Report & Accounts

'1H 20

Millennium
bcp

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Pursuant to article 9 of the Regulation 5/2018 of the CMVM, amended by Regulation 7/2018 of the CMVM, please find herein the transcription of the

1stH 2020 Report & Accounts

BANCO COMERCIAL PORTUGUÊS, S.A.

Company open to public investment
Registered Office: Praça D. João I, 28, 4000-295 Porto - Share Capital Euros 4,725,000,000.00
Registered at Porto Commercial Registry, under the single registration and tax identification number 501 525 882

The 2020 First Half Report § Accounts is a translation of the "Relatório e Contas do 1º semestre de 2020" document delivered by Banco Comercial Português, S.A. to the Portuguese Securities and Market Commission (CMVM), in accordance with Portuguese law.

The sole purpose of the English version is to facilitate consultation of the document by English-speaking Shareholders, Investors and other Stakeholders, and, in case of any doubt or contradiction between the documents, the Portuguese version of the Relatório e Contas do 1º semestre de 2020" prevails.

All references in this document to the application of any regulations and rules refer to the respective version currently in force.

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Joint Message of the Chairman of the Board of Directors and of the CEO

The first half of 2020 was marked by the pandemic caused by COVID-19, with a major impact on economic activity, on companies, and on the lives of people. The emergence and rapid spread of COVID-19 forced most countries to implement containment measures that had a significant impact on economic activity and employment.

As in other European countries, the Portuguese economy has been heavily penalized by the pandemic, with particular emphasis on sectors such as tourism, given its weight in overall exports and employment. In the first quarter, Portuguese GDP registered an annualized contraction of 3.8%, to which was added a historic drop of 13.9% in the following quarter. For 2021, the prospect of an unprecedented program of reforms and investments, under the European Union Recovery Fund, should give, in the short term, a boost to recovery and, in the medium term, greater strength and competitiveness gains for the Portuguese economy.

The Polish economy has shown strong resilience, as a result of its reduced exposure to sectors affected by the pandemic and the diversified structure of its economy. However, the confinement necessary to contain the pandemic resulted in a significant drop in activity, particularly in the second quarter of the year, and for the year as a whole the European Commission projects a 4.6% contraction in Poland's GDP, which if it occurs, would be the smallest drop in activity among European Union countries.

The performance of the Mozambican economy has also been conditioned by the measures adopted to prevent the spread of COVID-19 and by instability in the north of the country, as well as by the contraction of external demand. As a result, the metical has been depreciating, with particular intensity since the end of May. In this context, the IMF predicts the GDP growth rate in Mozambique will stand at 1.4% in 2020.

In Angola, despite the important economic reforms that are being undertaken, the decline in oil production and prices, following the significant reduction of global demand, will have a relevant impact on economic activity and GDP. In this context, the kwanza has continued to depreciate.

Given the context of uncertainty and instability as a result of the pandemic, the bank immediately adjusted its priorities, shifting the focus from growth to the defense of the balance sheet, in terms of lending and credit follow-up, determined to preserve capital, strengthen liquidity, control costs and investments and reinforce preemptive impairments ahead of the expected adversities.

The bank's performance in the first half of 2020 was greatly affected by the significant reduction in economic activity in Portugal, but also, if less intensely, by the reduction in activity in other geographies where Millennium bcp is present, resulting in a a consolidated net profit of 76.0 million euros, a decrease of 55.3% compared to the same period of the previous year.

The results in first six months were impacted by the significant reinforcement of impairments and provisions, which increased 44.5% compared to the same period of the previous year, reflecting the unfavorable evolution of the economy and a prudent management of the main risks that the bank faces in the different geographies in which it operates, among them the legal risks relating to foreign currency mortgage loans in Poland. In consolidated terms, the unfavorable impact of the pandemic on economic activity was felt in the need to establish additional impairments for credit risk of 108.8 million euros in the first half of 2020.

The bank's capital position remains appropriate for its business model, which, even under current circumstances, shows the capacity to continue to generate capital organically. As of 30 June, 2020, the CET1 and fully implemented total capital ratios stood at 12.1% and 15.5% respectively, with both ratios above the requirements defined under the SREP, a gap that is substantially increased considering the regulatory flexibility temporarily allowed in the context of the pandemic.

In terms of liquidity, the bank continues to show a very comfortable situation, evidenced by the liquidity coverage ratio of 249%, clearly above the respective regulatory requirement, and also by the reduced and controlled loan-to-deposits ratio, which underpins confidence in the ability to deal with the demands of a period of greater adversity resulting from the current economic crisis.

Faced with a context of greater uncertainty, the bank made an adjustment to its funding policy, which resulted in an increase of 2.2 billion euros in net funding with the European Central Bank compared to first half 2019, through the greater use of liquidity provision measures with favorable conditions made available by the ECB for this purpose (TLTRO III). This adjustment was, however, accompanied by an even broader increase of 5.1 billion euros in the portfolio of assets eligible for discount at the ECB, to a total 21.5 billion euros on 30 June 2020.

In the first half of 2020, the core result amounted to 542.5 million euros, a 1.3% rise compared to the same period of the previous year, supported by the increase in the core result in Poland due to the integration and consolidation of Euro Bank, whose acquisition was completed in May 2019. The financial margin reached 759.1 million euros at the consolidated level, showing an increase of 2.6% compared to the amount recorded in the first half of 2019.

The first half of the year was also marked by growth in business volumes, with performing loans increasing by 2.4 billion euros and total customer funds growing by 4 billion euros, compared to 30 June 2019.

Despite the adversities, the bank remained highly committed to improving the quality of the balance sheet, having reduced Non-performing Exposures (NPE) by 1.1 billion euros since June 2019, on a consolidated basis, a reduction that was mainly carried out in Portugal where amounted to 1.2 billion euros. In the first half of 2020, the NPE reduction in Portugal was, 338 million euros, largely conditioned by the restrictions caused by the confinement period.

In Portugal, Millennium bcp obtained a net profit of 45.2 million euros in the first half of 2020, a 37.9% reduction compared to the same period of the previous year, in a period marked by the bank’s leading effort to provide support to families and businesses, particularly in the successful implementation of measures designed to mitigate the impact of the economic crisis.

The commercial intensity of Millennium bcp’s employees, combined with the benefit of using new technology which allowed for the expansion of automation of the loan decision and granting process, proved to be critical. In the second quarter of 2020, Millennium bcp reaffirmed itself as a leading bank in Portugal for financing companies using the credit lines with a 6.6 billion euros State guarantee aimed at mitigating the impact of the pandemic caused by COVID-19. In a very short period of time, Millennium bcp approved more than 13,000 financing operations using these COVID-19 lines, in an amount corresponding to a 38% of the total, largely exceeding the bank's natural market share.

In addition, Millennium bcp implemented in Portugal more than 120,000 loan moratoria for individuals and companies, highlighting the bank’s determination to support its Customers and the Portuguese economy.

On the other hand, the global Customer base continued to expand, emphasizing the success of the bank's digital transformation process, as mobile Customers increased 36% to 2.5 million on a consolidated basis at the end of the first half.

The consistent path of investment in mobile in Portugal is proving to be effective and is recognized by Customers, who named Millennium as the Best Digital Bank in Portugal. In June 2020, Millennium bcp Customers who use the app exclusively represented 43% of digital Customers and were responsible for 87% of digital interactions with the Bank.

The net result of international activity in the first half of 2020 was 30.8 million euros, down from 83.7 million euros obtained in the same period of the previous year, influenced mainly by the impact of the pandemic and other non-recurring items that affected the performance of Bank Millennium in Poland.

In the first half of 2020, the Bank also reinforced its commitment to the communities in which it operates, with emphasis on the support provided to various healthcare systems and to the most vulnerable strata of society, especially hard-hit by the consequences of the health crisis.

In general terms, despite the adverse effects mentioned above, the results of the first half confirm the capacity that the bank has demonstrated, and continues to demonstrate, to adapt in response to a sudden health emergency which caused a deep economic crisis on a global scale, with consequences not yet fully known. In this particularly disruptive context, the bank ensured the continuity of its business, defended the balance sheet and implemented measures to protect Customers and employees that have proven effective in the face of the significant challenges associated with the COVID-19 pandemic.

Miguel Maya
Chief Executive Officer
Vice-Chairman of the Board of Directors

Nuno Amado
Chairman of the Board of Directors

Information on BCP Group

BCP in the first half of 2020

Five priorities that guide BCP's actions in 2020 – main highlights:

Protect Employees	• Continued and proactive testing of Employees for early detection of infection, usage of protective equipment, reinforcement of disinfection and adaptation of facilities and internal circuits • Implementation of a prudent plan for the phased return of Employees to the workplace in safe conditions; remote work models adapted to post-pandemic phase

Defend the quality of the balance sheet, liquidity and solvency of the Bank	• Millennium bcp has a solid position to face the economic shock:
	  • Strong capital, above regulatory requirements
	  • Strong liquidity and ample collateral pool
	• Diversified loan portfolio, with reduced exposure to the most vulnerable sectors and business lines

Support the economy, families, businesses and institutions	• Operating capacity maintained at 100%. Branches stayed, and still are, open. • Companies: more than €2.5 billion in financing approved under the Covid-19 lines (38.0% of the total amount made available), with disbursements in excess of €2.2 billion; over 26,000 moratoriums implemented • Families: More than 97,000 moratoriums implemented
Strengthen social support to the most vulnerable	• Support to the NHS and contribution to the EU's initiative for the development of a vaccine for Covid-19 • Support to the Food Bank's Emergency Network • Support to institutions that assist the communities in which we operate
Adapt business models and processes to the new normal	• Active promotion of remote channels, facilitating access to Customers and minimizing the need for face-to-face interactions • Improvement of the decision and risk management model, strengthening of the mechanisms for monitoring and controlling exposures to the most vulnerable sectors of activity • Expressive gains in speed, scalability and flexibility in back-office processes, through the application of intelligent automation technologies including robotization and deep learning models

Main highlights:

Net income for the 1st half of 2020	• **Net profit of €76.0 million, influenced by the Covid-19 context** • **Core income up by 2.0%** • **Fully implemented CET1 capital ratio of 12.1%, above regulatory requirements of 8.83%** • **Strong liquidity, well in excess of regulatory requirements; eligible assets for ECB funding of €21.5 billion** • **Relevant reinforcement of impairment in the 1H2020, in the amount of €108.8 million, already reflecting the negative economic performance as a result of the pandemic**
Business activity	• **Growing business volumes: performing loans increased to €52.1 billion (+4.7%); total Customers funds reach €83.2 billion (+5.0%)** • **Leadership in Covid-19 credit lines, with more than 13,000 operations approved by SGMs (38% market share)** • **More than 120,000 moratoriums approved** • **Expansion of the mobile Customer base standing out: +36% to 2.5 million Customers** • **Digital channels grow strongly. Transfers and service payments increase 20% in the second quarter, with sales reaching 35% of the total**

Main highlights (1)

Euro million

	30 Jun. 20	30 Jun. 19	Change 20/19
BALANCE SHEET			
Total assets	86,556	80,873	7.0%
Loans to customers (net)	53,724	52,035	3.2%
Total customer funds	83,163	79,224	5.0%
Balance sheet customer funds	65,009	60,698	7.1%
Deposits and other resources from customers	63,464	59,020	7.5%
Loans to customers (net) / Deposits and other resources from customers (2)	84.7%	88.2%	
Loans to customers (net) / Balance sheet customer funds	82.6%	85.7%	
RESULTS			
Net interest income	759	740	2.6%
Net operating revenues	1,071	1,123	-4.6%
Operating costs	562	547	2.8%
Operating costs excluding specific items (3)	541	520	4.0%
Loan impairment charges (net of recoveries)	237	200	18.5%
Other impairment and provisions	114	43	166.2%
Income taxes	59	121	-51.4%
Net income	76	170	-55.3%
PROFITABILITY AND EFFICIENCY			
Net operating revenues / Average net assets (2)	2.6%	2.9%	
Return on average assets (ROA)	0.2%	0.6%	
Income before tax and non-controlling interests / Average net assets (2)	0.4%	0.9%	
Return on average equity (ROE)	2.6%	5.7%	
Income before tax and non-controlling interests / Average equity (2)	4.5%	9.7%	
Net interest margin	2.0%	2.1%	
Cost to income (2)	52.5%	48.7%	
Cost to income (2) (3)	50.5%	46.3%	
Cost to income (Portugal activity) (2) (3)	51.6%	47.0%	
Staff costs / Net operating revenues (2) (3)	28.9%	26.9%	
CREDIT QUALITY			
Cost of risk (net of recoveries, in b.p.)	85	74	
Non-Performing Exposures / Loans to customers	7.0%	9.1%	
Total impairment (balance sheet) / NPE	57.8%	53.6%	
Restructured loans / Loans to customers	5.5%	6.3%	
LIQUIDITY			
Liquidity Coverage Ratio (LCR)	249%	214%	
Net Stable Funding Ratio (NSFR)	137%	135%	
CAPITAL (4)			
Common equity tier I phased-in ratio	12.1%	12.2%	
Common equity tier I fully implemented ratio	12.1%	12.2%	
Total ratio fully implemented	15.6%	14.7%	
BRANCHES			
Portugal activity	493	532	-7.3%
International activity	967	1,033	-6.4%
EMPLOYEES			
Portugal activity	7,154	7,264	-1.5%
International activity (5)	11,016	11,406	-3.4%

Notes:

(1) Some indicators are presented according to management criteria of the Group, which concepts are described and detailed at the glossary and at "Alternative Performance Measures" chapter, being reconciled with the accounting values published in the consolidated financial statements. From 31 May 2019, financial statements of the Group reflect the consolidation of Euro Bank S.A., the entity acquired by Bank Millennium S.A.

(2) According to Instruction from the Bank of Portugal no. 16/2004, as the currently existing version.

(3) Excludes specific items: negative impact of 21 million euros in the first half of 2020, of which 13 million euros related to restructuring costs and compensation for temporary salary cuts, both recognized as staff costs in the activity in Portugal and 8 million euros related to acquisition, merger and integration of Euro Bank S.A., recognized by the Polish subsidiary (5 million euros as staff costs, 2 million euros as other administrative costs and an immaterial amount as depreciation). In the first half of 2019, the impact was also negative, in the amount of 27 million euros, of which 22 million euros related to restructuring costs and compensation for temporary salary cuts, both recognized as staff costs in the activity in Portugal and 5 million euros related to acquisition, merger and integration of Euro Bank S.A., recognized as other administrative costs by the Polish subsidiary, that also recorded an immaterial amount in staff costs. In the profitability and efficiency indicators, the specific items included in the net operating revenues, of non-material amount, related to costs with the acquisition, merger and integration of Euro Bank S.A., recognized in the Polish subsidiary are also not considered.

(4) As of 30 June 2020 and 30 June 2019, ratios include the positive cumulative net income of each period.

(5) Of which, in Poland: 8,283 employees as at 30 June 2020 (corresponding to 8,141 FTE - Full-time equivalent) and 8,700 employees as at 30 June 2019 (corresponding to 8,550 FTE - Full-time equivalent).

Information on BCP Group

Brief description

Banco Comercial Português, S.A. (BCP, Millennium bcp or Bank) is the largest Portuguese private sector bank. The Bank, with its decision centre in Portugal, operates and acts with respect for people and institutions, focusing on the Customer, pursuing a mission of excellence, trust, ethics and responsibility, and is a distinguished leader in various financial business areas in the Portuguese market and a reference institution on an international level. The Bank also holds a prominent position in Africa through its banking operations in Mozambique (in Angola, Banco Millennium Angola - BMA merged with Banco Privado Atlântico-BPA) and in Europe through its banking operations in Poland and Switzerland. Since 2010, the Bank operates in Macau through a full branch.

Bank History

BCP was incorporated on 17 June 1985 as a limited liability company ("sociedade anónima") organised under the laws of Portugal, following the deregulation of the Portuguese banking industry. BCP was founded by a group of over 200 Shareholders and a team of experienced banking professionals who sought to capitalise on the opportunity to form an independent financial institution that would serve the then underdeveloped Portuguese financial market more effectively than state-owned banks.

While the Bank's development was initially characterised by organic growth, a series of strategic acquisitions helped solidify its position in the Portuguese market and increase its offering of financial products and services. In March 1995, BCP acquired control of Banco Português do Atlântico, S.A. ("Atlântico"), which was then the largest private sector bank in Portugal. This was followed by a joint takeover bid for the whole share capital of Atlântico. In June 2000, Atlântico was merged into BCP. In 2000, BCP also acquired Império, along with Banco Mello and Banco Pinto & Sotto Mayor.

In 2004, with a view to strengthening its focus on the core business of distribution of financial products and optimising capital consumption, BCP sold insurers Império Bonança, Seguro Directo, Impergesto and Servicomercial to the Caixa Geral de Depósitos group. BCP also entered into agreements with Fortis (now named Ageas) for the sale of a controlling stake and management control of insurers Ocidental - Companhia Portuguesa de Seguros, S.A., Ocidental - Companhia Portuguesa de Seguros de Vida, S.A. and Médis - Companhia Portuguesa de Seguros de Saúde, S.A., as well as the pension fund manager PensõesGere - Sociedade Gestora de Fundos de Pensões, S.A.

After the consolidation of its position in the Portuguese banking market, the Bank focused on the development of its retail business in new regions, with the goal of attaining significant positions in emerging markets in Europe and in Africa. The Bank concentrated on businesses with strong growth prospects in foreign markets with a close historical connection to Portugal or that have large communities of Portuguese origin (such as Angola, Mozambique, the United States, Canada, France, Luxembourg and Macao), as well as in markets where the Bank's successful Portuguese business model could be effectively exported to and tailored to suit such local markets (such as Poland, Greece and Romania).

The Bank has pursued a consistent strategy of market segmentation. Until 2003, these segments were served through autonomous distribution networks operating under a variety of brand names. In October 2003, BCP began the process of replacing these brands in Portugal with a single brand name: Millennium bcp. The rebranding in other markets was completed in 2006. All operations of the Bank are now carried out under the "Millennium" brand. In Portugal, the Bank also operates under the "ActivoBank" brand.

In 2004, the Bank sold its non-life insurance businesses and divested a portion of its life insurance business by entering into a joint venture with Ageas (formerly Fortis), named Millenniumbcp Ageas, of which 51% is held by Ageas and 49% by the Bank.

In recent years, the Bank has refocused on operations that it considers core to its business. As part of this refocus, the Bank divested several of its international operations (in France, Luxembourg, United States, Canada, Greece, Turkey and Romania), while retaining commercial protocols to facilitate remittances from Portuguese emigrants in some markets. In 2010, the Bank transformed its Macao off-shore branch into an on-shore branch.

In February 2012, the Bank adopted a management restructuring through the introduction of a one-tier management and supervisory model, in which the Board of Directors includes an Executive Committee and an Audit Committee (the latter comprising non-executive members, in accordance with the applicable law).

In December 2012, the Bank prepared and presented to the Portuguese government a Restructuring Plan, required by national law and by the applicable European rules on matters of State aid. The Restructuring Plan was formally submitted by the Portuguese government to the EC and, In July 2013, the Bank agreed with the EC a Restructuring Plan, entailing an improvement of the profitability of the Bank in Portugal through continued cost reduction, among other drivers. On September 2013, the DG Comp announced its formal decision in connection with its agreement with the Portuguese authorities concerning the Bank's Restructuring Plan. Pursuant to the decision, the Bank's Restructuring Plan was found in compliance with the European Union's rules relating to State aid, demonstrating the Bank's viability without continued State support. The implemented Restructuring Plan aimed at strengthening the Bank's strategy by focusing on its core activities.

In May 2014, as part of a process aiming to refocus on core activities defined as a priority in its Strategic Plan, the Bank announced that it agreed with the international insurance group Ageas a partial recast of the strategic partnership agreements entered into in 2004, which included the sale of its 49% interest in the (currently jointly owned) insurance companies that operate exclusively in the non-life insurance business, i.e. Ocidental – Companhia Portuguesa de Seguros, S.A. and Médis – Companhia Portuguesa de Seguros de Saúde, S.A.

In April 2016, the Bank announced the conclusion of the merger between Banco Millennium Angola, S.A. with Banco Privado Atlântico, S.A., resulting in the second-largest private sector bank in Angola in terms of loans to the economy, with a market share of approximately 10% in business volume.

