	Funded Credit Protection - Financial Collateral Comprehensive Method		
	Net Exposures	Financial Collateral (adjusted value)	Volatility Adjustments
Public Administration	9.591.979	-	-
Credit Institutions	94.163.392	-	-
Companies	70.513.707	4.693.369	1.813.680
Equity Exposures	410.900	-	-
Covered Bonds	6.750.927	-	-
Exposures Secured by real estate propert	539.483	22.274	-
High risk elements	686.900	-	-
Other elements	40.220.763	632.491	699.531
Past due items	1.977.955	-	-
Total	**224.856.007**	**5.348.133**	**2.513.211**

Unit: Euros

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9.2.2. Concentration Analysis – Funded or Unfunded Credit Protection

Concentration Analysis – Funded or Unfunded Credit Protection	Funded Credit Protection					
	Eligible Financial Collateral		Real Estate Collateral		Compensatory Arrangements	
	2014	2013	2014	2013	2014	2013
Total of hedged positions						
Financial Sector		0		0	2.140.908	915.533
Other companies	4.693.369	3.796.497	750.000	2.593.320	0	0
Private	632.491	1.595.987	345.000	931.000	0	0
Total	**5.325.860**	**5.392.484**	**1.095.000**	**3.524.320**	**2.140.908**	**915.533**

Unit: Euros

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10. Securisation Transactions

The Bank did not have, at the reference date, any securitization operation, so at this point there is nothing to report.

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11. Position, Counterparty Credit and Trading Portfolio Settlement Risk

11.1 Qualitative Information

Consists on the probability of negative impacts to occur on results or capital, due to adverse movements in the market price of the instruments in the trading portfolio.

For the evaluation of market risk we analyse the securities portfolio at fair value of the Bank. The Financial Management Division is responsible for managing these assets, with short-term horizons, within the limits of discretion set by the Executive Committee and by the Trading Portfolio Management Policy.

Monthly, the results and allocations are presented in the Assets and Liabilities Committee (ALCO). This Committee issues recommendations that are taken into consideration by the Executive Committee and the Financial Management Division.

For prudential purposes we use the standard method, calculating the general risk of debt instruments by maturity and commodities risk by the simplified method. For the calculation of economic capital requirements, we use the Value at Risk (VAR) historical of three years with 99% confidence and time horizon of 1 year. The daily monitoring of the portfolio risk is managed with this indicator, but with a time horizon of 1 week and 95% confidence level.

Regarding the values in the table below, we emphasize that there were no operations pending settlement in the trading portfolio at the reference date, or positions with counterparty credit risk, in accordance with Notice No. 5/2007 of the Bank of Portugal.

11.2. Quantitative Information – Capital Requirements (Trading Portfolio)

CAPITAL REQUIREMENTS (TRADING PORTFOLIO)	31-Dec-14	31-Dec-13
Total	**612.049**	**470.906**
1. Trading Portfolio Risks	**612.049**	**470.906**
1.1. Standard Method on trading portfolio	612.049	470.906
1.1.1. Debt Instruments		115.450
1.1.1.1. Specific Risk	329.540	109.874
1.1.1.2. General Risk	21.173	5.576
1.1.2. Equities		144.956
1.1.2.1. Specific Risk	45.395	72.478
1.1.2.2. General Risk	45.395	72.478
1.2.3. Collective investment undertaking	97.392	11.027
1.2.4. Options	73.154	199.473
2. Counterparty credit risk	**0**	**0**
3. Settlement Risk	**0**	**0**

Unit: Euros

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12. Exchange Rate Risk, Bank Portfolio Commodities Risk and Negotiation

12.1 Qualitative Information

The Bank is not subjected to commodities risk.

Regarding exchange rate risk, the Bank measures the total exposure for foreign currency, according to the standard method, according to Notice No. 8/2007of the Bank of Portugal.

12.2. Quantitative Information – Capital Requirements – Exchange Rate Risk and Commodities Risk

CAPITAL REQUIREMENTS – EXCHANGE RATE RISK AND COMMODITIES RISK	31-DeC-14	31-DeC-13
1. Exchange Rate Risk	**198.979**	**355.195**
1.1. Standard Method	198.979	355.195
2. Commodities Risk	**0**	**0**

Unit: Euros

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BANCO CARREGOSA

13. Risk Exposures in the Equity Banking Portfolio

13.1 Qualitative Information

Positions in equities in the banking book are allocated to the portfolio of assets available for sale, whose changes in value are registered in fair value reserves. The shares allocated to this portfolio, for its specificity, reflect an adjusted rentability to the institution's business profitability, with medium / long term expected timeframes.

For quoted shares the information system of the Bank evaluates the positions several times a day at market prices, where available. In the absence of quoted market prices, reviews are requested to other intermediaries.

In the banking portfolio there are still some unquoted Portuguese stocks whose companies maintain business relationships with the Bank. Annually, we proceed with impairment tests on those assets. In late 2012, the Bank recognized an impairment of € 40,850 on its participation in Górdio - Emp. Industriais e Comerciais, S.A.

13.2. Qualitative Information

Risk Exposures in Equities (Bank Portfolio)	Quoted Shares		Unquoted Shares		Total	
	2014	2013	2014	2013	2014	2013
Acquisition Cost/Notional Value	0	2.987.760	727.750	1.798.286	727.750	4.786.046
Fair Value	410.900	2.604.500	0	0	410.900	2.604.500
Results arising from sales and settlements	376.127	32.587	0	0	376.127	32.587
Total of unrealised gains or losses	-920.860	-383.260	0	0	-920.860	-383.260
Total earnings or losses inherent to internal revaluation	0	0	-421.514	-40.850	-421.514	-40.850

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14. Operational Risk

14.1 Qualitative Information

Operational risk is the risk of loss resulting from defects or failures in internal processes, human resources, systems or external factors.

The calculation of capital requirements for operational risk is performed according to the basic indicator method, which corresponds to 15% of the average of the last three years of positive annual relevant indicator.

The accounting elements considered in this calculation are according to Instruction No. 23/2007 of Bank of Portugal.

On December 31, 2014, the capital requirements for operational risk on a consolidated basis corresponded to 2.715.252 EUR, according to the method indicated.

14.2. Quantitative Information – Operational Risk

OPERATIONAL RISK	Relevant Indicator		
	31-Dec-11	31-Dec-12	31-Dec-13
1. Basic Indicator Approach	9.676.311	24.376.242	20.252.478

Unit: Euros

In the table below we present the accounts whose balance contributes to the calculation of the values mentioned:

DESCRIPTION	Headings
(+) Interest and similar earnings	79
(-) Interest and similar charges	66
(+) Income from equity instruments	82 - 821
(+) Commissions Received	80 + 81
(-) Commissions paid	67 + 68
(+) Results on financial transactions	[83 - (831 + 833)] - [69- (691 + 693)]
Other incomes and operating income	[84 - (841 + 842 +843)] + 86*

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15. Sensitivity Analysis of Capital Requirements

15.1 Qualitative Information

The Bank identifies interest rate risk in its own portfolio, deposits and credits, assets and liabilities.

Daily, we consider the differences of the rate setting dates between term deposits and debt securities of the own portfolios. Quarterly, we determine the impact of a shock of 100 bp. in interest rates on own portfolios applying Worst Yield at Bloomberg method. This risk is further analysed based on the method stated in Instr. 19/2005 of the Bank of Portugal.

In the half-yearly stress tests, we evaluate the impact of the interest rate variation by comparing the Bank´s base projections with the projections after a shock of the parameter in question. These latest projections result from the transformation of the base projection by hiring or renewing applications and resources planned by different interest rates. In interest rate sensitivity analysis we integrate the market risk associated with positions in own investment portfolios and trading. This impact is determined by Yield at Bloomberg Worst method.

We use, semi-annually, the shocks defined by the Bank of Portugal for Instruction 4/2011 and the impacts are simulated. At the reference date the Bank has tested the impact of 5 shocks:

- Variation of 100 base interest rates points for all currencies and maturities points;
- Increase / Decrease of 100/50 base interest rates points for all currencies and maturities exceeding three months;
- Change in all the exchange rates by 15%;
- Change in equity markets by 30%;
- Variation of real estate market in 15%;
- Duplication and reduction by half of the implied volatility of all interest rates, exchange rates and equity markets.

With the exception of Tests 3, 4 and 5 where the impact was estimated immediately, the remaining was analysed for 2 years in a dynamic and consolidated manner, namely, by incorporating group expectations. Below we present the impact of the increase of interest rate by 200 basis points over the banking portfolio, consisting of the loan portfolio, banking own portfolio and term deposits, according to the rules defined in Instruction 19/2005 of Bank of Portugal. Internally, the sensitivity of these assets is daily tested, excluding the loan portfolio, at a variation of 100 basis points on interest rates. This last test analyses the lag periods between assets and liabilities, with a time horizon of one year.

In the table below we only present the hypotheses from which reductions in equity result. The shock of 200 p.b is calculated according to Instruction No. 19/2005. The shock of 100 p.b result of internal calculations from Instr. No. 4/2011.

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15.2. Quantitative Information – Interest Rate Risk

INTEREST RATE RISK			Impact
			31-12-2014
Net worth effect with a 200 p.b. shock in the interest rate	**Value**	+200	844.667
	% of Net Worth	+200	-2,40%
Net worth effect with a 100 p.b. shock in the interest rate	**Value**	+100	-164.889
	% of Net Worth	+100	-0,5%

Unit: Euros

Oporto, 30 June, 2015

The Executive Committee of the Board of Directors,

Francisco Oliveira Fernandes

Pedro José Malheiro Duarte

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