BCP has announced in January 2017 a 1.3bn euros rights issue with transferable pre-emptive subscription rights. The aim of this transaction was to bring forward the full repayment of remaining Government Subscribed Securities and the removal of key State-aid related restrictions, including dividend ban, risk of potential sale of core businesses and tail risk of conversion. This transaction was designed to strengthening the balance sheet through the improvement of CET1 FL ratio and Texas ratio, bringing them in line with new industry benchmarks and above regulatory requirements.

On December 27, 2019, the merger deed of Banco de Investimento Imobiliário, S.A., a wholly-owned subsidiary of Banco Comercial Português, S.A., by incorporation into the latter, was signed, thus completing the incorporation process of Banco de Investimento Imobiliário, S.A. into Banco Comercial Português, S.A..

Approval of the merger of Bank Millennium S.A. with Euro Bank S.A., on 27 August 2019, on the Extraordinary General Meeting of Bank Millennium S.A., in which 216 Shareholders participated, representing 78.53% shares in the Bank’s shareholders’ equity. The completion of the integration of Euro Bank S.A. into Bank Millennium S.A. took place in November, with the Bank resulting from the merger now operating under a single brand, a single operating system and a single legal entity.

Millennium bcp has successfully executed an operational turnaround, reinforcing its financial and capital position despite an adverse banking sector in Portugal. This position reflects a relentless path and multiple achievements, such as a cost reduction of approximately 40% in Portugal since 2011, and a reduction of more than 60% of the Group’s NPEs since 2013 (from 13.7 billion euros to 3.9 billion euros in June 2020). Three distinctive competences were at the core of this turnaround: a Customer-oriented relationship model, market-leading efficiency, and a competitive international portfolio.

Governance

Banco Comercial Português, S.A. has a one-tier management and supervision model, composed of a Board of Directors (BD), which includes an Executive Committee (EC) and an Audit Committee composed of only non-executive directors. The Company also has a Remuneration and Welfare Board (RWB) and an International Strategic Board.

In addition, the Group uses a Statutory Auditor and an external auditing firm to audit the individual and consolidated accounts of the Bank, elected at the General Meeting.

At the General Shareholders' Meeting held on May 22, 2019, a non-executive Director, Mr. Fernando da Costa Lima, was co-opted to perform duties in the current term, which ends in 2021, to fill a vacancy of vowel of the Audit Committee; Prof. Cidália Lopes was appointed Chairman of the Audit Committee, who was elected on May 30, 2018 as a member of this Committee, and Mr. Nuno Alves was elected a member of the RWB, filling a vacancy in this social body. At the General Shareholders' Meeting held on May 20, 2020, the elected members of the Board of the General Meeting of Shareholders of Banco Comercial Português, S.A., were re-appointment of for the four-year term of office 2020/2023 (Chairman: Pedro Rebelo de Sousa and Vice-Chairman: Octávio Castelo Paulo).

The General Meeting is the highest governing body of the company, representing the entirety of the Shareholders, and its resolutions are binding for all when adopted under the terms of law and the articles of association. The General Meeting is responsible for:

- Electing and dismissing the Board, as well as the members of the management and supervisory bodies, and the RWB;
- Approving amendments to the memorandum of association;
- Resolving on the annual management report and accounts for the year and proposed appropriation of profits;
- Resolving on matters submitted upon request of the management and supervisory bodies;
- Resolving on all issues especially entrusted to it by the law or articles of association, or on those not included in the duties of other corporate bodies.

The BD is the governing body of the Bank with the most ample powers of management and representation, pursuant to the law and the articles of association.

Under the terms of the articles of association, the BD is composed of a minimum of 15 and a maximum of 19 members with and without executive duties, elected by the General Meeting for a period of four years, and can be re-elected. At the end of March 2020, the Board of Directors was composed of 17 members, of which 6 are executive and 11 are non-executive, of whom 5 are qualified as independent.

The BD began its functions on July 23, 2018 and appointed an EC on July 24, 2018, composed of six of its members, with the Chied Executive Officer being appointed by the General Meeting.

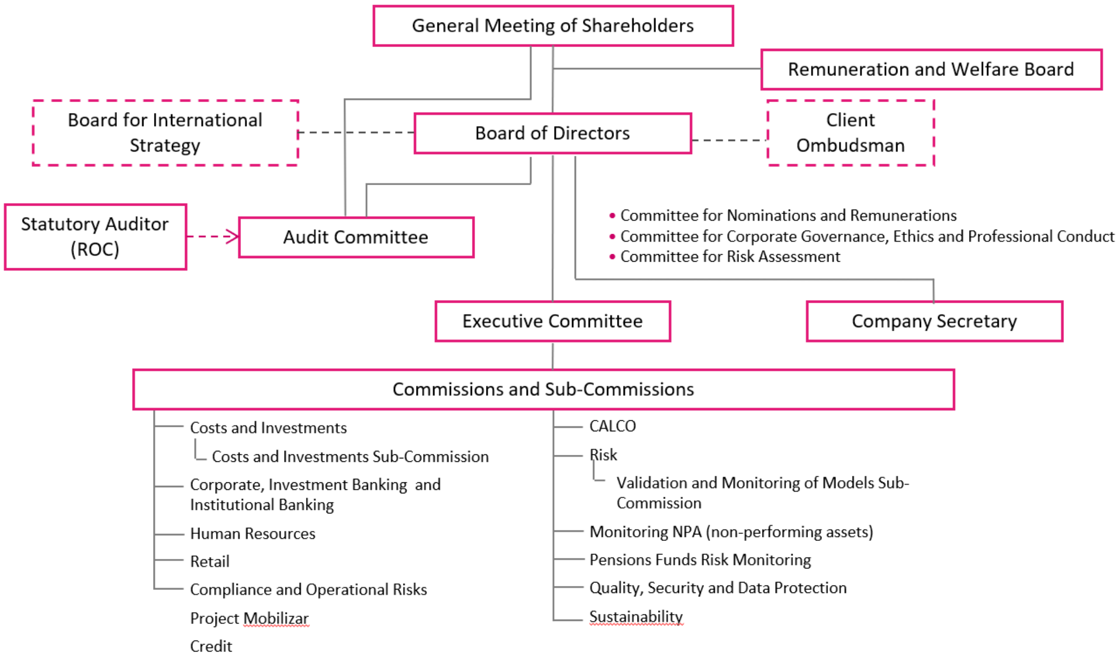
The BD has delegated to the EC the day-to-day management of the Bank, which is assisted by several committees and subcommittees in the exercise of this management function, to which it monitors certain relevant matters.

The supervision of the company is made by an Audit Committee elected by the General Meeting of Shareholders and composed of 3 to 5 members, elected together with the majority of the remaining directors. The lists proposed for the BD should indicate the members to be part of the Audit Committee and indicate the respective Chairperson.

The RWB is elected by the General Meeting.

The Company Secretary and the Alternate Secretary are appointed by the Bank's BD, and their term-of-office matches that of the BD that appointed them.

Coporate Governance Model



Identification and composition of the Corporate Bodies and Committees from the Board of Directors

	Board of Directors	Executive Committee	Audit Committee	Remuneration and Welfare Board	Board for International Strategy *	Committee for Corporate Governance, Ethics and Professional Conduct	Committee for Nominations and Remunerations	Committee for Risk Assessment
Nuno Manuel da Silva Amado (Board of Directors President)	•				•			
Jorge Manuel Baptista Magalhães Correia (Board of Directors Vice-President and RWB President)	•			•				
Valter Rui Dias de Barros (Board of Directors Vice-President)	•		•			•		
Miguel Maya Dias Pinheiro (Board of Directors Vice-President and CEO)	•	•			•			
Ana Paula Alcobia Gray	•			•				•
Cidália Maria Mota Lopes (Audit Comittee President)	•		•					
Fernando da Costa Lima**	•		•					
João Nuno de Oliveira Jorge Palma	•	•						
José Manuel Alves Elias da Costa (CNR President)	•					•	•	•
José Miguel Bensliman Schorcht da Silva Pessanha	•	•						
Lingjiang Xu (CCGEPC President)	•					•	•	
Maria José Henriques Barreto de Matos de Campos	•	•						
Miguel de Campos Pereira de Bragança	•	•						
Rui Manuel da Silva Teixeira	•	•						
Teófilo César Ferreira da Fonseca (CRA President)	•						•	•
Wan Sin Long	•		•					•
Xiao Xu Gu (Julia Gu)	•							
António Vitor Martins Monteiro					•			
Nuno Maria Pestana de Almeida Alves				•				

* Chairman and Vice-chairman to be nominated.
** Pending authorization from BdP/ECB to exercise the respective functions

Main events in the first half of 2020

In the context of the actual COVID-19 pandemic situation, we must point out some initiatives carried out by Millennium bcp to support the economy and the community:

- Launch of solutions for individuals and companies promoted by the Portuguese Government and APB;
- Participation in the donor conference, being part of the Portuguese contribution to the EU's effort to find a vaccine and treatment for COVID-19;
- Support to the NHS through initiatives such as the "United for Survival" campaign, the conversion of Curry Cabral Hospital and the construction of the Lisbon Hospital Contingency Structure, among others;
- Integration into the Portugal #EntraEmCena movement, which brings together artists and public and private companies, in support of Culture;
- Millennium bcp Foundation supports the Food Emergency Network of the Food Bank against Hunger, reinforcing its annual contribution;
- Millennium Festival ao Largo, this year at the National Palace of Ajuda, complying with security rules while taking the best of classical music and ballet to the public.

Other events:

- On **April 3**, Fitch Ratings affirmed BCP's Long-Term Rating of 'BB' ("IDR" – Issue Default Rating) and its Intrinsic Rating of 'bb' ("VR" - Viability Rating), and revised the Outlook to Negative from Positive, reflecting the uncertainty related to the coronavirus crisis. Assigned a 'BB-' rating to the Bank's senior non-preferred debt and a 'B+' rating to its tier 2 debt, according to Fitch's new rating methodology for banks. Assigned a 'BB+'/ 'B' rating to the Bank's deposits, one notch above the Long-Term IDR, reflecting the view of Fitch Ratings that depositors enjoy a superior level of protection.
- On **April 8**, Standard & Poor's affirmed the long-term rating of the Bank at 'BB' ("ICR" - issuer credit rating) and its intrinsic rating at 'bb' ("SACP" – stand-alone credit profile), and has revised the long-term outlook to Stable from Positive, based on the uncertainty related to the coronavirus outbreak.
- On **April 21**, BCP changed the conditions related to the issue of Covered Bonds with ISIN PTBCQLOE0036, namely the amount, from 2,000,000,000 euros to 4,000,000,000 euros, aiming to increase the assets portfolio eligible for discount with the ECB.
- On **May 20**, completion, exclusively through electronic means, with 61.31% of the share capital represented, of the Annual General Meeting of Shareholders of BCP, SA, with the following resolutions being worth mentioning:
  - Approval of the management report, the individual and consolidated annual report, balance sheet and financial statements of 2019, including the Corporate Governance Report;
  - Approval of the proposal for the appropriation of profit regarding the 2019 financial year;
  - Approval of the remuneration policy of Members of Management and Supervisory Bodies;
  - Re-appointment of the elected members of the Board of the General Meeting of Shareholders of Banco Comercial Português, S.A., for the four-year term of office 2020/2023 (Chairman: Pedro Miguel Duarte Rebelo de Sousa and Vice-Chairman: Octávio Manuel de Castro Castelo Paulo)
- On **May 28**, DBRS affirmed the ratings of BCP and has revised the trend to Negative from Stable, based on the uncertainty related to the coronavirus outbreak.

BCP Share

The first half of 2020 was characterized by significant declines in the main capital markets. The Euro Stoxx 600 Banks index depreciated 34.3%.

The dissemination of the Coronavirus worldwide was declared a pandemic by the World Health Organization, with severe economic and social impacts. European governments have imposed lock downs, restricting the movement of people and halted economic activity in some sectors. Economic activity was negatively affected. Central banks acted with measures of economic support, with cuts in interest rates and stimulus packages. Several measures to support the economy were launched by Governments at the European level, namely, in Portugal, credit lines were launched with State guarantee, moratoriums for companies and private individuals and support for families affected by the crisis, with part of the lay- charges borne by the State and also in cases where people had to be stay home in quarantine.

On the geopolitical level, this semester was marked by the deterioration of the relationship between the USA and China and the possibility of a transatlantic trade war, following news that the USA intends to proceed with the introduction of tariffs on products coming from the European Union and the United Kingdom.

BCP SHARES INDICATORS

	Units	1H20	1H19
ADJUSTED PRICES			
Maximum price	(€)	0.2108	0.2719
Average price	(€)	0.1347	0.2433
Minimum price	(€)	0.0854	0.2207
Closing price	(€)	0.1070	0.2719
SHARES AND EQUITY			
Number of ordinary shares (outstanding)	(M)	15,114	15,114
Shareholder's Equity attributable to the group	(M€)	6,233	6,348
Shareholder's Equity attributable to ordinary shares	(M€)	6,233	6,348
VALUE PER SHARE			
Adjusted net income (EPS) (1) (2)	(€)	0.008	0.022
Book value (3)	(€)	0.386	0.393
MARKET INDICATORS			
Closing price to book value	(PBV)	0.26	0.65
Market capitalisation (closing price)	(M€)	1,617	4,109
LIQUIDITY			
Turnover	(M€)	1,022	1,215
Average daily turnover	(M€)	8.1	9.7
Volume (2)	(M)	8,455	4,991
Average daily volume (2)	(M)	67.1	39.9
Capital rotation (4)	(%)	55.9%	33.0%

(1) Considering the average number of shares outstanding
(2) Adjusted by the share capital increase completed in February 2017
(3) Considering the average number of shares minus the number of treasury shares in portfolio
(4) Total number of shares traded divided by the average number of shares issued in the period

BCP shares closed H1 2020 having depreciated 47.2%, which compares to a 34.3% decrease of the European banks index (EuroStoxx 600 Banks index), in the same period.

BCP's share performance reflected the uncertainties related to the appearance, spread and socio-economic impact of the COVID-19 pandemic. Additionally, it also reflected specific factors associated with the Bank's operations, such as, the uncertainty associated to the foreign currency loans granted in Poland.

Positive impacts:

- Announcement of 2019 results, which, despite the one-offs, increased when compared to the previous year. Announcement of Q1 2020 results, with praise to the level of transparency and the additional information disclosed about COVID-19: actions taken, support to the economy and potential impacts;
- Announcement of economic stimulus plans by several European governments, with BCP obtaining a market share in credit lines granted to SMEs higher than its natural market share;
- Announcement, by the ECB, of support measures to banks, mainly focused on easing capital and liquidity requirements and limiting the recognition of provisions.

Negative impacts:

- Downward revision – by several entities – of macroeconomic projections for the Eurozone;
- Uncertainty regarding the foreign currency loans situation, in Poland;
- Downward revision of BCP's rating outlook, to Negative, by Fitch, and downward revision, by DBRS, of BCP's rating trend.

The current average price target of 0.14 euros, represents a 31% potential appreciation, compared to the BCP share's closing price at June 30, 2020.

PERFORMANCE

Index	Change 1H20
BCP share	-47.2%
Eurostoxx 600 Banks	-34.3%
PSI20	-15.8%
IBEX 35	-24.3%
CAC 40	-17.4%
DAX	-7.1%
FTSE 100	-18.2%
MIB FTSE	-17.6%
Dow Jones	-9.6%
Nasdaq 100	+16.3%
S&P500	-4.0%

Source: Euronext, Reuters, Bloomberg

Liquidity

During the first half of 2020, 1,022 million euros in BCP shares were traded, corresponding to an average daily turnover of 8.1 million euros. 8,455 million shares were traded during this period of time, corresponding to a daily average volume of 67.1 million shares. The capital turnover index stood at 55.9% of the average annual number of shares issued.

Indexes listing BCP shares

The BCP share is part of more than 50 domestic and international stock exchange indexes among which we point out the Euronext 150, the PSI 20 and the PSI Geral.

Index	Weight
Euronext 150	0.60%
PSI 20	9.18%
PSI Geral	2.81%

Source: Euronext, 30 June 2020

Additionally, at the of the first half of 2020, the BCP Group remained in the indexes/statutes: "Ethibel Excellence Europe" and "Ethibel EXCELLENCE Investment Register" (VigeoEiris analyst) and "European Banks Index (Standard Ethics)", also integrating the "Gender-Equality Index" (Bloomberg).

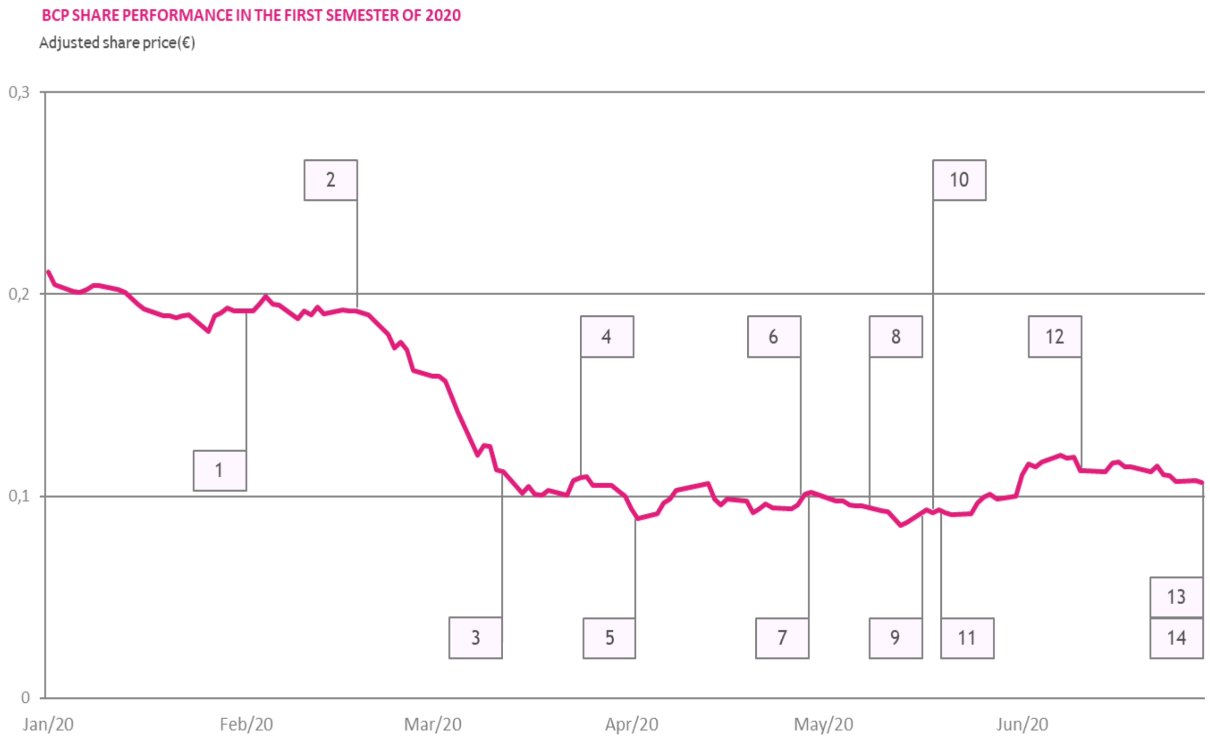
Sustainability Indexes

Material information announced to the market and impact on the share price

The following table summarizes the material information directly related with Banco Comercial Português announced in the first half of 2020, as well as the price variations occurred on the following day and on the 5 subsequent days and the relative evolution versus the main reference domestic and European indexes during the mentioned periods of time.

Nr.	Date	Material Events	Chg. +1D	Chg. vs. PSI20 (1D)	Chg. vs. STOXX® Europe 600 Banks (1D)	Chg. +5D	Chg. vs PSI20 (5D)	Chg. vs STOXX® Europe 600 Banks (5D)
1	3/Feb	Banco Comercial Português, S.A. informs about Bank Millennium (Poland) results in 2019	1.7%	0.9%	-0.3%	-2.0%	-3.1%	-8.6%
2	20/Feb	Millennium bcp earnings release as at 31 December 2019	-0.4%	0.0%	0.5%	-9.6%	-1.2%	2.0%
3	15/Mar	Banco Comercial Português, S.A. informs about changes in the functioning of branches	-9.6%	-5.3%	-1.2%	-8.3%	-3.9%	-4.2%
4	26/Mar	Banco Comercial Português, S.A. informs about outcome of Board of Directors' meeting	-4.0%	-2.2%	1.3%	-14.5%	-14.0%	-0.2%
5	3/Apr	Banco Comercial Português, S.A. informs about Fitch Rating Actions	2.6%	1.4%	-3.4%	19.3%	12.8%	10.0%
6	29/Apr	Banco Comercial Português, S.A. informs about qualified shareholding of BlackRock	1.0%	1.6%	5.5%	-5.4%	-2.5%	4.0%
7	30/Apr	Banco Comercial Português, S.A. informs about qualified shareholding of BlackRock	-4.4%	-2.1%	-3.4%	-6.5%	-5.0%	-3.1%
8	11/May	Banco Comercial Português, S.A. informs about Bank Millennium (Poland) results in 1Q 2020	-0.4%	0.9%	-0.3%	0.5%	1.2%	0.3%
9	19/May	Millennium bcp Earnings release as at 31 March 2020	2.0%	1.0%	0.9%	5.6%	2.7%	0.8%
10	20/May	Banco Comercial Português, S.A. informs about resolutions of the Annual General Meeting	-1.6%	-1.4%	0.4%	6.7%	4.8%	-1.0%
11	22/May	Banco Comercial Português, S.A. informs about notice of acquisition of perpetual subordinated notes	0.7%	-0.2%	-0.4%	8.6%	6.5%	2.0%
12	12/Jun	Banco Comercial Português, S.A. informs about notice of acquisition of perpetual subordinated notes	-0.4%	0.3%	0.6%	1.8%	-0.5%	1.1%
13	30/Jun	Banco Comercial Português, S.A. informs about notice of acquisition of perpetual subordinated notes	-0.7%	0.1%	-0.1%	1.9%	0.5%	-2.8%
14	30/Jun	Banco Comercial Português, S.A. informs about granting of shares to the Executive Directors and Key Function Holders	-0.7%	0.1%	-0.1%	1.9%	0.5%	-2.8%

The performance of the BCP share during the first half of 2020 is shown in the following chart:



Dividend policy

The dividend policy of BCP Group is based primarily on the retention of own funds that are consistent with its Risk Appetite Statement (RAS), its internal capital needs assessment (ICAAP) and the existence of a buffer on the amounts required by the regulator in its Bank' risk assessment (SREP).

Due to the strategic objectives presented and the corresponding evolution in terms of capital needs, there is an aspirational objective of a payout ratio of 40%, in seady state, but the final decision is always the result of the aforementioned policy.

Follow-up with Investors

The Bank participated in various events during the first half of 2020, having attended 7 conferences and 3 road shows, where it gave institutional presentations and held one-on-one meetings and group meetings with investors. More than 150 meetings were held with analysts and institutional investors, demonstrating significant interest in the Bank.

Own shares

As at 30 June 2020, Banco Comercial Português, S.A. does not hold treasury shares and did not purchase or sold own shares during the period. However, this balance includes 323,738 shares (31 December 2019: 323,738 shares) owned by Clients. Since for some of these Clients there is evidence of impairment, the shares of the Bank owned by these Clients were considered as treasury shares, and, in accordance with the accounting policies, deducted to equity.

The own shares held by the companies included in the consolidation perimeter are within the limits established by the Bank's by-laws and by the Commercial Companies Code.

As at 30 June 2020, regarding treasury shares owned by associated companies of the BCP Group, Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. owned 142,601,002 BCP shares (31 December 2019: 142,601,002 shares), in the amount of 15,258,000 euros (31 December 2019: 28,891,000 euros), according to note 50.

Shareholders structure

According to Interbolsa, Banco Comercial Português had of 150,897 Shareholders at 30 June 2020.

At the end of June 2020 there were four Shareholders with a qualifying shareholding, two of which with a stake above 5% of the Bank's share capital.

Shareholder structure	Number of Shareholders	% of share capital
INDIVIDUAL SHAREHOLDERS		
Group Employees	2,764	0.34%
Other	143,554	25.23%
COMPANIES		
Institutional	289	19.72%
Qualified Shareholders	4	53.56%
Other companies	4,286	1.15%
TOTAL	**150,897**	**100%**

Shareholders with more than 5 million shares represented 73.51% of the share capital.

Number of shares per Shareholder	Number of Shareholders	% of share capital
> 5,000,000	118	73.51%
500,000 a 4,999,999	1,304	9.49%
50,000 a 499,999	13,476	11.81%
5,000 a 49,999	39,359	4.62%
< 5,000	96,640	0.57%
TOTAL	**150,897**	**100%**

During the first half of 2020, the Bank's shareholding structure remained stable in terms of geographical distribution. On 30 June 2020, Shareholders in Portugal held 33.8% of the total number of shares of the Bank.

	Nr. of Shares (%)
Portugal	33.8%
China	29.0%
Africa	19.7%
UK / EUA	10.1%
Other	7.4%
Total	**100%**

Qualified Holdings

On 30 June 2020, the following Shareholders held more than 2% of the share capital of Banco Comercial Português, S.A.:

			30 June 2020
Shareholder	Nr. of shares	% of share capital	% of voting rights
Chiado (Luxembourg) S.a.r.l., an affiliate of Fosun, whose parent company is Fosun International Holdings Ltd	4,384,384,503	29.01%	29.01%
TOTAL FOR FOSUN GROUP	**4,384,384,503**	**29.01%**	**29.01%**
Sonangol - Sociedade Nacional de Combustíveis de Angola, EP, directly	2,946,353,914	19.49%	19.49%
TOTAL FOR SONANGOL GROUP	**2,946,353,914**	**19.49%**	**19.49%**
BlackRock*	451,995,799	2.99%	2.99%
TOTAL FOR BLACKROCK	**451,995,799**	**2.99%**	**2.99%**
EDP Group Pensions Fund **	311,616,144	2.06%	2.06%
TOTAL EDP GROUP	**311,616,144**	**2.06%**	**2.06%**
TOTAL OF QUALIFIED SHAREHOLDERS	**8,094,350,360**	**53.56%**	**53.56%**

* In accordance with the announcement on April 30, 2020 (last information available).

** Allocation in accordance with Art. 20 (1.f) of the Portuguese Securities Code.

The voting rights referred to above are the result of the direct and indirect stakes of Shareholders in the share capital of Banco Comercial Português. No other imputation of voting rights foreseen in article 20 of the Securities Code was communicated or calculated

Business Model

Regulatory, economic and financial system environment

Regulatory environment

The regulatory agenda in the first half of 2020 was characterized by a specific set of initiatives by the political authorities, regulators and supervisors at European and national level, with a view to mitigating the impacts of the "COVID-19" pandemic on economies, firms and households.

The European Commission has adopted a temporary framework to support member states, namely by reviewing the framework for State aid, an agreement has been broadly reached on the EU recovery package; the European Central Bank adopted a set of flexibility measures, in monetary policy by easing the standards to access Central Bank funding and in the scope of prudential supervision adjusting the procedures for monitoring and regular reporting; the European Banking Authority ("EBA") issued guidance for the application of a uniform prudential and accounting framework for legislative and private moratoria (Guidelines EBA/GL/2020/02) and on the reporting and disclosure of information on these exposures (EBA/GL/2020/07), along with further guidance from the European Securities and Markets Authority ("ESMA") regarding financial reporting; national authorities have adopted measures within their competence, namely macro-prudential, conduct and financial markets, taking in to consideration national specificities and, when applicable, in accordance with the guidelines issued by the European authorities.

Within this context, relevant Portuguese regulation includes:

- Decree-Law no. 10-J/2020, of 26 March, which approved exceptional measures to protect the credits of households, firms, private institutions of social solidarity and other entities of the social economy, materialized above all in a moratorium on the reimbursement of capital and/or debt service, and a special regime of personal guarantees of the State (the Portuguese Banking Association also promoted a sectorial private moratorium, with adhesion of the banks, and in compliance with the specifications of the EBA);
- Decree-Law no. 10-H/2020, of 26 March, which established exceptional and temporary measures to encourage the acceptance of payments based on cards, namely the suspension of charging of the fixed component of any commission, by operation of card payment made at automatic payment terminals, which is due by the beneficiaries of these payments to payment service providers;
- The Economic and Social Stabilization Program approved by the Government, part of the supplementary Budget approved on June 19, which provides for the creation of an additional solidarity contribution charged on the banks, whose revenue is allocated to contribute to support the costs of public response to the current crisis, through its assignment to the Social Security Financial Stabilization Fund.

Banco de Portugal published:

- Circular Letter no. CC/2020/00000017 and Circular Letter no. CC/2020/00000021 regarding flexibility measures and additional recommendations on regulatory and supervisory requirements;
- Circular Letter no. CC/2020/00000022 with guidelines on public and private moratoria on credit operations in the context of the pandemic (EBA/GL/2020/02);
- Circular Letter no. CC/2020/00000023, disclosing measures to be taken in terms of preventing money laundering and financing of terrorism (AML/CFT), in the context of the COVID-19 pandemic;
- Notice 2/2020, regarding the information obligations to Customers to be observed in the scope of credit operations covered by the exceptional and temporary measures to respond to the COVID-19 pandemic ("public moratorium" and in the scope of private initiative moratoria).

Other relevant regulatory initiatives for the Portuguese financial system occurred in the first half of 2020, among which:

- Circular Letter No. CC/2020/00000013, of Banco de Portugal, relating to the Process of granting and restructuring credits to riskier debtors or groups of debtors;
- Circular Letter No. CC/2020/00000044, from Banco de Portugal, which recommends the good practices to be observed in the marketing of banking products and services through digital channels;
- Notice 3/2020 and Instruction 18/20, of Banco de Portugal, regarding conduct and organizational culture and systems of government, internal control and risk management;

- At the macro-prudential level, the percentage of countercyclical reserve applicable to credit exposures to the domestic non-financial private sector remained unchanged at 0% of the total amount of the positions at risk;

In Poland, the government adopted a set of "anti-crisis" protection measures, including measures to stimulate the economy, and the supervisor implemented a package of measures aimed at the resilience of the banking sector in the scope of:

- provisions and classification of credit exposures;
- capital buffers and liquidity requirements;
- credit granted to micro, small and medium-sized companies, namely the possibility of extending the maturity periods of the contracts.

Also, in Mozambique, the government adopted measures to support the financial system, reducing the value of mandatory reserves and exempting the constitution of additional provisions related to the renegotiation of credits granted to Clients affected by the pandemic. In the banking sector, there was also an exemption or reduction of commissions charged for some banking operations.

In these countries, also to note the adoption of private initiative moratoriums and a moratorium of a legislative nature is in place in Poland.

A context of uncertainty prevails pertaining to the evolution of the pandemic, the dynamics of economic recovery and the reaction to the strong stimuli directed at economic activity in the various countries where the Group operates, while it is expected that the regulatory context will continue to be subject to adjustments, in particular regarding the regulatory flexibility measures now adopted by the competent authorities and the possible definition of the regulatory and supervisory strategy to be adopted for the post-COVID-19 period.

Economic environment

The outbreak of COVID-19 forced the majority of the countries to implement restraining measures that turned out very harmful for the global economy. In this context, the International Monetary Fund (IMF) projects a contraction of the world's GDP of 4.9% in 2020, followed by a quick recovery in 2021 (5.4%). These forecasts, which incorporate the positive effects stemming from the assertive reaction of the economic policy authorities at the global scale, do not however include the impact of a possible second wave of the Coronavirus that demands a new lockdown.

The Euro Area should be the most penalized among the main world economies given the strong incidence of the pandemic in some of its member-states. In fact, after the strong GDP fall in the first quarter (quarterly variation of -3.8%), in the second quarter the GDP recorded an additional reduction of 12.1%. For the whole year the European Commission (EC) estimates a retreat of GDP in the EMU of 8.7% in 2020, with a partial recovery in 2021 (6.1%). In this environment, the European Central Bank (ECB) intensified the purchase of public and private debt securities and created a new liquidity facility for the banks but has not altered the key interest rates.

The pandemic arrived at the American continent with a time lag relative to Europe, which translated into a softer contraction of the US economy in the first quarter (-1.3%) when compared with its European counterparts. However, the imposition of restrictive confinement measures during the second quarter led to a considerable fall in activity levels (-9.5%), which have made a strong recession unavoidable for the whole of 2020, which the Federal Reserve (Fed) estimates to amount to an output contraction of 6.5%. In these circumstances the Fed reduced its key interest rate to 0%, intensified the purchasing amounts of public debt, launched a program of corporate debt securities purchase and created credit lines dedicated to non-financial firms.

The rapid dissemination of the COVID-19 in the West in March caused a sharp correction the valuations of the riskier asset classes, such as equities, corporate debt and emerging market assets. However, despite the global recessive climate the financial markets saw a surprising recovery, which underlines the relevance of the intervention of the monetary and fiscal policy authorities. The evolution of the sovereign debt of the Eurozone's periphery did not differ from this pattern as the widening of the risk premia that occurred in the first quarter has to a great extent been reverted with the expansionary stance of the ECB. The improvement of investors' sentiment benefited the Euro, whilst the fading tensions in the EMU's short-term funding market led to a gradual convergence of Euribor interest rates towards levels close to the ECB's deposit rate.

Portugal has been of one the European countries most affected by the pandemic mainly due to the preponderance of tourism in exports and employment. In the first half of the year the GDP contracted by 9.3% annually and according to the EC for the whole of 2020 economic activity is expected to fall by 9,8%, recovering by only 6.0% in 2021. The seriousness of the situation led the government to implement a set of measures to mitigate the impact of COVID-19, including guaranteed credit lines, moratoria for credit and tax obligations for firms and individuals, a simplified layoff regime and other measures of employment protection. The fiscal policy activism combined with the expressive retraction of GDP imply a marked deterioration of public finances in 2020.

The Polish economy denoted a great resiliency in the first quarter, with GDP falling by only 0.4% on a quarterly basis due to its reduced exposure to some of the sectors most affected by the pandemic (like tourism) and the diversified structure of its productive structure. Notwithstanding, in the second quarter, the lockdown needed to contain the pandemic resulted in a significant loss of activity, leading the central bank to reduce the key interest rate from 0.50% to 0.10%. On the FX front, the Zloty has been recovering from the strong depreciation recorded in March, albeit modestly.

In Mozambique, the COVID-19 containment measures and the military instability in the north of the country together with the contraction of the external demand have been hampering the performance of the economy and thus the evolution of the Metical, which has been depreciating, with particular strength since end of May. Faced with this situation, the central bank decreased again the reference rates in the first quarter. For the whole year, the IMF foresees a GDP growth rate in Mozambique of 1.4%. In Angola, the economic recession that the country has been facing since 2016 should get worse in the current year due to the big fall in the production and prices of oil in the wake of the collapse of the global demand. In this environment, the depreciation trajectory of the Kwanza has become more acute.

Financial system

The first half of 2020 is marked by the COVID-19 pandemic, with the real impact on the national and international financial sector still uncertain, given the lack of a relevant precedent to enable a reliable projection of the severity and duration of this crisis, or the strength of the recovery. It should be noted that, unlike in the previous international financial crisis, this shock is of an exogenous nature and not directly related to pre-existing financial imbalances. As a matter of fact, after the previous economic and financial crisis, several countries, including Portugal, have implemented economic adjustment processes that have made it possible to reduce their overall degree of vulnerability. Therefore, the Portuguese banking system faces this crisis under better conditions than it did the previous crisis, with a much more solid position both in terms of capital and liquidity, and with significantly improved asset quality indicators, reflecting the efforts made in recent years to reduce non-productive exposures ('NPAs') on banks' balance sheets.

The extent and speed of the authorities' response, on a planetary scale, with the announcement and adoption of a wide range of measures to ensure ample liquidity provision, the proper functioning of the monetary policy transmission mechanism, together with unprecedented fiscal stimuli, have contributed to the stabilisation of international financial markets and the containment of the impact of the crisis on the financial sector, when compared to previous economic crises (e.g. 'Global financial crisis' in 2008/09 and 'Sovereign debt crisis in the Euro Area' in 2011/12). It should, however, be noted that the response programmes announced by the authorities reveal widely diverging levels of support from the European Union members to companies and individuals. The non-homogeneity of support can generate large competitive distortions and therefore also imply diverging levels of indirect State support to banks in each EU jurisdiction (e.g. via what amounts effectively to indirect asset quality protection schemes). These developments could prove to be game changers in the process of banking sector consolidation in the European Union, which is being increasingly encouraged by the Supervisors.

In an increasingly challenging context, following the downward revision of macroeconomic projections for the coming years, pointing to a worldwide recession, the maintenance of negative interest rates for a considerably longer period than previously anticipated, the increasing legislative pressure on commissioning and the maintenance of disturbance factors of a geopolitical nature (e.g. trade tensions or the conclusion of the Brexit process), the main domestic banks still managed to maintain positive profitability levels, despite the year-on-year reduction that was mainly attributable to precautionary additions to provisioning levels, reflecting the deterioration of the macroeconomic forecasts. Efficiency levels remained among the best in European terms. As in previous years, the evolution and performance of the banking system continued to be impacted by an increasingly demanding and costly Supervision and Regulation, despite the temporary pandemic-induced relief, and by increasing regulatory contributions (e.g. Banking Sector Contribution and contributions to the European and National Resolution Funds, in this last case at a clear disadvantage compared to European peers).

The liquidity position in the Portuguese banking system remained at comfortable levels, with some of the main banks already presenting loan-to-deposits ratios below 90%. Capital ratios continue to progress favourably on the back of organic capital generation and the issuance of prudential own funds-eligible subordinated debt instruments, also in order to comply with MREL requirements in the short/medium term, with the exception of one institution that continues to rely on the National Resolution Fund to top-up its capital ratios in order to comply with the minimum requirements of the Supervisor. This situation, together with the other financial needs generated by the resolution processes of Banco Espírito Santo and BANIF, remains a source of risk potentially affecting the normalisation of the profitability of the Portuguese banking system.

This new context provoked by the pandemic has confirmed the merits of the business model adjustment strategy adopted by some of the main domestic banks, which now offer a more digital, more convenient, but also safer and better quality service to increasingly demanding Customers. As in recent years, the mitigation of compliance risks (associated for example with money laundering and the financing of illicit activities, e.g. terrorism) and cybersecurity, required enhanced investment in appropriate operating risk assessment and control policies, as well as in IT, and particularly data security systems, which will contribute to a more resilient response of the Portuguese financial system to the crisis.

Business Model

Nature of operations and main activities

The Group provides a wide variety of banking services and financial activities in Portugal and abroad, where it is present in the following markets: Poland, Switzerland, Mozambique, Angola (through its associate BMA) and China. All its banking operations develop their activity under the Millennium brand. The Group also ensures its international presence through representation offices and/or commercial protocols.

The Bank offers a vast range of financial products and services: current accounts, payment systems, savings and investment products, private banking, asset management and investment banking, including mortgage loans, consumer credit, commercial banking, leasing, factoring and insurance, among others. The back-office operations for the distribution network are integrated to benefit from economies of scale.

In Portugal, Millennium bcp is focused on the retail market, providing services to its Customers in a segmented manner. The subsidiary companies generally provide their products through the Bank's distribution networks, offering a wide range of products and services.

Distinctive factors of the business model

Largest private sector banking institution

Millennium bcp is Portugal's largest private sector banking institution on business volumes, with a leading position and particular strength in various financial products, services and market segments based on a modern branch network with nationwide coverage. The Bank also offers remote banking channels (banking service by telephone, mobile banking and online), which operate as distribution points for its financial products and services.

The priorities, in accordance with the 2021 Strategic Plan, consist in redesigning the digital experience to an approach centred on mobile devices, transforming the top Customer journeys, forming an appropriate and productive omnichannel model and transforming the operations through the implementation of NextGen technologies (such as robotics and natural language processing). At the same time, the Bank will adopt an IT strategy focused on the update of technology, information safety and promotion of new work forms.

The activity in the domestic market focuses on Retail Banking, which is segmented in order to best serve Customer interests, both through a value proposition based on innovation and speed targeted at Mass-market Customers, and through the innovation and personalised management of service for Prestige, Business, Companies, Corporate and Large Corporate Customers Retail Banking and also through ActivoBank, a bank aimed specifically at Customers who are young in spirit, intensive users of new communication technologies and prefer a banking relationship based on simplicity and offering innovative products and services.

International presence as a platform for growth

At the end of June 2020, Millennium bcp was the largest Portuguese privately-owned bank on business volumes with a relevant position in the countries where it operates.

On 30 June 2020, operations in Portugal accounted for 70% of total assets, 69% of total loans to Customers (gross) and 70% of total customer funds. The Bank had over 2.4 million active Customers in Portugal and market shares of 17.7% and 18.1% of loans to customers and customer deposits, respectively, in May 2020.

At the end of June 2020, Millennium bcp is also present throughout the world through its banking operations, representation offices and/or commercial protocols, serving over 5.6 million active Customers.

Concerning the operations in Africa, Millennium bcp operates through Millennium bim, a universal bank that has been operating since 1995 in Mozambique, where it has 1.3 million Active Customers and is the reference bank in this country, with 18.8% of loans and advances to Customers and 24.0% of deposits, on 31 May 2020. Millennium bim is a highly reputed brand in the Mozambican market, associated with innovation, major penetration in terms of electronic banking and exceptional capacity to attract new Customers, as well as being a reference in terms of profitability.

The deed of the merger of Banco Millennium Angola, S.A. with Banco Privado Atlântico, S.A. was signed on 22 April 2016. The bank resulting from the merger is an associate of Banco Comercial Português.

In Poland, Bank Millennium has a well distributed network of branches, supported on a modern multi-channel infrastructure, on a reference service quality, high recognition of the brand, a robust capital base, comfortable liquidity and on a sound risk management and control. On 31 May2020, Bank Millennium had a market share of 5.7% in loans to customers and of 5.9% in deposits.

The Group has an operation in Switzerland since 2003, through a private banking platform offering personalised quality services to the Group's high net worth Customers, comprising asset management solutions based on a rigorous research and on a profound knowledge of financial markets, underpinned by a robust commitment to risk management and an efficient IT platform.

The Group is also operating in the East since 1993, but it was only in 2010 that the activity of the existing branch in Macau was expanded, through the attribution of a full license (onshore) aimed at establishing an international platform for business operations between Europe, China and Portuguese-speaking African countries.

The Bank also has 10 representation offices (1 in the United Kingdom, 1 in Germany, 3 in Switzerland, 2 in Brazil, 1 in Venezuela, 1 in China, in Guangzhou, and 1 in South Africa), 5 commercial protocols (Canada, USA, Spain, France and Luxembourg).

Growth based on digital/mobile banking

Since its incorporation, the Bank has built a reputation associated with innovation. The Bank was the first Bank in Portugal to introduce specific innovative concepts and products, including direct marketing methods, layouts based on Customer profiles, salary accounts, simpler branches ("NovaRede"), telephone banking services, through Banco 7, which later became the first online banking services platform, health insurance (Médis) and direct insurance, and a website dedicated to individual Customers and corporate banking. The Bank was also a pioneer in the launching of a new Internet Banking concept, based on the ActivoBank platform, which provides a simplified service to the Customer, including the opening of a current account using Mobile Banking solutions.

Digital banking

In the first half of 2020, the Bank defined three leverages to accelerate digital business: the growth in the number of digital active Customers, with particular focus on Mobile, the migration of transactions to digital, and the growth in digital sales, supported by leaner processes designed to meet Customer needs.

For Individual Customers, the growth trend of the digital Customer base continued, which represented at the end of the first half of 2020, 61% of total Customers and also as regards Mobile Customers, which represented 44% of total Customers at the end of June 2020. The growth of the App channel users contributed significantly to the growth of mobile Customers (compared to the same period of the previous year). The number of Mobile Customers increased 30% over the previous year and represented already 35% of total Active Customers. Noteworthy is the 69% growth in Logins, 70% in digital sales, 79% in payments and 96% in transfers. 43% of Customers are already exclusive usewrs of the App, which represents an increase of 10 p.p. year-on-year.

App and website for individuals

In the first half of 2020, the following developments stand out;

Virtual assistant in personal credit simulation

- Assisted simulation allows any Customer to be informed right from the start of the simulation of the optimal parameters of a simulation carried out to measure, as well as providing dynamic, permanent and adapted advice on the best way to optimize each simulation performed.

Credit card order with online decision

- Simple, fast and innovative was how the credit card order became available on the private App. Through a personalized and segmented offer, the Customer can select the desired card, personalize the order, obtain the decision and contract online. The opening of the card account is done automatically, triggering the sending of the card and the contractual conditions, by email.

Online credit card cancellation and replacement

- In a simple and immediate way it is already possible to cancel the credit card and, at the same time, request its replacement, through the App of individuals.

Request money & Split the check in the MB WAY

- MB WAY on the Millennium BCP App has been enriched with two new features: "Request Money" and "Split the Check".
- With the "Request money" feature, it is now possible to request an amount from a specific contact. The debtor receives a notification and has up to 7 days to click accept. Whoever asked for money always has the possibility to remember the missing payment contact.
- Through the "Split the check" feature, the Customer selects the contacts with whom he will share an expense, indicating the amount, and the App will try to share the costs and notify each of the contacts, who receive a notification to make the payment. Whoever waits for payment will be able to check who has already paid and who has to pay.

Categorization & balance after movements

- For an easier and more intuitive interpretation, transactions are now classified into categories such as "Supermarket", "Transport", "Health", "Well-being", among others. The balance remaining after each transaction was also included in the current accounts.

Transfers from other banks' associated accounts

- It allows Customers who have accounts from other banks associated with the Millennium BCP App, to be able to make national and international transfers from those accounts with all the convenience and without leaving the Millennium App.

"How much can I request?"

- The "How much can I request?" is available on the App and on the website, to help Customers and non-Customers to estimate the maximum amount they can have for home loans, based on their income and expenses with loans, also giving information on the initial costs associated with house purchase.

Pay with Apple Pay

- Allows any iOS Client to associate their debit, credit or prepaid cards to Apple Wallet and, thus, make payments simpler and faster with their iPhone, iPad, Apple Watch or Mac.

Introduction of biometrics to validate the performance of operations

- The validation of operations can now be carried out through digital printing (touch ID) or facial recognition (face ID), as an alternative to the introduction of the 3 positions of the Multichannel code, up to a certain value. These operations are related to transfers, payments, settlement of savings, paying credit cards, among others.

Travel Insurance ON / OFF

- 100% digital travel insurance that is differentiated by the ease and simplicity of subscription and the immediacy in activation / deactivation. The Customer can at any time in the Millennium App indicate the people who accompany him on the trip, either before starting the trip, or even during the trip. The insurance, with a reduced daily price, is only charged on days when the Customer has active insurance and the coverage of this product was specially designed to help Customers with the most common problems on the road.

Request for moratoria

- Millennium bcp, in a particularly sensitive period, provided its Customers with access to the request for public and private moratoria on the App and website. The availability of these requests, digitally, contributed to the absence of a need to go to branches and facilitated the duty of confinement that was in force.

Digital Sales

- In the first half of 2020, the Bank continued to take important steps in its innovation strategy, focusing more and more on Digital, launching new sales journeys on the App and improving existing ones, making them increasingly simple and intuitive. Facilitating the life of Customers in the relationship with the Bank is one of our main objectives and, therefore, it has been making available more and more products on digital channels, with a special focus on the App, privileging the convenience of the Customer to be able to access an offer each of products and services on your mobile phone.
- It has to be highlighted the growth in the open of time deposits, with the digital channel representing 63% and within this the App representing 72%. Also in investment funds and certificates, the weight of the digital channel, in number of transactions, was 28% and 51%, respectively.
- In the number of transactions carried out in personal credit, the weight of the digital channel increased to 28%, with the App responsible for 66% of this amount. In credit cards, the weight of the digital channel was fixed at 18%, with the App representing 67% of this value.
- In the online trading business, it is worth noting the very significant increase in the weight of the MTrader channel in the number of orders placed, going from 48.4% at the end of 2019 to 66.7% (accumulated average from January to June - reaching 75.1% in June), with an increase in the number of members of around 32%, compared to the end of 2019.

Client-oriented relationship model

In the first half of 2020, there was a need to readjust the outlined communication strategy, which is based on relationship events such as the Millennium Estoril Open, the Business Days and regular actions with Customers, whose realization had to be postponed.

In view of the uncertainty and the need to support Customers, Millennium opted to undertake a set of initiatives to disseminate good practices in the use of banking services, with a concrete focus on digital and remote channels, as well as reinforce its position as a Bank nearby, with the launch of an integrated internal and external Campaign, whose central message was "It will go well".

Promoted by true heroes - the Bank's Employees - the Campaign reinforced the Bank's commitment to society, announcing the main support measures for both Individuals and Companies.

Also noteworthy, during this period, was the launch of the Apple Pay Campaign, Apple's payment platform in Portugal, which allowed the Bank to position the Millennium brand as a pioneer and innovator, by providing Customers with another differentiating solution, which allows them to pay in a fast, simple and secure way.

Communication during the first six months of the year accompanied the change in Customer behaviors and needs, but it allowed Millennium to readjust and consolidate the digital media and channels, so crucial for a modern and close Bank.

Sustainability of the business model

The resilience of the business model is primarily based on the Bank's concentration on retail banking, more stable and less volatile by nature. Millennium bcp implemented successfully an operational recovery in its core market, reinforcing its financial and capital position, despite of the challenging environment in the banking sector in the Portuguese market. The Bank implemented a restructuring program based on a reduction of operating costs by circa of 40% in Portugal since 2011 and a more than 60% reduction in the Group's NPE since 2013 (from 13.7 billion euros to 3.9 billion euros in June 2020).

Three distinctive competences acted as the main pillars of this recovery: a Customer oriented relationship model, market leading position in terms of efficiency and competitive international operations.

The purpose of the Bank is to ensure sustainable profitability in the medium and long term, seeking to become the best in class in terms of operational efficiency, improving operating profit in a sustainable manner and maintaining a high level of control on credit risk, thus preserving its strategic position in the Portuguese retail banking services market. One of the Bank's top priorities continues to be to improve the quality of its credit portfolio, reduce the stock of NPE to circa of 3 billion euros to be reached after the economic impact of the pandemic and, simultaneously, decrease the cost of risk.

Main awards

Millennium bcp: Clearest information; most recommended bank; leader in Customer staisfaction, in product quality and in satisfaction with account manager; leader in Customer satisfaction with digital channels, in all assessed items (Basef Banca, June 2020)

Millennium bcp: Marketeer award, "Banking" category (4th year in a row)

ActivoBank: "5 estrelas 2020" award, "Digital Banking" category

ActivoBank: Best commercial bank, Best consumer digital bank and Best mobile banking app in Portugal

Millennium bim: Best bank in Mozambique (11th year in a row)

Millennium bim: Best trade finance provider in Mozambique

Millennium bim: Best private bank in Mozambique

Millennium bim: Most Innovative Banking Services in Mozambique

Bank Millennium: now part of the WIG-ESG índex of the Warsaw Stock Exchange for socially responsible companies, ranking 4th

Bank Millennium: Most recommended bank and leader in Customer satisfaction ("*Customer satisfaction monitor of retail banks ARC Rynek i Opinia*")

Bank Millennium: Best trade finance provider in Poland

Bank Millennium: Best online banking, best mobile banking and best remote account opening process in Poland ("Institutions of the year 2020" ranking)

Bank Millennium: CSR Golden Leaf Award of the "Polytika" magazine for the implementation of the strictest corporate social responsibility standards

Bank Millennium: 6th in the Responsible Companies ranking, 3rd in Banking, Finance and Insurance

Bank Millennium: 1st in the "Growth Star" category, 2nd in the "Customer Relationship" category and 3rd for overall achievement in the main category and in the "Star of Innovation" category ("Stars of Banking" Dziennik Gazete Prawna/PwC)

Bank Millennium: winner in the "digital" and in the "people's choice" categories of the "TOP CDR Technologically Responsible Company" award

Bank Millennium: 1st in the "Fin-Tech Innovation" category for the Autopay service, and 2nd in the "Mortgage Loan" category

Millennium bcp
Main bank for companies; most appropriate products; most efficient; closest to Customers

ActivoBank
Consumer choice 2020, "Digital banks" category

Millennium network

Canada
Commercial protocols

USA
Commercial protocols

Venezuela
1 Representative office

Brazil
2 Representative offices

BRANCHES

BRANCHES OPENED ON SATURDAY

BRANCHES WITH DIFFERENTIATED SCHEDULE

BRANCHES WITH ACCESS CONDITIONS TO PEOPLE WITH REDUCED MOBILITY

REPRESENTATIVE OFFICES

COMMERCIAL PROTOCOLS

PARTNERSHIP

* Includes branches of different networks that share the same physical space.

Portugal
493 Branches
239* 429

United Kingdom
1 Representative office

Poland
766 Branches
95 115 353

Macao (China)
1 Branch

Spain
Commercial protocols

Luxembourg
Commercial protocols

South Africa
1 Representative office

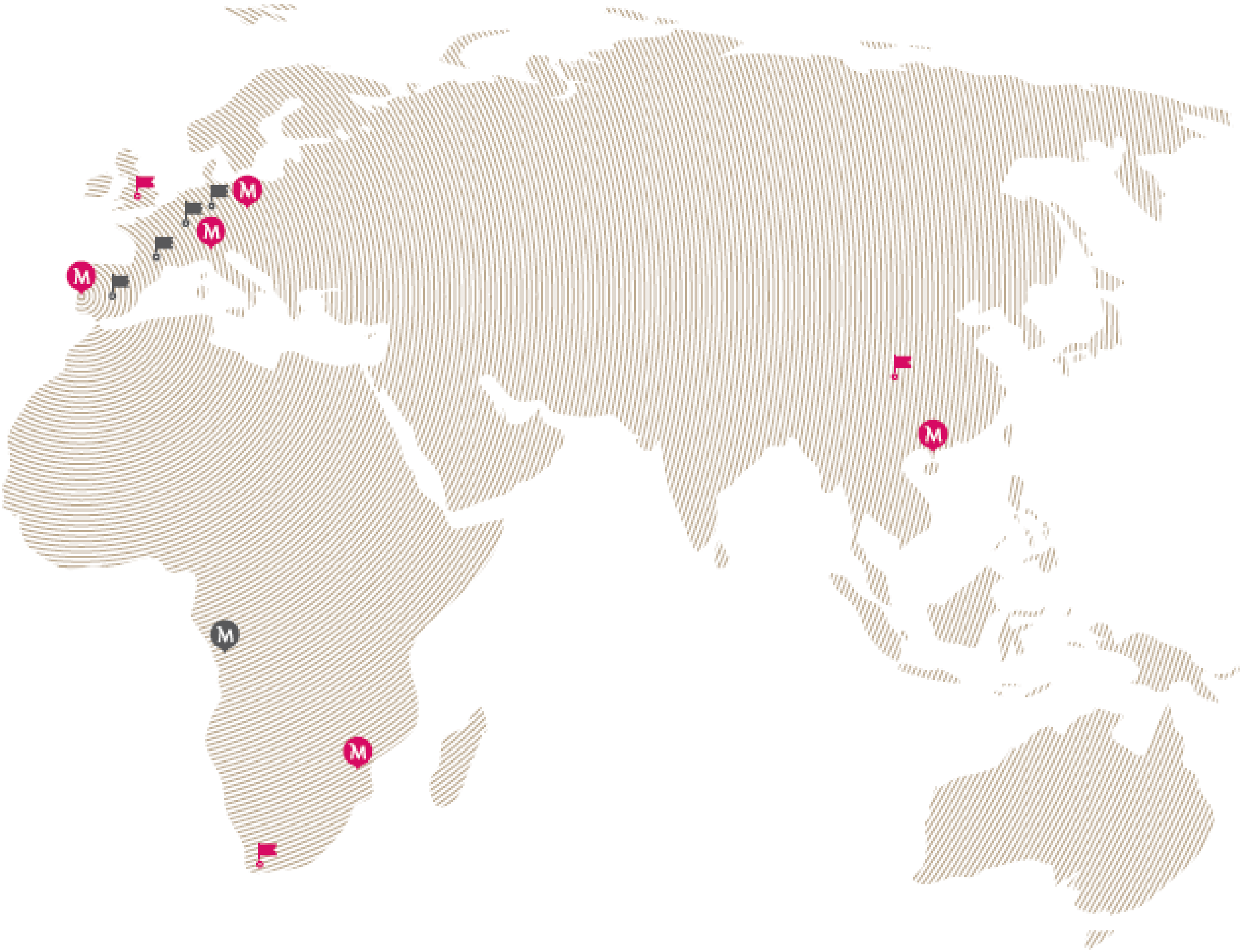
China
1 Representative office

France
Commercial protocols

Switzerland
1 Branch
1
3 Representative offices

Mozambique
200 Branches
30 63 189

Angola
Partnership



	Customers (thousand)	Internet	Call Centre	Mobile Banking	ATM [1]	POS [2]
Portugal	2,398	700,290	193,097	756,550	1,967	72,250
Poland	2,384	1,535,612	395,773	1,534,890	621	-
Switzerland	2	717	-	-	-	-
Mozambique	842	14,735	44,968	523,493	523	7,605
Macao (China)	3	-	-	-	-	-

Note: Considered Customers/active users those who used Internet, Call Centre or Mobile Banking at least once in the last 90 days. ActivoBank Customers not included.
1 Automated Teller Machines.
2 Points of Sale.

Financial Information

Results and Balance Sheet

The first half of 2020 was marked by the pandemic caused by COVID-19, leading most of the countries to adopt exceptional measures, with a great impact on the lives of people and companies. Millennium bcp has shown its solid position to face the economic shock and to continue to support its Customers and the economy, defending at the same time the quality of the Balance Sheet, liquidity and solvency of the Bank. It should be noted the fast adaptation of business models and processes to the new normality, through the active promotion of remote channels and the improvement of decision and risk management models. Last, but not least, we must point out the constant priority and concern of the Bank in protecting its Employees, shown in the implementation of the phased return plan to the workplace, in safe conditions, providing protective equipment and reinforcing disinfection of the facilities.

The consolidated Financial Statements were prepared under the terms of Regulation (EC) 1606/2002, of 19 July (in the version in force), and in accordance with the reporting model determined by Banco de Portugal (Banco de Portugal Notice 5/2005, in the version in force), following the transposition into Portuguese law of Directive 2003/51/EC, of 18 June, of the European Parliament and Council in the versions currently in force.

In order to achieve a better understanding of the performance of the Group's financial standing and ensure comparability with the information of previous periods, a number of concepts that reflect the management criteria adopted by the Group within the scope of the preparation of the financial information are mentioned in this analysis. The accounting information corresponding to such concepts is presented in the glossary and throughout the document, whenever applicable.

During the first half of 2020, some reclassifications were made in the activity in Portugal, in order to improve the quality of the information reported. Thus, some of the amounts recorded under the item "Other banking commissions" started to be accounted as "Asset management commissions" and some of the amounts recorded as other administrative costs, started to be accounted as other net operating income. The historical amounts of such items, included in this analysis, are presented considering these reclassifications with the purpose of ensuring their comparability,

In the first half of 2020 no changes were made to the information regarding the first half of 2019. Therefore, the figures re-expressed for the purpose of ensuring the comparability of the information result exclusively from the situations previously mentioned.

As at 31May 2019, Bank Millennium, SA, a subsidiary owned 50.1% by Banco Comercial Português, SA, has completed the acquisition of 99.787% stake in Euro Bank S.A. from SG Financial Services Holdings, a subsidiary fully held by Societe Generale, S.A. From this date, financial statements of the Group reflect the consolidation of Euro Bank S.A. On the settlement date of the transaction, the acquisition method set out in IFRS 3 - Business Combinations establishes that the acquired assets and the liabilities assumed shall be recognized based on their fair value at the acquisition date. In accordance with IFRS 3, the definitive accounting record of the acquisition impacts should be completed within one year from the control acquisition date has already happened, with no material impact on the financial statements of the Group.

The figures associated to discontinued operations are shown separately, for the relevant periods, according to the information provided in the consolidated financial statements approved by the Shareholders and published by the Bank. In the first half of 2019, the results of discontinued operations include mainly the gains generated by the sale of Planfipsa Group, which took place in February 2019, being also recognized in this item the gains/losses related to the sale of Millennium bcp Gestão de Activos, as a result of adjustments made to the sale price agreed for the sale of that company.

The Group has ceased to apply IAS 29 – Financial reporting in hyperinflationary economies to the financial statements of Banco Millennium Atlântico with effect from 1 January 2019, since Angola no longer meets the requirements to be considered a hyperinflationary economy. From the beginning of 2019, the financial statements of Banco Millennium Atlântico considered for the purpose of integration into the Group's accounts started to consider the amortization of the impact arising from the updating of the balance sheet value of non-monetary assets and liabilities until the end of their lifespan.

PROFITABILITY ANALYSIS

NET INCOME

The core net income of Millennium bcp amounted to 542 million euros in the first half of 2020, 1.3% above 536 million euros achieved in the same period of the previous year. This evolution mainly reflects the growth in net interest income and also, albeit to a lesser extent, the increase in commissions compared to the first half of 2019, reflecting a positive performance of core income, in a particularly adverse economic environment. The consolidated core net income was boosted mainly by the international activity, which growth 6.3% compared to the 234 million euros achieved in the first half of 2019, totaling 249 million euros in the first six months of 2020, with special emphasis on the activity of the subsidiary in Poland, which benefited from the integration and consolidation of Euro Bank S.A., in May 2019.

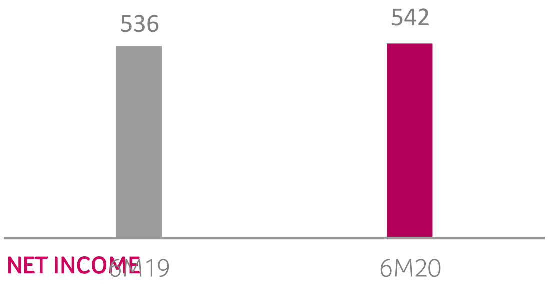
The consolidated net income of Millennium bcp stood at 76 million euros in the first half of 2020 compared to 170 million euros, reached in the first six months of the previous year. This evolution was strongly influenced by the impact of the current extraordinary situation, resulting from the COVID-19 pandemic. The impact of the pandemic was felt above all in the need to book additional provisions for credit risk, both in the activity in Portugal and in the international activity, amounting to 109 million euros on consolidated terms. The performance of the consolidated net income was also influenced by the revaluation of corporate restructuring funds in the activity in Portugal, which had a negative impact of 67 million euros due to the extraordinary circumstances caused by the COVID-19 pandemic and by the reinforcement of the extraordinary provision booked for claims related to mortgage loans granted in Swiss francs by the Polish subsidiary amounting to 38 million euros in the first half of 2020. In the comparison with the consolidated net income of the first half of 2019 it is also important to mention the gain of 13 million euros, recognized in February of that year, following the sale of the Planfipsa Group, reflected as discontinued operations.

Net income, in the activity in Portugal[1], stood at 45 million euros in the first half of 2020, below the 73 million euros in the same period of the previous year. This performance was largely due to both the creation of additional impairment for credit risks associated to COVID-19 pandemic, in the amount of 88 million euros and the revaluation of corporate restructuring funds in the amount of 67 million euros, referred to above. In addition, it is also important to highlight the performance of other net operating income, since in the first half of 2019 the sale of properties generated significant gains, which were not repeated in 2020. The contraction of net interest income, as a result of the current macroeconomic context characterized by a scenario dictated by the persistence of reference interest rates at negative levels, also led to the lower results achieved in the activity in Portugal. Conversely, the performance of net income in the activity in Portugal benefited from the increase in equity accounted earnings, from the savings in operating costs thanks to the pursuit of a disciplined management and from the lower tax burden, whose evolution followed the reduction in net income before tax.

Net Income of international activity, totalled 31

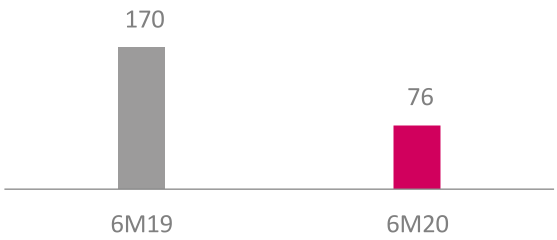
CORE NET INCOME

Euro million



NET INCOME

Euro million



[1] Not considering income arising from operations accounted as discontinued operations, amounting to 13 million euros, recorded in the first half of 2019.

million euros in the first half of 2020, which compares to 84 million euros of the same period of previous year. This evolution was determined by the performace of the Polish subsidiary, which, in addition of reflecting the acquisition of Euro Bank S.A. impact, is affected by the reinforcement of provisions for foreign exchange mortgage legal risk, amounting 38 million euros, together with impairments to face increased credit risk resulting from the pandemic caused by COVID-19, which totalled 16 million euros. The effect of the pandemic was also felt on the operation in Mozambique, contributing for its lower achieved results in the first half of 2020 compared to the same period of previous year.

Bank Millennium in Poland reached a net income of 16 million euros in the first six months of 2020, showing a decrease of 62 million euros compared to the 78 million euros recorded in the same period of 2019. This evolution was influenced by provisions for foreign exchange mortgage legal risk and for return of commissions to Customers who prepaid their cash loans, as well as by the impacts associated with the pandemic caused by COVID-19, which were felt especially in increased cost of risk. In this context, the overall impact of the acquisition of Euro Bank S.A. ended up being largely offset, although it contributed to the increase of core net income.

Millennium bim in Mozambique posted a net income of 42 million euros in the first half of 2020, 11.4% lower than the 48 million euros obtained in the same period in 2019, influenced by the performance of net interest income, strongly affected by falling reference interest rates environment, non-recurring gain obtained from securities sale last year and increasing operating costs, partially offset by improved cost of risk, despite the impact of COVID-19, and by the reduction of other impairments and provisions.

Regarding Angola, the contribution to the net income of the international activity in the first six months of 2020 was negative by 10 million euros, which contrasts with the positive 6 million euros obtained in the same period of previous year, due to the creation of a provision, in the amount of 13 million euros, to reflect the current best estimate of potential impacts arising from the contribution from Banco Millennium Atlântico. Additionally, the contribution was also influenced by lower results from Banco Millennium Atlântico accounted under equity method and by the adverse effect of the strong depreciation of the Kwanza.

INCOME STATEMENT

Euro million

	6M20	6M19	Change 20/19
NET INTEREST INCOME	759	740	2.6%
OTHER NET INCOME			
Dividends from equity instruments	3	1	>200%
Net commissions	345	342	0.9%
Net trading income	40	96	-58.5%
Other net operating income	(119)	(77)	-55.3%
Equity accounted earnings	43	21	102.4%
TOTAL OTHER NET INCOME	312	383	-18.5%
NET OPERATING REVENUES	1,071	1,123	-4.6%
OPERATING COSTS			
Staff costs	328	324	1.0%
Other administrative costs	165	166	-0.3%
Depreciation	69	57	21.5%
TOTAL OPERATING COSTS	562	547	2.8%
RESULTS BEFORE IMPAIRMENT AND PROVISIONS	509	576	-11.6%
IMPAIRMENT			
Loans impairment (net of recoveries)	237	200	18.5%
Other impairment and provisions	114	43	166.2%
INCOME BEFORE INCOME TAX	158	333	-52.6%
INCOME TAX			
Current	56	47	18.4%
Deferred	3	74	-96.3%
INCOME AFTER INCOME TAX FROM CONTINUING OPERATIONS	99	212	-53.4%
Income arising from discontinued operations	0	13	-100.0%
INCOME AFTER INCOME TAX	99	225	-56.1%
Non-controlling interests	23	55	-58.8%
NET INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	76	170	-55.3%

NET INTEREST INCOME

Net interest income reached 759 million euros in the first half of 2020, showing a 2.6% growth compared to the 740 million euros recorded in the same period of 2019, driven by the favorable performance of the international activity, namely the positive evolution of the Polish subsidiary, despite having been partially offset by the smaller contribution from the activity in Portugal.

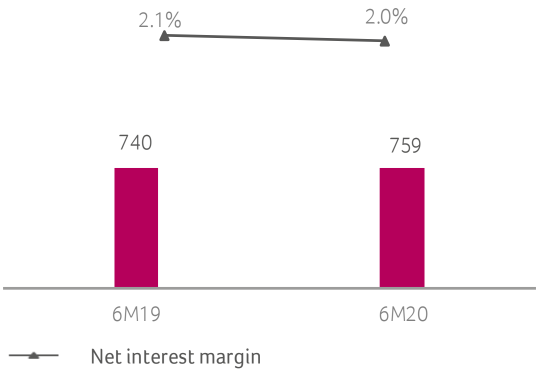
Net interest income in the activity in Portugal, totaled 379 million euros at the end of the first half of 2020, standing 5.1% below the 399 million euros recorded in the first six months of 2019. This evolution was largely due to the reduction in the income generated by the securities portfolio, namely by the Portuguese public debt portfolio, since the reduction in the portfolio of Portuguese Treasury securities in the last quarter of 2019, due to the disposals made, penalized the net interest income at the beginning of the current year. Despite the new acquisitions made in the first half of 2020, such acquisitions were not enough to offset the loss of income verified, since the investment was made in public debt securities with lower implicit yields.

Net interest income in the activity in Portugal was also affected by the lower income from the liquidity surplus in credit institutions and by the higher costs of subordinated debt, influenced by the impact of the issue, in the amount of 450 million euros, placed on the market in September 2019. Conversely, the additional funding obtained from the European Central Bank had a positive impact in the second quarter of 2020, namely with the new targeted longer-term refinancing operation (TLTRO III), in the amount of 7,550 million euros, benefiting from a negative interest rate.

Commercial business continues to be strongly conditioned by the unfavorable context of historically low rates and its penalizing effect on the income generated by the performing loan portfolio, despite the increase in the volume of performing loans, reflecting both the promotion of commercial initiatives to support families and companies with sustainable business plans, and the impact of loans granted under the credit lines guaranteed by the Portuguese State following the pandemic caused by COVID-19. The non-performing portfolio also contributed negatively to the performance of net interest income due to the high rate of reduction of

NET INTEREST INCOME

Euro million



non-performing exposures in the last year. At the same time, there were additional savings in the cost of time deposits.

In the international activity, net interest income showed a very favorable evolution growing 11.5% compared to the 341 million euros recorded in the first half of the previous year, reaching 380 million euros in the first six months of 2020. This evolution was driven by the good performance of the Polish subsidiary, boosted by the impact of the integration of Euro Bank S.A. commercial business, namely the personal credit portfolio that generates higher commercial margins. On the other hand, in the operation in Mozambique, net interest income was lower than that achieved in the first half of 2019, reflecting not only the lower volumes of credit following the conservative approach to the market, but also the decrease in the associated rates.

Net interest margin of the Group, in the first half of 2020, stood at 2.0%, slightly below the 2.1% recorded in the same period of the previous year. In the activity in Portugal, net interest margin stood at 1.5%, constrained by the negative interest rates context and by the greater weight of products with lower rates in credit production in the special context of the pandemic, showing a slight decrease compared to the 1.7% posted in the first six months of 2019. In the international activity, net interest margin, evolved from 3.1% in the first half of 2019 to 3.0% in the same period of 2020.

OTHER NET INCOME

Other net income, which includes dividends from equity instruments, net commissions, net trading income, other net operating income and equity accounted earnings, totaled 312 million euros in the first half of 2020, standing below the 383 million euros recorded in the same period of the previous year. This evolution resulted mainly from the reduction in net trading income, which was more significant in the activity in Portugal, as well as from the decrease in other net operating income, recorded both in the activity in Portugal and in the international activity.

On the other hand, equity accounted earnings, in the activity in Portugal, were at a level higher than that recorded in the first half of 2019, contributing positively to the evolution of other net income in consolidated terms.

OTHER NET INCOME

Euro million

	6M20	6M19	Change 20/19
Dividends from equity instruments	3	1	>200%
Net commissions	345	342	0.9%
Net trading income	40	96	-58.5%
Other net operating income	(119)	(77)	-55.3%
Equity accounted earnings	43	21	102.4%
TOTAL	312	383	-18.5%
of which:			
Activity in Portugal	212	263	-19.4%
International activity	100	120	-16.7%

DIVIDENDS FROM EQUITY INSTRUMENTS

Dividends from equity instruments incorporates dividends received from investments classified as financial assets at fair value through other comprehensive income and from financial assets held for trading. In the first half of 2020, dividends from equity instruments reached 3 million euros, comparing favourable to the amount posted in the same period of 2019. The gains accounted in this item resulted from investments that are part of the Group's share portfolio.

NET COMMISSIONS

In February 2020, some of the amounts recorded in the activity in Portugal under the item "Other banking commissions" started to be accounted as "Asset management commissions", in order to improve the quality of the information reported.

The historical amounts of such items, included in this analysis, are presented considering these reclassifications with the purpose of ensuring their comparability, with the total amount of net commissions remaining unchanged compared to those published in previous periods.

In the first half of 2020, net commissions reached 345 million euros, standing 0.9% above the 342 million euros posted in the same period of the previous year, due to the good performance of the international activity, partially offset by the evolution of commissions in the activity in Portugal.

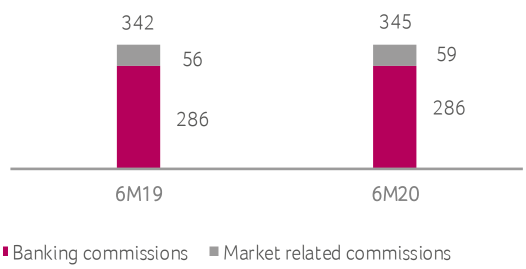
In the activity in Portugal, net commissions totaled 232 million euros in the first half of 2020, that compares to 236 million euros posted in the same period of the previous year. This evolution incorporates different performances in what concerns commissions related to the banking business, which decreased 3.1%, and commissions related to financial markets, that stood 11.3% above the amount recorded in the first six months of 2019. It should also be noted that, as of the second half of March 2020, banking commissions, were penalized not only by the impact of the pandemic caused by COVID-19, but also by the support initiatives adopted by the Bank, embodied in exemptions granted in the context of this particular situation. This situation is mostly visible in transfers commissions, which agregate commissions associated to transactions with cards and the respective payment networks, banking transfers and comissions from the use of POS. The decrease in activity after the start of the pandemic thus contributed to a significant drop in this type of commissions, which fell 28.2%, from 13 million euros on 30 June 2019 to 9 million euros at the end of the first half of 2020. Commissions directly related to Cards, mainly from annuities received and from acquiring and cash advance activities also decreased, evolving, in this case, from 40 million euros in the first six months of 2019, to 37 million euros in the same period of 2020.

On the other hand, market related commissions in the activity in Portugal, increased from 30 million euros at the end of the first half of 2019, to 33 million euros as at 30 June 2020, benefiting from the favorable evolution of commissions related to stock exchange operations and asset management, in this case mainly associated with the distribution of investment funds.

In the international activity, net commissions showed a favorable evolution by growing 5.7% compared to the 107 million euros reached in the first half of 2019, amounting to 113 million euros at the end of June 2020. This evolution was mainly driven by the rise in banking commissions in the Polish subsidiary, strongly influenced by the impact of the acquisition of Euro Bank S.A., also benefiting in the specific case of bancassurance commissions, from the increase in commissions on insurance sold to Bank Millennium Customers, mainly associated with personal and mortgage loans. Market related commissions in the Polish subsidiary in the first half of 2020 were lower than those recorded in the same period of the previous year, as well as in the operation in Mozambique, with this performance being largely offset by the increase recorded by the Swiss operation through brokerage activity and the growth of assets under management.

NET COMMISSIONS

Euro million



NET COMMISSIONS

Euro million

	6M20	6M19	Change 20/19
BANKING COMMISSIONS			
Cards and transfers	75	81	-7.4%
Credit and guarantees	76	83	-8.4%
Bancassurance	62	58	6.7%
Management and maintenance of accounts	62	57	9.1%
Other commissions	12	7	59.1%
SUBTOTAL	286	286	0.2%
MARKET RELATED COMMISSIONS			
Securities	36	33	7.4%
Asset management	23	23	0.5%
SUBTOTAL	59	56	4.6%
TOTAL NET COMMISSIONS	345	342	0.9%
of which:			
Activity in Portugal	232	236	-1.3%
International activity	113	107	5.7%

NET TRADING INCOME

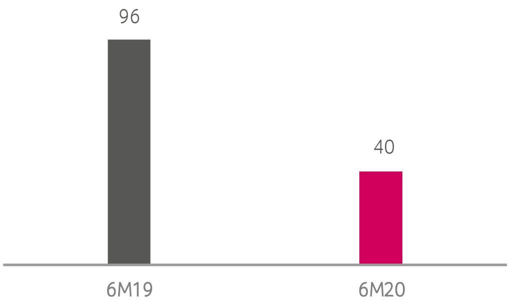
Net trading income includes results from financial operations at fair value through profit or loss, results from foreign exchange, results from hedge accounting operations, results from derecognition of financial assets and financial liabilities measured at amortized cost and results from derecognition of financial assets measured at fair value through other comprehensive income.

In the first six months of 2020, net trading income stood at 40 million euros, below the 96 million euros recorded in the same period of the previous year, mainly due to the performance of the activity in Portugal.

Net trading income in the activity in Portugal, reached a marginally positive value, standing at 3 million euros in the first half of 2020, below the 53 million euros recognized in the same period of the previous year, mainly due to the lower gains with Portuguese public debt securities which fell 40 million euros from the amount recognized in the first six months of 2019. Net trading income was also largely penalized by the negative impact arising from the revaluation of corporate restructuring funds, carried out in June 2020, in the amount of 67 million euros, which ended up offsetting the gains from foreign exchange operations that had been recognized in the first quarter of 2020, following the devaluation of the zloty.

NET TRADING INCOME

Euro million



In the international activity there was a decline of 6 million euros from the amount reached in the first half of 2019, mainly driven by the lower results from Polish subsidiary which mainly reflect the negative impact associated with the revaluation of the loan portfolio, mandatorily classified at fair value through profit or loss. In the operation in Mozambique net trading income was also lower than that recorded in the first half of 2019, namely in what concerns income generated from foreign exchange operations.

NET TRADING INCOME

Euro million

	6M20	6M19	Change 20/19
Net gains / (losses) from financial operations at fair value through profit or loss	(54)	(1)	<-200%
Net gains / (losses) from foreign exchange	75	30	147.7%
Net gains / (losses) from hedge accounting operations	(3)	(4)	18.0%
Net gains / (losses) from derecognition of assets and financial liabilities measured at amortised cost	(11)	(10)	-13.9%
Net gains / (losses) from derecognition of financial assets measured at fair value through other comprehensive income	34	81	-58.4%
TOTAL	40	96	-58.5%
of which:			
Activity in Portugal	3	53	-94.2%
International activity	36	42	-13.3%

OTHER NET OPERATING INCOME

Other net operating income includes other operating income, net of operating costs, which comprises costs due to mandatory contributions supported by the banks of the Group as well as with the resolution funds and the deposit guarantee funds both in Portugal and in the international activity, net gains from the insurance activity and results arising from sales of subsidiaries and other assets.

In June 2020, some of the amounts recorded in the activity in Portugal as other administrative costs, started to be accounted as other net operating income, in order to improve the quality of the information reported. The historical amounts of such items, included in this analysis, are presented considering these reclassifications with the purpose of ensuring their comparability, therefore diverging from the accounting values disclosed. In the first half of 2019, the above mentioned reclassifications totaled 1 million euros.

Other net operating income[2] evolved from a negative amount of 77 million euros in the first half of 2019 to an also negative amount of 119 million euros in the first six months of 2020, due to the performance of both the activity in Portugal and the international activity.

In the activity in Portugal, the evolution of other net operating income from a negative amount of 41 million euros in the first half of 2019 to an also negative amount of 67 million euros in the first half of 2020, mainly reflects the reduction in results from the sale of non-current assets held for sale, which includes in the first six months of 2019, significant gains from the sale of foreclosed properties that were not repeated in 2020. On the other hand, costs incurred with the mandatory contributions, in the activity in Portugal, showed a 3.6% reduction compared to the 67 million euros posted in the first six months of 2019, totaling 64 million euros in the first half of 2020. The total amount of mandatory contibutions, incorporates the cost of the contribution to the Single Resolution Fund (SRF) in the amount of 19 million euros (also 19 million euros in the first half of 2019), the contribution of 15 million euros required for the national resolution fund (16 million euros in the first half of 2019), the contribution on the banking sector of 30 million euros (32 million euros in the first half of 2019) and the contribution to the deposit guarantee fund, with a value of less than 1 million euros both in the first half of 2020 and in the first half of 2019.

In the international activity, other net operating income[2] stood at a negative amount of 51 million euros in the first six months of the year, which compares to an also negative amount of 36 million euros in the same period of the previous year. This evolution was mainly influenced by the increase in mandatory contributions of the Polish subsidiary, from 48 million euros in the first half of 2019 to 57 million euros in the same period in 2020. In this context, it is important to mention the increase of the

[2] Includes costs arising from the acquisition, merger and integration of Euro Bank S.A. recognized at the Polish subsidiary, that besides being considered as specific items, represents an immaterial amount.

special tax on the Polish banking sector from 26 million euros in the first half of 2019 to 32 million euros in the same period of 2020, as well as the growth of the contribution to the deposit guarantee fund that totaled 12 million euros in the first six monts of 2020 compared to 5 million euros posted in the same period of 2019. On the other hand, the contribution to the resolution fund was lower than the 17 million euros recorded in the first half of 2019, totaling 13 million euros in the end of the first half of 2020. The evolution of other net operating income in the international activity was also influenced by the reduction in gains from the sale of other assets that were recognized by the operation in Mozambique, in the first half of 2019.

EQUITY ACCOUNTED EARNINGS

Equity accounted earnings from associates include the results appropriated by the Group related to the entities where, despite exercising some influence, it does not have control over their financial and operating policies. In the first half of 2020, equity accounted earnings amounted to 43 million euros, compared to 21 million euros in the same period of the previous year, driven by the higher contribution from the activity in Portugal.

The increase of 26 million euros obtained in the activity in Portugal was mainly due to the greater contribution generated by Millennium Ageas, as a result of the evaluation of liabilities of local insurance contracts following the alignment with the assumptions considered by Ageas Group. Although with less magnitude, it is also important to mention the aggregate increase of 4 million euros generated by the participations in SIBS and Unicre.

In the international activity equity accounted earnings were 4 million euros lower than in the same period of previous year due to the lower appropriation of results generated by Banco Millennium Atlântico, mainly reflecting the macroeconomic context in Angola, characterized by a situation of economic recession, as well as the effect of the devaluation of the kwanza.

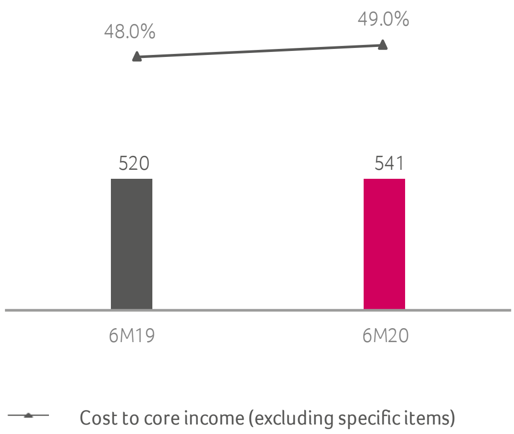
OPERATING COSTS

In June 2020, some of the amounts recorded in the activity in Portugal as other administrative costs, started to be accounted as other net operating income, in order to improve the quality of the information reported. The historical amounts of such items, included in this analysis, are presented considering these reclassifications with the purpose of ensuring their comparability, therefore diverging from the accounting values disclosed. In the first half of 2019, the above mentioned reclassifications totaled 1 million euros.

Operating costs include staff costs, other administrative costs and depreciation. Excluding the effect of specific items[3], operating costs totaled 541 million euros in the first half of 2020, comparing to 520 million euros recorded in the first six months of 2019. This evolution reflects essentially the increase in the international activity, despite it was partially

OPERATING COSTS

Euro million



[3] Negative impact of 21 million euros in the first half of 2020, of which 13 million euros related to restructuring costs and compensation for temporary salary cuts, both recognized as staff costs in the activity in Portugal and 8 million euros related to acquisition, merger and integration of Euro Bank S.A., recognized by the Polish subsidiary (5 million euros as staff costs, 2 million euros as other administrative costs and an immaterial amount as depreciation). In the first half of 2019, the impact was also negative, in the amount of 27 million euros, of which 22 million euros related to restructuring costs and compensation for temporary salary cuts, both recognized as staff costs in the activity in Portugal and 5 million euros related to acquisition, merger and integration of Euro Bank S.A., recognized as other administrative costs by the Polish subsidiary, that also recorded an immaterial amount as staff costs.

offset by the good performance of the activity in Portugal with regard to the control of the recurrent operating costs.

Operating costs in the activity in Portugal, not considering the effect of the specific items (13 million euros in the first half of 2020 and 22 million euros in the first half of 2019), showed a reduction of 2.0% from the 311 million euros accounted in the first half of 2019, totaling 305 million euros recognized till 30 June 2020. This favorable evolution of operating costs was mainly due to the savings in other administrative costs and also, although to a lesser extent to the decrease recorded by staff costs, partially offset by the increase in depreciations.

In the international activity, operating costs, excluding the effect of the specific items (8 million euros in te first half of 2020 and 5 million euros in the first half of 2019), stood at 236 million euros in the first six months of 2020, increasing 13.1% from 208 million euros posted in the same period of 2019. The observed increase was mainly due to the performance of the Polish subsidiary influenced simultaneously by the impact caused by the consolidation of Euro Bank S.A. and by the organic growth of Bank Millennium itself, which was felt in the evolution of staff costs, other administrative costs and depreciation.

It should be noted that, as a result of the synergies obtained after the merger with Euro Bank S.A., operating costs of the operation in Poland, in the first half of 2020, incorporate savings, in the amount of 14 million euros, exceeding the costs recognized in the period with the integration of the acquired Bank. The subsidiary in Mozambique also recorded an increase in operating costs in the period under review, albeit in a smaller amount.

OPERATING COSTS

Euro million

	6M20	6M19	Change 20/19
Staff costs	309	302	2.4%
Other administrative costs	163	161	1.1%
Depreciations	69	57	21.1%
OPERATING COSTS EXCLUDING SPECIFIC ITEMS	**541**	**520**	**4.0%**
OPERATING COSTS	**562**	**547**	**2.8%**
Of which (1):			
Portugal activity	305	311	-2.0%
International activity	236	208	13.1%

(1) Excludes the impact of specific items.

STAFF COSTS

Staff costs, not considering the effect of specific items (19 million euros in the first half of 2020 and 22 million euros in the first half of 2019), totaled 309 million euros in the first half of 2020, standing 2.4% above the 302 million euros accounted in the same period of 2019. This evolution was determined by the performance of the international activity, since staff costs in the activity in Portugal in the first six months of 2020 were lower than those recorded in the same period of the previous year.

In the activity in Portugal, staff costs, excluding the impact of specific items, showed a favorable evolution by decreasing 1.8% from the amount posted in in the first half of 2019, totaling 182 million euros in the same period of 2020. The specific items previously mentioned in the amount of 13 million euros in the first half of 2020 and 22 million euros in the first half of 2019 are related to restructuring costs and to the compensation for temporary salary cuts. Despite the hiring of Employees with adequate skills to reinforce digital areas, the evolution of staff costs, in the activity in Portugal, reflects the reduction, in net terms, in the number of Employees, from 7,264 at the end of June 2019 to 7,154 Employees as at 30 June 2020.

In the international activity, not considering the impact of specific items related to costs with the acquisition, merger and integration of Euro Bank S.A., fully recognized by the Polish subsidiary, in the amount of 5 million euros in the first half of 2020 and of an immaterial amount by the end of June 2019, staff costs increased 9.1% from the 117 million euros recorded in the first six months of 2019, totaling 127 million euros at the end of the first half of 2020.

The Polish subsidiary was the main responsible by this increase in staff costs in the international activity, influenced by the inclusion of 2,425 Employees from Euro Bank S.A., in May 2019. However, it should be noted that the number of Employees at the Polish subsidiary has been progressively decreasing since the end of 2019, having already exceeded the goal defined by Bank Millennium of reducing the staff by 260 FTE - full time equivalent. As at 30 June 2020 the Polish subsidiary had 8,283 Employees (8,141 FTE - full-time equivalent) compared to 8,700 Employees (8,550 FTE - full-time equivalent) as at 30 June 2019.

In the activity in Mozambique, the number of Employees increased from 2,622 as at 30June 2019, to 2,646 as at 30 June 2020, with this evolution having an impact in staff costs which stood 1.4% above the amount recorded in the same period of the previous year.

The total number of Employees assigned to international activity as at 30 June 2020 was 11,016 Employees, compared to 11,406 Employees in the same date of the previous year, reflecting mostly the evolution of Bank Millennium.

STAFF COSTS

Euro million

	6M20	6M19	Change 20/19
Salaries and remunerations (1)	253	242	4.3%
Social security charges and other staff costs (1)	56	60	-5.4%
TOTAL EXCLUDING SPECIFIC ITEMS	309	302	2.4%
SPECIFIC ITEMS	19	22	
TOTAL	328	324	1.0%

(1) Excludes impacts of specific items presented in the table.

OTHER ADMINISTRATIVE COSTS

Other administrative costs, excluding the impact of specific items, totaled 163 million euros in the first half of 2020, which compares to 161 million euros recorded in the same period of the previous year. The already mentioned specific items were fully recognized by the Polish subsidiary and are related to costs arising from the acquisition, merger and integration of Euro Bank S.A., in the amount of 2 million euros in the first half of 2020 and 5 million euros in the same period of 2019.

Although, in consolidated terms, other administrative costs were slightly above (1.1%) the amount recorded in the same period of the previous year, it is important to highlight the good performance of the activity in Portugal, which showed a reduction entirely absorbed by the increase of costs in the overseas operations.

In the activity in Portugal, other administrative costs amounted to 86 million euros in the first half of 2020, showing a drop of 7.3% from the 92 million euros accounted in the first six months of 2019. In this evolution, besides the reduction of costs associated with advisory services, additional savings can be noticed in items such as travel, hotel and representation costs, water, electricity and fuel and advertising, which reflect not only the impacts associated to COVID-19 pandemics, but also the disciplined management of recurring costs, together with the resizing of the branch network from 532 on 30 June 2019 to 493 as at 30 June 2020. This good performance in the activity in Portugal was partially absorbed by the increase in costs recorded in other items, among which we highlight the costs associated with the strengthening of control functions and information technology services, as well as a set of costs directly associated with the impact of the COVID-19 pandemic, such as the purchase of protective material, cleaning services and relocation of facilities.

In the international activity, other administrative costs, not considering the impact of the specific items above mentioned, amounted to 77 million euros in the first half of 2020, which compares to 68 million euros recorded in the same period of the previous year. This evolution was determined by the performance of the Polish subsidiary, strongly influenced by the impact of the acquisition of Euro Bank S.A. and by the organic growth of the current activity of the operation.

It should be noted that, in the context of the integration of Euro Bank S.A., a set of restructuring measures was adopted, including the reduction in the number of branches, which thus evolved from the 839 branches existing at the end of June 2019, to 766 branches on 30 June 2020.

The number of branches in the subsidiary in Mozambique increased from 193 as at 30 June 2019 to 200 as at 30 June 2020. Despite the increase in the number of branches compared to 30 June 2019, other administrative costs recorded by the subsidiary in Mozambique in the first six months of 2020 were in line with the costs posted in the same period of the previous year.

OTHER ADMINISTRATIVE COSTS

Euro million

	6M20	6M19	Change 20/19
Water, electricity and fuel	8	8	-7.4%
Consumables	2	2	-5.6%
Rents	11	11	-1.6%
Communications	14	12	13.8%
Travel, hotel and representation costs	3	5	-44.8%
Advertising	11	12	-4.3%
Maintenance and related services	9	8	6.7%
Credit cards and mortgage	2	1	70.3%
Advisory services	6	10	-37.1%
Information technology services	23	20	13.4%
Outsourcing e trabalho independente	37	36	2.6%
Other specialised services	14	13	5.4%
Training costs	1	1	-34.3%
Insurance	2	2	11.6%
Legal expenses	2	2	-39.2%
Transportation	5	5	-6.4%
Other supplies and services	14	11	32.0%
TOTAL	163	161	1.1%

Note: Excludes the impact of specific items.

DEPRECIATIONS

Depreciations, excluding the specific items recognized by Bank Millennium, S.A. related to the acquisition of Euro Bank S.A., which, in this context, are not significant, totaled 69 million euros in the first six months of 2020, standing above the 57 million euros recorded in the same period of the previous year, mainly driven by the increase recorded in the international activity.

In the activity in Portugal, although, to a lesser extent, the amount of depreciations also proved to be higher than the 34 million euros accounted in the first half of 2019, amounting to 38 million euros in the first six months of 2020. This increase reflects mostly the investment in software and IT equipment confirming the commitment of the Bank to technological innovation and the ongoing digital transformation.

The commitment with technological innovation and digital transformation was also, to a large extent, responsible for the increase in depreciation that occurred in international activity, from 23 million euros in the first half of 2019 to 31 million euros recognized till 30 June 2020. This evolution was mainly due to the performance of the Polish subsidiary, influenced by the impact of the acquisition of Euro Bank S.A., but also although to a lesser extent, the increase of the subsidiary in Mozambique.

LOANS IMPAIRMENT

Impairment for loan losses includes impairment of financial assets at amortised cost for loans to customers and for debt instruments related to credit operations, net of reversals and of recoveries (principal and accrual).

In the first half of 2020, loans impairment charges (net of recoveries) totaled 237 million euros standing above the 200 million euros recognized in the first half of the previous year, due to the performance of the activity in Portugal and the international activity. In both cases the evolution of loans impairment was strongly influenced by the context of economic crisis caused by the COVID-19 pandemic and whose associated risks led to the reinforcement of the impairment to the credit portfolio, in the amount of 93 million euros in consolidated terms.

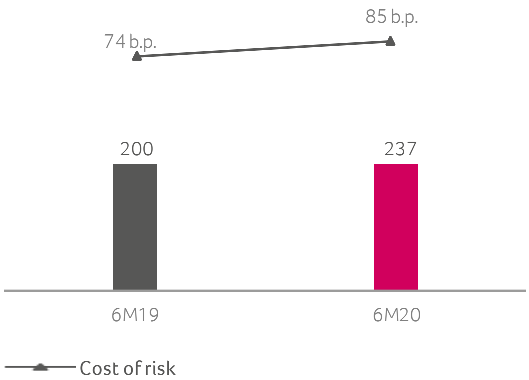
In the activity in Portugal, impairment for loan losses increased by 17 million euros compared to 141 million euros recognized in the first six months of 2019, totaling 158 million euros at the end of the first half of 2020. The growth observed was due to the revision of the credit risk parameters of the impairment models that started to reflect the new macroeconomic scenario dictated by the risks associated with COVID-19. The recognized impact amounted to 72 million euros, being determinant in countering the downward trend and the progressive improvement in the quality of the loan portfolio, seen in recent quarters.

In the international activity, loans impairment stood at 79 million euros, compared to 60 million euros recognized in the first six months of 2019. This evolution was determined by the performance of the Polish subsidiary, influenced on the one hand by the constitution of the aforementioned impairments to deal with the additional credit risk following the actual context of economic crisis, which amounted to 16 million euros and, on the other hand, by the effect of the impairment that had been booked, in June 2019, to face the risks implicit in the acquired loan portfolio resulting from the consolidation of Euro Bank S.A. In the Mozambican subsidiary, the provision of impairments to deal with the pandemic caused by COVID-19 amounted to 5 million euros.

The evolution of the cost of risk (net) was also naturally affected by the constitution of impairments for the credit risks associated with the COVID-19 pandemic, leading the cost of risk of the Group to increase from 74 basis points in the first half of 2019 to 85 basis points in the same half of 2020. In the activity in Portugal, the cost of risk stood at 82 basis points at the end of the first half of 2020, compared to 76 basis points in the same period of 2019. Excluding the extraordinary reinforcement of loan impairments, the cost of risk of the Group and in Portugal would amount to 52 basis points and 45 basis points, respectively, maintaining the downward trend seen in recent quarters. In the international activity, the cost of risk also increased from the 69 basis points recorded in the first half of 2019, to 92 basis points at the end of the first half of 2020. Disregarding the additional charges made by the operations abroad, the cost of risk of the international activity remained at similar levels to those recognized in the previous year.

IMPAIRMENT CHARGES (NET)

Euro million



LOAN IMPAIRMENT CHARGES (NET OF RECOVERIES)

Euro million

	6M20	6M19	Change 20/19
Loan impairment charges	250	213	17.7%
Credit recoveries	13	12	5.6%
TOTAL	237	200	18.5%
COST OF RISK:			
Impairment charges (net of recoveries) as a % of total loans	85 b.p.	74 b.p.	12 b.p.

OTHER IMPAIRMENTS AND PROVISIONS

Other impairment and provisions include (i) impairment, net of reversals, for loans and advances of credit institutions classified at amortised cost; (ii) impairment for financial assets (classified at fair value through other comprehensive income and at amortised cost not associated with credit operations); (iii) impairment for other assets, namely for assets received from the termination of loan contracts with Customers, investments in associates and goodwill of subsidiaries and (iv) other provisions.

Other impairments and provisions stood at 114 million euros in the first six months of 2020 which compares to 43 million euros recognized in the same period of 2019, influenced by the performance of the international activity but also of the activity in Portugal, although on a smaller scale.

In the activity in Portugal, other impairment and provisions totaled 47 million euros in the first half of 2020, showing an increase from the 41 million euros recognized in the same period of 2019. This evolution was due to the reinforcement of impairment to other financial assets and guarantees and other commitment, being partially offset by the lower level of provisioning required for non-current assets held for sale. It should be noted, in this context, that the additional impairments for other financial assets essentially reflect the impact of the revision of credit risk parameters in the valuation of debt instruments, which, together with the extraordinary reinforcements made for guarantees and commitments, totalled 16 million euros.

In the international activity, the increase of 66 million euros recorded in other impairments and provisions resulted essentially from the performance of the Polish subsidiary, reflecting on one hand the reinforcement of the extraordinary provision in the amount of 38 million euros for foreign exchange mortgage legal risk and, on the other hand, additional charges, in the amount of 14 million euros, to cover the return of commissions to Customers who prepaid their cash loans, following a decision taken by the Court of Justice of the European Union. In the first half of 2020, other impairments and provisions also include a provision, in the amount of 13 million euros to reflect the current best estimate of potential impacts arising from the contribution from Banco Millennium Atlântico.

INCOME TAX

Income tax (current and deferred) amounted to 59 million euros in the first half of 2020, which compares to 121 million euros obtained in the same period of 2019.

The recognized taxes include, in the first six months of 2020, current tax of 56 million euros (47 million euros in the first half of 2019) and deferred tax of 3 million euros (74 million euros in the first half of 2019).

The increase in the current tax expense in the first half of 2020 results from higher regulatory contributions to the banking sector and additional provisions for liabilities and charges, non-deductible for tax purposes. The evolution of deferred tax resulted from the write-off of deferred tax assets related to tax losses due to the maintenance of the low interest rates regime and actuarial losses from pension fund, that occurred in the first half of 2019.

NON-CONTROLLING INTERESTS

Non-controlling interests incorporate the part attributable to third parties of the net income of the subsidiary companies consolidated under the full method in which the Group Banco Comercial Português does not hold, directly or indirectly, the entirety of their share capital, recording mainly the income for the year attributable to third parties related to the shareholdings in Bank Millennium in Poland (49.9%) and in Millennium bim in Mozambique (33.3%).

In the first half of 2020, the non-controlling interests amounted to 23 million euros, less than half of the amount accounted in the same period of the previous year, essentialy due to the income for the year attributable to third parties arising from the activity of the Polish subsidiary, which fell by 31 million euros.

REVIEW OF THE BALANCE SHEET

A set of concepts, mentioned in the present analysis reflects the management criteria adopted by the Group in the preparation of the financial information, whose accounting correspondence is presented in the glossary and throughout the document, where applicable, highlighting the ones related to loans to customers, balance sheet customer funds and securities portfolio.

BALANCE SHEET AS AT 30 JUNE 2020 AND 2019 AND 31 DECEMBER 2019

Euro million

	30 Jun. 20	31 Dec. 19	30 Jun. 19	Chg. jun. 20/19
ASSETS				
Cash and deposits at central banks and loans and advances to credit institutions (1)	4,653	5,487	3,899	19.3%
Financial assets measured at amortised cost				
Loans and advances to credit institutions	1,086	893	971	11.8%
Loans and advances to customers	51,248	49,848	49,564	3.4%
Debt instruments	5,742	3,186	3,378	70.0%
Financial assets measured at fair value through profit or loss				
Financial assets held for trading	2,336	878	856	173.0%
Financial assets not held for trading mandatorily at fair value through profit or loss	1,305	1,406	1,418	-7.9%
Financial assets designated at fair value through profit or loss	–	31	32	-100.0%
Financial assets measured at fair value through other comprehensive income	13,285	13,217	13,386	-0.8%
Investments in associated companies	430	400	422	1.8%
Non-current assets held for sale	1,202	1,280	1,583	-24.1%
Other tangible assets, goodwill and intangible assets	910	972	927	-1.9%
Current and deferred tax assets	2,683	2,747	2,851	-5.9%
Other (2)	1,676	1,298	1,586	5.7%
TOTAL ASSETS	86,556	81,643	80,873	7.0%
LIABILITIES				
Financial liabilities measured at amortized cost				
Resources from credit institutions	9,055	6,367	7,231	25.2%
Resources from customers	62,475	59,127	56,877	9.8%
Non subordinated debt securities issued	1,476	1,595	1,772	-16.7%
Subordinated debt	1,440	1,578	1,302	10.6%
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading	411	344	332	23.9%
Financial liabilities measured at fair value through profit or loss	2,288	3,201	3,514	-34.9%
Other (3)	1,961	2,051	2,279	-13.9%
TOTAL LIABILITIES	79,107	74,262	73,308	7.9%
EQUITY				
Share capital	4,725	4,725	4,725	
Share premium	16	16	16	
Preference shares	–	0	0	
Other equity instruments	400	400	403	
Treasury shares	(0)	(0)	(0)	20.5%
Reserves and retained earnings (4)	1,015	676	1,034	-1.8%
Net income for the period attributable to Bank's Shareholders	76	302	170	-55.3%
TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS	6,233	6,120	6,348	-1.8%
Non-controlling interests	1,217	1,262	1,217	0.0%
TOTAL EQUITY	7,450	7,381	7,565	-1.5%
TOTAL LIABILITIES AND EQUITY	86,556	81,643	80,873	7.0%

(1) Includes Cash and deposits at Central Banks and Loans and advances to credit institutions.
(2) Includes Hedging derivatives, Investment property and Other assets.
(3) Includes Hedging derivatives, Provisions, Current and deferred income tax liabilities and Other liabilities.
(4) Includes Legal and statutory reserves and Reserves and retained earnings.

A reconciliation between the management criteria defined and the accounting amounts published in the consolidated financial statements is presented below.

Loans to customers (gross) includes loans to customers at amortized cost before impairment, the debt securities at amortized cost associated with credit operations before impairment and loans to customers at fair value through profit or loss before fair value adjustments. The amount of balance sheet impairment considered for the purpose of estimating loans to customers (net) and the coverage of the credit portfolio includes the balance sheet impairment associated with the loans at amortized cost, the balance sheet impairment associated with debt securities at amortized cost associated with credit operations and the adjustments associated with loans to customers at fair value through profit and loss.

Loans to customers

Euro million

	30 Jun. 20	31 Dec. 19	30 Jun. 19
Loans to customers at amortised cost (accounting Balance Sheet)	51,248	49,848	49,564
Debt instruments at amortised cost associated to credit operations	2,143	2,075	2,155
Balance sheet amount of loans to customers at fair value through profit or loss	333	352	316
Loan to customers (net) considering management criteria	**53,724**	**52,275**	**52,035**
Balance sheet impairment related to loans to customers at amortised cost	2,231	2,417	2,620
Balance sheet impairment associated with debt instruments at amortised cost related to credit operations	18	12	27
Fair value adjustments related to loans to customers at fair value through profit or loss	25	20	16
Loan to customers (gross) considering management criteria	**55,998**	**54,724**	**54,699**

Balance sheet customer funds include, apart from deposits and other resources from customers, debt securities classified at amortized cost or designated at fair value through profit or loss. Deposits and other resources from customers comprise resources from customers at amortized cost and customer deposits at fair value through profit and loss.

Balance sheet customer funds

Euro million

	30 Jun. 20	31 Dec. 19	30 Jun. 19
Financial liabilities at fair value through profit or loss (accounting Balance sheet) (1)	2,288	3,201	3,514
Debt securities at fair value through profit or loss and certificates (2)	1,298	1,481	1,372
Customer deposits at fair value through profit or loss considering management criteria (3) = (1) - (2)	**989**	**1,720**	**2,142**
Resources from customers at amortised cost (accounting Balance sheet) (4)	62,475	59,127	56,877
Deposits and other resources from customers considering management criteria (5) = (3) + (4)	**63,464**	**60,847**	**59,020**
Non subordinated debt securities issued at amortised cost (accounting Balance sheet) (6)	1,476	1,595	1,772
Debt securities at fair value through profit or loss and certificates (7)	1,298	1,481	1,372
Non subordinated debt securities placed with instituctional customers (8)	1,230	1,316	1,466
Debt securities placed with customers considering management criteria (9) = (6) - (7) - (8)	**1,545**	**1,760**	**1,678**
Balance sheet customer funds considering management criteria (10) = (5) + (9)	**65,009**	**62,607**	**60,698**

The securities portfolio includes debt securities at amortised cost not associated with credit operations (net of impairment), financial assets at fair value through profit or loss (excluding amounts related to credit operations and trading derivatives) and financial assets at fair value through other comprehensive income.

Securities portfolio

Euro million

	30 Jun. 20	31 Dec. 19	30 Jun. 19
Debt instruments at amortised cost (accounting Balance sheet) (1)	5,742	3,186	3,378
Debt instruments at amortised cost associated to credit operations net of impairment (2)	2,143	2,075	2,155
Debt instruments at amortised cost considering management criteria (3) = (1) - (2)	**3,600**	**1,111**	**1,223**
Financial assets not held for trading mandatorily at fair value through profit or loss (accounting Balance sheet) (4)	1,305	1,406	1,418
Balance sheet amount of loans to customers at fair value through profit or loss (5)	333	352	316
Financial assets not held for trading mandatorily at fair value through profit or loss considering management criteria (6) = (4) - (5)	**972**	**1,053**	**1,102**
Financial assets held for trading (accounting Balance sheet) (7)	2,336	878	856
of which: trading derivatives (8)	568	620	632
Financial assets designated at fair value through profit or loss (accounting Balance sheet) (9)	0	31	32
Financial assets at fair value through other comprehensive income (accounting Balance sheet) (10)	13,285	13,217	13,386
Securities portfolio considering management criteria (12) = (3)+(6)+(7)-(8)+(9)+(10)	**19,625**	**15,671**	**15,966**

On 30 June 2020, total assets of the consolidated balance sheet of Millennium bcp amounted to 86,556 million euros, increasing 7.0% compared to 80,873 million euros recorded on the same date of the previous year. This growth was mainly driven by the performance of the activity in Portugal, also benefiting, albeit to a lesser extent, from the increase of assets in the international activity.

In the activity in Portugal, total assets showed a 8.3% growth compared to the 55,569 million euros recorded as at 30 June 2019, achieving 60,176 million euros at the same date of 2020. The main increases compared to the end of June 2019 occurred in securities portfolio, with the reinforcement of eligible assets, namely Portuguese public debt portfolio, loans to customers portfolio (net) and in cash and deposits at central banks. Inversely, the most significant reduction was in non-current assets held for sale, namely in the portfolio of real estate properties received as payment.

In the international activity, total assets amounted to 26,380 million euros at the end of June 2020, standing 4.3% above the 25,304 million euros reached in the same date of the previous year, mainly due to the increase in the securities portfolio of the Polish subsidiary. In the activity in Mozambique, the securities portfolio also showed a growth compared to the same period of the previous year.

Total liabilities of the consolidated balance sheet of Millennium bcp stood at 79,107 million euros as at 30 June 2020, showing a 7.9% growth form the 73,308 million euros recorded at the same date of the previous year, mainly due to the evolution of deposits and other resources from customers in both the international activity and above all in the activity in Portugal. In the activity in Portugal it should also be noted, on one hand, the increase in the resources of credit institutions and on the other hand the decline of financial liabilities at fair value through profit or loss, namely through the maturity of customer deposits classified in this category.

Equity, including non-controlling interests, totalled 7,450 million euros on 30 June 2020, compared to 7,565 million euros recorded at the end of June of the previous year, in spite of the results accrued during this period, with the actuarial differences recorded at the end of 2019 being the main contributor to the reduction. Additional information and details on the evolution of equty are described in the Condensed Interim Consolidated Statements of Changes in Equity for the periods of six months ended 30 June 2020 and 30 June 2019 in Consolidated accounts for the first half of 2020.

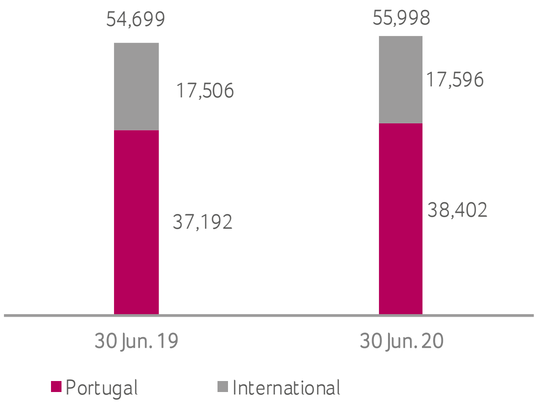
LOANS TO CUSTOMERS

Consolidated loans to customers (gross) of Millennium bcp, as defined in the glossary, amounted to 55,998 million euros on 30 June 2020, showing a 2.4% growth compared to the 54,699 million euros recorded at the same date of the previous year, as a result of the performance of the activity in Portugal.

The performance of loans to customers (gross) in the activity in Portugal led to a 3.3% increase compared to 37,192 million euros recorded at the end of June 2019, reaching 38,402 million euros as at 30 June 2020. This growth largely reflects the credit granted under the credit lines launched by the Government in the context of the pandemic caused by COVID-19. Until the end of the first half of the year, the Bank disbursed a total of around 2 billion euros of financing under the new credit lines to more than 12,500 companies, strongly reinforcing the presence in this segment and gaining the recognition of being at the forefront in supporting the economy in the challenging times we are currently experiencing. It should also be noted that the net growth of the loan portfolio was possible despite the reduction of 1,179 million euros in NPE, resulting from the success of the divestment strategy in this type of assets, carried out by the Bank in recent years. Thus, the reduction in NPE between the end of the first half of 2019 and 2020 was more than offset by the growth of 2,389 million euros recorded by the performing loan portfolio in the same period.

LOANS AND ADVANCES TO CUSTOMERS (*)

Euro million



In the international activity, loans to customers (gross), remained almost in line (+0.5%) with the amount reached at the end of June 2019, standing at 17,596 million euros on 30 June 2020.

Consolidated loans to customers (gross) maintained a balanced level of diversification, with loans to individuals and loans to companies representing, respectively 57.0% and 43.0% of the total portfolio as at 30 June 2020 (57.3% and 42.7% at the same date of 2019).

LOANS TO CUSTOMERS (GROSS)

Euro million

	30 Jun. 20	30 Jun. 19	Change 20/19
INDIVIDUALS	**31,901**	**31,342**	**1.8%**
Mortgage	26,076	25,563	2.0%
Personal loans	5,825	5,779	0.8%
COMPANIES	**24,097**	**23,356**	**3.2%**
Services	8,600	8,701	-1.2%
Commerce	3,991	3,598	10.9%
Construction	1,689	1,918	-11.9%
Others	9,818	9,139	7.4%
TOTAL	**55,998**	**54,699**	**2.4%**
Of which:			
Portugal activity	38,402	37,192	3.3%
International activity	17,596	17,506	0.5%

The quality of the credit portfolio continues to benefit from the focus on selectivity and monitoring of the credit risk control processes, as well as from the initiatives carried out by the commercial and credit recovery areas, in order to recover non-performing loans over the recent years.

The improvement in the quality of the loan portfolio can be seen through the favorable evolution of the respective indicators, namely the NPE ratio as a percentage of the total loan portfolio, which declined from 9.1% as at 30 June 2019 to 7.0% at the same date of 2020, essentially reflecting the performance of the domestic loan portfolio, whose NPE ratio showed a reduction from 11.0% to 7.6%.

At the same time, it should also be noted the generalized increase in the coverage by impairments in the activity in Portugal, namely the reinforcement in the coverage of NPL by more than 90 days, from 94.5% at the end of June 2019 to 111.6% as at 30 June 2020, and the reinforcement in the coverage of NPE, which stood at 56.5% at the end of the first half of 2020, compared to 52.5% at the same date of the previous year.

CREDIT QUALITY INDICATORS

	Group			Activity in Portugal		
	Jun. 20	Jun. 19	Chg. % 20/19	Jun. 20	Jun. 19	Chg. % 20/19
STOCK (M€)						
Loans to customers (gross)	55,998	54,699	2.4%	38,402	37,192	3.3%
Overdue loans > 90 days	1,416	1,863	-24.0%	953	1,495	-36.2%
Overdue loans	1,528	2,034	-24.9%	969	1,534	-36.8%
Restructured loans	3,055	3,442	-11.2%	2,541	2,842	-10.6%
Non-performing loans (NPL) > 90 days	2,100	2,799	-25.0%	1,473	2,270	-35.1%
Non-performing exposures (NPE)	3,934	4,970	-20.8%	2,908	4,088	-28.8%
Loans impairment (Balance sheet)	2,274	2,664	-14.6%	1,644	2,146	-23.4%
RATIOS AS A PERCENTAGE OF LOANS TO CUSTOMERS						
Overdue loans > 90 days / Loans to customers (gross)	2.5%	3.4%		2.5%	4.0%	
Overdue loans / Loans to customers (gross)	2.7%	3.7%		2.5%	4.1%	
Restructured loans / Loans to customers (gross)	5.5%	6.3%		6.6%	7.6%	
Non-performing loans (NPL) > 90 days / Loans to customers (gross)	3.7%	5.1%		3.8%	6.1%	
Non-performing exposures (NPE) / Loans to customers (gross)	7.0%	9.1%		7.6%	11.0%	
COVERAGE BY IMPAIRMENTS						
Coverage of overdue loans > 90 days	160.6%	143.0%		172.5%	143.6%	
Coverage of overdue loans	148.8%	131.0%		169.6%	139.9%	
Coverage of Non-performing loans (NPL) > 90 days	108.3%	95.2%		111.6%	94.5%	
Coverage of Non-performing exposures (NPE)	57.8%	53.6%		56.5%	52.5%	
EBA						
NPE ratio (includes debt securities and off-balance exposures)	4.8%	6.4%		5.3%	7.7%	

Note: NPE include loans to customers only, as defined in the glossary.

CUSTOMER FUNDS

Total customer funds showed a favorable evolution, increasing 5.0% from the 79,224 million euros recorded on 30 June 2019, standing at 83,163 million euros at the end of the first half of the current year.

The increase in total customer funds, in the amount of 3,939 million euros, was due to the good performance of balance sheet customer funds, namely deposits and other resources from customers, which occurred both in the activity in Portugal and in the international activity. On the other hand, off-balance sheet customer funds stood 372 million euros below the amount accounted as at 30 June 2019, amounting to 18,154 million euros at the end of June 2020. The performance of off-balance sheet customer funds was driven by the reduction in the international activity, which evolution largely reflects the preference of customers for deposits and devaluation of assets more sensitive to fluctuations in financial markets, following the impacts of the COVID-19 pandemic.

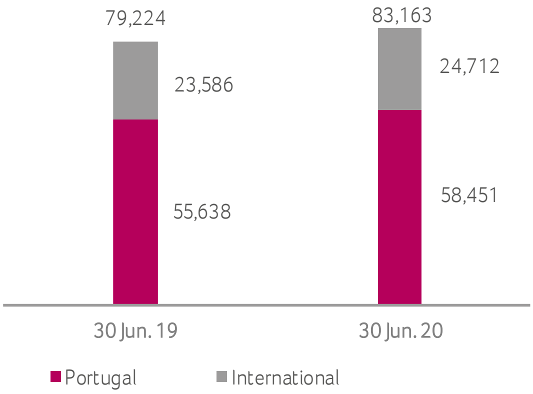
In the activity in Portugal, total customer funds stood at 58,451 million euros at the end of June 2020, showing a growth of 5.1% compared to 55,638 million euros recorded as at 30 June of the previous year. The growth of 2,813 million euros was boosted by the performance of deposits and other resources from customers which grew 3,019 million euros from 30 June 2019, confirming the maintenance of the weight of customer deposits in the assets financing structure.

Off-balance sheet customer funds in the activity in Portugal remained in line with the amount reached at the end of June 2019, since the 478 million euros increase in assets placed with customers, particulary investment funds, together with the grwoth of 167 million euros from assets under management, was totally offset by the reduction of 759 million euros recorded by savings and investment insurance products.

In the international activity, total customer funds stood at 24,712 million euros on 30 June 2020, increasing 4.8% compared to 23,586 million euros recorded on the same date of 2019. This evolution was mainly due to the increase of 1,426 million euros in deposits and other resources from customers, which was partially offset by the decline of 259 million euros recorded by off-balance sheet customer funds. The Polish subsidiary was primarily responsible for this performance of resources in the international activity.

TOTAL CUSTOMER FUNDS

Euro million



On 30 June 2020, balance sheet customer funds and deposits and other resources from customers, on a consolidated basis, represented 78% and 76%, respectively of total customer funds, with its weight increasing slightly compared to the same date of the previous year.

The loans to deposits ratio, in accordance with the Bank of Portugal's Instruction no. 16/2004, stood at 85% on 30 June 2020, with the same ratio, considering on-balance sheet customers' funds, standing at 83%. Both ratios show values below those obtained at the same date of the previous year, 88% and 86%, respectively.

TOTAL CUSTOMER FUNDS

Euro million

	30 Jun. 20	30 Jun. 19	Change 20/19
BALANCE SHEET CUSTOMER FUNDS	**65,009**	**60,698**	**7.1%**
Deposits and other resources from customers	63,464	59,020	7.5%
Debt securities	1,545	1,678	-8.0%
OFF-BALANCE SHEET CUSTOMER FUNDS	**18,154**	**18,526**	**-2.0%**
Assets under management	5,465	5,445	0.4%
Assets placed with customers	4,242	3,822	11.0%
Insurance products (savings and investment)	8,447	9,260	-8.8%
TOTAL	**83,163**	**79,224**	**5.0%**
Of which:			
Portugal activity	58,451	55,638	5.1%
International activity	24,712	23,586	4.8%

SECURITIES PORTFOLIO

The securities portfolio, as defined above, comprises a diversified set of financial assets that are broken-down according to the following accounting categories: debt instruments at amortised cost not associated with credit operations, financial assets at fair value through profit or loss (excluding the ones related to loans to customers and trading derivatives) and financial assets at fair value through other comprehensive income.

On 30 June 2020, the securities portfolio of the Group amounted to 19,625 million euros, showing an increase of 22.9% from 15,966 million euros recorded in the same date of the previous year, causing its weight in total assets to evolve from 19.7% to 22.7% in the same period. This increase was due to the strengthening of the portfolios of both the activity in Portugal and the international activity, in this case mostly justified by the performance of the Polish subsidiary, mainly reflecting the increase in the Portuguese and Polish sovereign debt portfolio by 1,024 million euros and 1,541 million euros, respectively.

SECURITIES PORTFOLIO

Euro million

	30 Jun. 20	30 Jun. 19	Chg. Jun. 20/19
Financial assets measured at amortised cost (1)	3,600	1,223	194.3%
Financial assets measured at fair value through profit or loss (2)	2,740	1,357	102.0%
Financial assets measured at fair value through other comprehensive income	13,285	13,386	-0.8%
TOTAL	19,625	15,966	22.9%
of which:			
Activity in Portugal	12,784	10,623	20.3%
International activity	6,841	5,343	28.0%

(1) Debt instruments not associated to credit operations.

(2) Excludes the amounts related to loans to customers and trading derivatives.

Business Areas

ACTIVITY PER SEGMENTS

Millennium bcp conducts a wide range of banking activities and financial services in Portugal and abroad, with special focus on Retail Banking, Companies Banking and Private Banking business.

BUSINESS SEGMENT	PERIMETER
Retail Banking	Retail Network of Millennium bcp (Portugal) Retail Recovery Division Banco ActivoBank
Companies, Corporate & Investment Banking (*)	Companies and Corporate Network of Millennium bcp (Portugal) Specialised Recovery Division Interfundos Large Corporate Network of Millennium bcp (Portugal) Specialised Monitoring Division Investment Banking Trade Finance Department (**)
Private Banking	Private Banking Network of Millennium bcp (Portugal) Millennium Banque Privée (Switzerland) (***) Millennium bcp Bank & Trust (Cayman Islands) (***)
Foreign Business	Bank Millennium (Poland) BIM - Banco Internacional de Moçambique Banco Millennium Atlântico (****) Millennium Banque Privée (Switzerland) (***) Millennium bcp Bank & Trust (Cayman Islands) (***)
Other	Includes all other business and unallocated values in particular centralized management of financial investments, corporate activities and insurance activity.

(*) Excludes the Specialized Credit and Real Estate Division from the commercial network, which started to be considered in the segment Other.

(**) From Treasury and Markets International Division.

(***) For the purposes of business segments, Millennium Banque Privée (Switzerland) and Millennium bcp Bank & Trust (Cayman Islands) are included in the Private Banking segment. In terms of geographic segments, both operations are considered Foreign Business.

(****) Consolidated by the equity method.

The figures reported for each segment resulted from aggregating the subsidiaries and business units integrated in each segment. For the business units in Portugal, the aggregation process reflects the impact from capital allocation and balancing process in the balance sheet and income statement, based on average figures. The balance sheet headings for each business unit and Portuguese subsidiaries were re-calculated, considering the replacement of the equity book values by the amounts assigned through the allocation process, based on the regulatory solvency criteria.

Thus, as the process of capital allocation complies with the regulatory criteria of solvency in force, the risk weighted assets, and consequently the capital allocated to the business segments, are determined in accordance with the Basel III framework, pursuant to the CRD IV/CRR. The capital allocated to each segment resulted from the application of a target capital ratio to the risks managed by each segment, reflecting the application of the Basel III methodology previously referred. Each operation is balanced through internal transfers of funds, with impact on the net interest income and income taxes of each segment, hence with no impact on consolidated accounts.

Each segment's income includes the non-controlling interests, when applicable. Therefore, the values of net income presented incorporate the individual net income of the business units, regardless of the percentage stake held by the Group, and the impacts of the transfers of funds described above.

Operating costs related to the business segments do not include restructuring costs and other costs considered as specific items recorded in 2020 and 2019, respectively.

The information presented below was based on the financial statements prepared in accordance with IFRS and on the organization of the Group's business areas as at 30 June 2020.

RETAIL

Mass Market

During the first six months of 2020, featured by the limitations on trips and social interactions imposed by the COVID-19 pandemic, the Bank focused on, in one hand, the encouragement concerning the use of the Bank's digital channels and, on the other, on aiding families overcoming the economic challenges placed by the pandemic.

At the beginning of 2020, the Bank continued focused on achieving new Customers and maintain their loyalty and developed a campaign promoting the subscription and use of the credit card by new Customers, based on cash-back of interests for a 3-month period.

During January, and with the purpose of increasing the number of wages paid through accounts with Millennium bcp, both new and current Customers who hat had their wage or retirement pension paid through an account with the Bank became qualified for the last draw of upper-range mobile phones, in the wake of the campaign targeted at the capture and binding of Clients initiated in the last quarter of 2019.

With the purpose of increasing cross-selling, several marketing actions were developed addressed to Customers with a greater propensity towards the purchase of the financial products therein involved..

Millennium bcp joined the project from AMI – Assistência Médica Internacional named "Vamos todos ser Dinis". Within the scope of this sustainable partnership, the Bank launched a campaign in early June , according to which for each new subscription to the e-statement made until 30 September, the Bank donates 1 euro for the reforestation of the Leiria pine forest.

The ongoing focus on digital enabled the Bank to achieve a penetration rate of 75% of active current accounts with e-statement.

The Bank continued its efforts to increase the operational efficiency of Mass Market Branches of the retail network by reducing the number of transactions made at the Branch and developing digital migration by promoting the use of digital channels.

Prestige

- In the first half of 2020, the Bank pursued the strong dynamics to increase the number of new Customers initiated in 2019, via commercial systematic, cross-networking, the establishment of protocols with companies and via campaigns. However, in the 2nd quarter this environment was affected by the lockdown, with a recovery up to normal figures in June.
- Continuation of the program #1 Customer Experience, Customer Proximity Action and Diversification Streamlining Action, consisting in the ongoing training in commercial techniques and servicing provided to the entire Customized Management network, guaranteeing the improvement of the Manager's NPS.
- The Bank privileged one-to-one relational marketing actions targeted at Prestige Customers. The Prestige Managers contacted more than 75% of the managed Customers during the State of Emergency.
- Regarding savings and investment products and services, the Bank provided support to Customers during the period of time characterised by a greater volatility due to the uncertainties provoked by the pandemic and pursued activities to improve the Customer's experience in all channels to be able to correspond to the Customer's expectations and objectives, by diversifying the Customer's financial assets.
- In the first quarter of 2020, the Bank continued to develop a significant credit granting activity. However, as of the end of the first quarter, there was a decrease in credit granting to Customers of the Prestige Segment , either personal loans (online and pre-approved, and in home loans due to a fall in demand provoked by the pandemic. The Bank promoted backup solutions addressed to Prestige Customers, such as moratoriums for mortgage and personal loans.
- In Customized Remote Management, the Bank continued to provide a service of quality to Digital Prestige Customers.

Residents Abroad & Foreign Customers

- Launching of a new positioning in terms of communication for the segment of Foreign Customers (*Welcoming People*) and for the Portuguese worldwide communities segment (Juntos Somos Portugal).
- Simplification of the individual Customer segmentation criteria, aligning the criteria of the Customers Resident Abroad by the ones of those residing in Portugal, creating, at the same time, three types of communities enabling identifying Customers from the worldwide Portuguese Community, Customers Residing abroad and Foreign Customers residing in Portugal.
- Review of the offer of Integrated Solutions for Customers residing abroad, improving the Solution Mais Portugal with the inclusion of free SEPA transfers and discontinuance of the Solution Portugal Prestige, orienting the Customers to the Prestige Program.
- Launching of a non-financial offer addressed to Foreign Customers using a Prestige Solution, with the purpose of facilitating their settlement in Portugal. This offer results from a partnership established with Kleya, a company wherein Group Ageas holds a stake.

Business

- The 1st quarter was characterised by a consistent growth in the credit portfolio and increase in the number of new Clients. The 2nd quarter, completely centred on the concern of assisting the Customers affected by the pandemic COVID-19, the Bank provided support to more than 10,000 Customers in an amount above 1 billion euros and implemented more than 19,700 moratoriums.
- Within the same context, the process already initiated towards reinforcement of skills in the management and monitoring of micro-companies, in a partnership with MBA, continued to be developed. Its purpose is to strengthen Customer proximity and responsiveness.

Products

- Regarding Personal Loans, the Bank continued to offer:
    - A competitive offer adjusted to the needs of Customers;
    - Strong focus on digital channels;
    - Investment in the education of young people, through the offer of a University Credit Line with Mutual Guarantee;
    - Ongoing investment in the loan contracting process, for car financing, aiming at increasing production, agility and speed in that process.
- Regarding Real Estate Loans, the Bank continued to offer:
    - A competitive offer, targeted towards the profile of Customers aiming at achieving simplification, agility and speed in the processes;
    - Strong focus on the Youth segment by means of a very attractive offer;
    - Credit mixed rate solutions for Customers that prefer stable instalments;
    - An attractive proposal for Customers intending to transfer to Millennium bcp the credit they have with other credit institutions.

In the 2nd quarter of the year, the Bank, in view of the domestic and international situation originated by COVID-19, and assuming the commitment of assisting the families affected by the impact and constraints associated with this pandemic, made available a set of measures in order to preserve the financial stability of its Customers and focused all its attention on putting into place public and private moratoriums.

In addition, Millennium bcp, decided to suspend, until 30 June 2020, the aggravation of spreads due to non-compliance with contractual duties in all mortgage loans of its individual Customers, the price of which (*spread* plus index), depends on cross selling.

- Investments
    - Due to the current environment marked by negative interests rates, the Retail network focused its commercial activities on the presentation of investment solutions that suit each Customer's profile, namely through products that diversify the financial assets, such as investment funds and financial insurances.
    - At the same time, the Bank kept in mind the concern to help Customers planning their future, namely through Retirement solutions;
    - For retired individuals, one must point out the dynamics of the new solution Mais Rendimento Flexível (More Flexible Income), created for the preservation of capital and to achieve, at the same time, a monthly rent that serves as a retirement complement.
    - For investment, the process of continuous improvement of the offer continued, and also for the improvement of the conditions that allow the consolidation of the "Provision of Information" in investment solutions.
- Integrated Solutions
    - Strong above the line campaign addressed to new young Customers, offering 1 ticket for all the most significant summer festivals and promoting the sale of the Solution GO! and the use of digital channels.
    - Improvements were introduced in the value proposition for Portuguese Customers residing abroad and foreign Customers residing in Portugal, including transfers SEPA+ and MB WAY in the Solution Mais Portugal.
    - The Bank continued to provide support to companies by reinforcing the value proposition of the integrated solution for this segment, the Business Frequent Customer, with the inclusion of 9 immediate transfers per quarter.
    - Family Advantage: Millennium bcp continues to place itself in the market as the Bank that provides support to the Portuguese families by means of solutions for all ages and a special pricing in credit products, integrated solutions and insurances.
    - Vodafone All Customers that subscribed integrated solutions from Millennium bcp have access to discounts in the prices charged by Vodafone.
- COVID-19
    - Support to families and companies by means

of sales by phone or through the website of integrated solutions by 1 euro/month, so that the Customers are able to maintain their bank relation without leaving their homes.

  - Provision of special price conditions to Customers who already have an integrated solution and invoke one of the motives set forth by the Government regarding credit moratoriums. Microcredit

- Within a context featured by the COVID-19 pandemic that strongly conditioned the institutional activity of disclosure of microcredit and the promotion of entrepreneurial spirit, the Microcredit of Millennium bcp approved the financing of 27 new operations, in a total of 582 thousand euros of credit and the creation of 62 new jobs.
- During the first 6 months of 2020, 3 new cooperation agreements for entrepreneurial action and promotion of access to micro credit were concluded.
- The Bank carried out, in-person or through electronic means, 57 presentation meetings and 36 follow-up meetings. The main participants in these meetings were the Municipalities, Entrepreneurial Associations and Social Development Local Contracts.
- The Bank also organized 3 sessions for the disclosure of microcredit . On session focused graduates from Escola Profissional Profensino in Penafiel (in-person) and the remaining two focused on unemployed individuals supported by the project Cidade das Profissões do Município do Porto (in-person and *webinar*).
- The team in charge of promoting microcredit also attended 7 *webinars* organized by its institutional partners..

ActivoBank

- Development and implementation of the COVID-19 contingency plan in the Pontos Activo and central services with adjustments to the service hours, acquisition of Personal Protective Equipment, definition of minimum service teams, adoption of telework and decentralization of the Call Center.
- Implementation of the public credit moratorium and private moratorium under the agreement with APB in a total of 3,848 adhesions (387 State and 3,461 Private).
- Launch of "Conversas Activo" in live streaming to answer questions in a COVID-19 environment.
- Campaign #aprimeiracoisaquevoufazer, on Social Networks, representing a message of hope during the quarantine having been recognized with the Bronze award at the Lusophone Creativity Awards and World Top 1 in the weekly Top of the Ad Forum.
- Launch of the international transfers service in the ActivoBank App in partnership with Transferwise, which allows Bank Customers to access this service quickly, with lower rates, and based on the real exchange rate in the market.
- Launch of the unit-linked Retirement Activa aimed at those who intend to invest in retirement with a medium / long term vision and with risk tolerance.
- At the end of the first half of 2020, the number of Customers at ActivoBank stood at 321 thousand Customers, representing a growth of 20% compared to the same period last year.
- 36% growth in the personal loan portfolio and 34% in the mortgage loan portfolio.
- In terms of commercial campaigns, personal credit campaigns are highlighted based on the recognition of Right Choice and also Housing credit with the offer of a KINDA voucher for the purchase of first homes.
- ActivoBank was recognized as a Consumer Choice, in the Digital Bank category; with the Five Stars Award, in the Digital Banking category; in the most renowned Marktest brand, in the Online Banking category; Best Mobile Banking App and Best Consumer Digital Bank and Best Commercial Bank from World Finance. These recognitions embody ActivoBank's strategy of investing in innovation and digital solutions that allow a unique 100% digital banking experience.
- At the product level, the Personal Credit solution in the category of more than 5,000 euros was also awarded with the Right Choice by DECO Proteste.

Million euros

RETAIL BANKING	30 Jun. 20	30 Jun. 19	Chg. 20/19
PROFIT AND LOSS ACCOUNT			
Net interest income	264	228	15.5%
Other net income	193	201	-4.1%
	457	429	6.3%
Operating costs	235	236	-0.2%
Impairment	38	5	>200%
Income before tax	184	188	-2.1%
Income taxes	56	58	-3.4%
Income after tax	128	130	-1.5%
SUMMARY OF INDICATORS			
Allocated capital	1,231	1,100	11.9%
Return on allocated capital	20.9%	23.8%	
Risk weighted assets	10,036	9,240	8.6%
Cost to income ratio	51.6%	55.0%	
Loans to Customers (net of impairment charges)	22,955	21,565	6.4%
Balance sheet Customer funds	32,386	29,269	10.6%

Notes:

Allocated capital, Loans to customers (net of recoveries) and Balance sheet Customer funds figures based on average balance.

Income

As at 30 June 2020, income after tax from Retail Banking segment of Millennium bcp in Portugal totalled 128 million euros, showing a 1.5% decrease compared to 130 million euros in the same period of 2019, penalized mainly by the impairments recorded in the first half of 2020. Regarding the evolution of the main income statement headings, the following aspects should be highlighted:

- Net interest income went up to 264 million euros as at 30 June 2020, growing 15.5% compared to the previous year (228 million euros), positively influenced by the higher income arising from the internal placements of the excess of liquidity, by the higher return on the loan portfolio, in particular through the increase of the existing volumes and by the continuous decrease in costs associated to term deposits.
- Other net income fell from 201 million euros at the end of June 2019 to 193 million euros at the end of June of 2020, showing a 4.1% decrease, due to lower income from financial products distributed to Customers and from lower banking commissions, namely cards and transfers commissions, which were penalized not only by the impacts directly linked to the COVID-19 pandemic, but also by the support initiatives implemented by the Bank, namely some exemptions granted to deal with this particular situation.
- Operating costs stood in line with the amounts recognized in the same period of the previous year.
- Impairment charges amounted to 38 million euros by the end of June 2020, up from 5 million euros recorded in June 2019, reflecting the downgrade of the credit risk parameters considered in the impairment calculation model, following the update of the macroeconomic scenario, which now incorporates the impacts of the COVID-19 pandemic.
- In June 2020, loans to customers (net) totalled 22,955 million euros, 6.4% up from the position at the end of June 2019 (21,565 million euros), while balance sheet customer funds increased by 10.6% in the same period, amounting to 32,386 million euros by the end of June 2020 (29,269 million euros at the end of the previous year), mainly explained by the increase in customer deposits.

COMPANIES, CORPORATE & INVESTMENT BANKING

Companies and Corporate

The first six months of 2020 were featured by the achievement of the leading position in the Mutual Guarantee National System wherein the share attained enabled Mbcp to stand out as the Bank #1 in the support to companies affected by the COVID-19 pandemic.

Within a context of explicit support to its more than 13.800 Customers, the Bank implemented more than 26.000 request for company moratoriums, representing 4.7 billion euros of credit.

Evidencing a growth, which is based on specialized credit and on financial solutions for projects applying to European and National Programs (Portugal 2020), Millennium bcp strengthened its leading position as Bank # 1 in *Factoring* & *Confirming*, *Leasing* and Portugal 2020.

This period of time was also characterised by the reinforcement of several leading positions that place Millennium bcp as the main Bank of companies, as the closest Bank, the more efficient one and the one with the most appropriate products (BFin Data-E 2020).

The commitment to design new financial solutions and support to new sectors of activities, reiterated the leadership as #1 Bank in use by Customers, Commerce, Horeca (Hotels, Restaurants and Coffee-houses), Services, Industry and Construction (BFin Data-E 2020):

- *Portugal 2020:* Within the support to companies with Portugal 2020 applications and investment projects approved within the scope of Portugal 2020 Programme, Millennium bcp granted new loans in an amount above 173 million euros in the first six months of 2020;
- *SI Inovação* Reinforcement of the position as Bank #1 in the selection of Companies in the new SI Inovação tender notices, with the possibility of choosing the financing hybrid system.
- *Financial Instrument for Urban Rehabilitation and Revitalisation (IFRRU):* Despite the adverse context due to the COVID-19 pandemic, we must point out the increased focus on financial support to operations, reaching around 14 million euros in terms of total investment.
- *Financing Solutions with preferential conditions and EIF guarantee*: A comprehensive number of financing solutions aimed at supporting the Customers' future in several economic sectors, EIF, Cultural and Creative Sectors, EIF Cosme and EIF Inovação. The Bank granted around 1,100 new loans in the amount of 232.6 million euros (accrued) for a guarantee solution that extended the Bank's commercial offer to new Customers, new Companies or specific economic sectors.
- *Credit Lines with autonomous bank guarantee provided by Mutual Guarantee Societies (SGM):* Support to more than 13 thousand Customers, reaching a disbursed amount of more than 2,1 million euros.
- Market leadership in factoring and leasing, according to the Leasing and Factoring Association (ALF), achieving a 27% market share in factoring, 36% in confirming and 20% in leasing (data as of November 2019). In terms of factoring the invoices received exceeded 3.944 million with a new leasing production above 244 million euros.

Trade Finance

- The first half of 2020 was featured by the rapid response to the needs of Customers with international businesses, due to the COVID19 pandemic. We emphasize the adequacy of the trade finance solutions to this specific reality. The Bank adapted the offer for international business with solutions targeted at treasury aid for importing and exporting companies, simultaneously ensuring the safety of the transactions.
- During the 1st half of 2020, notwithstanding a 1,2% decrease in the number of transactions, the Bank was able to increase its market share, reaching 21,4 % (from 20%). The first six months of the year were also characterised by the 6,5% increase in the number of new Customers, reaching a turnover of around 28,3 billion euros.

Closer to the primary sector

To strengthen its proximity to Customers and non-Customers via corporate activities in the primary sector, the Bank created a specialized team devoted to the primary sector. In this 1st half-year, we must point out:

- Credit Line to Aid the Fishing Sector within a protocol established with IFAP, to finance the treasury needs of legal and natural persons active in the fishing sector, aquaculture and in the processing and marketing of fisheries industry, affected by the COVID-19 pandemic.
- Maintenance of the quarterly publication of AgroNews, that discloses the most relevant events in the agricultural sector and promotes in each edition an examination on a particular agricultural activity or sector.
- Attendance at SISAB-2020, held in Parque das Nações, in Lisbon.
- Attendance and participation in the Seminar from Almencor (in Portel) and in the Meeting of Entrepreneurs in Mértola, presenting the Bank's offer for the sector.
- Promotion of CAP and AJAP Protocols, particularly during the period of the Aid Single Request, for payments made to farmers via IFAP.
- Focus on internal and external communication for the primary sector, with internal and external actions, disclosure of the Bank's offer and

participation in works connected with the financial sustainability area.

Bank #1 in satisfaction with Net Banking (BFin Data-E 2020), notably:

- *Factoring and Confirming online*, first credit solution for companies, with the possibility of simulation, online contracting and signature using the Qualified Digital Certificate.
- M Contabilidade, the first open banking service allowing to integrate the accounts of the Corporate Clients with the platform of the Portuguese Association of Certified Accountants (online TOC), this way benefiting Entrepreneurs and Accountants by means of payment integration and support to banking reconciliation.

Investment banking

- In Corporate Finance, the Bank took part in several projects in Portugal and in international markets, providing financial counselling to its Customers and to the Bank itself in matters that involve the study, development and making of M&A operations, assessment of companies, corporate restructuring and reorganization processes, as well as economic and financial analysis and research in projects. Concerning the mergers and acquisitions segment, we must point out the advising to Arcus Infrastructure Partners in the sale of its stake in Brisa to the consortium composed by APG, NPS and Swiss Life (pending of conclusion) and also the advising services provided to Arena Atlântico in the sale of a stake from Blueticket to Meo.
- Regarding project finance in Portugal we must mention a number of origination initiatives in the renewable energies sector, notably the work associated with the auctions for the for allocation of injection capacity in the electricity grid from a solar photovoltaic source. In the international area, stands out the origination efforts in the area of oil and gas in the major natural gas projects, that should ultimately position Mozambique as one of the 3 largest producers of LNG in the world .
- In Structured Finance, we should emphasize the, analysis, structuring and assembling of new financing operations in Portugal in several sectors (agribusiness, metal industry, utilities, inks, transportation, cars, retail and distribution, hotel business and tourism, among other).
- During the 1H of 2020, we must point out in the capital markets area, the setting up, assembling and joint placement of bonds issues in the autonomous regions of Azores and Madeira, the latter carried out with a State guarantee and the joint leading of the issue of the "green" hybrid debt of EDP, amounting to 750 million euros. In equity capital markets segment, it is important to mention the development of preliminary works in the share capital increase of EDP to be made through a public offering reserved for Shareholders in the exercise of their preference rights. The operation was announced in the 2nd half of the year and BCP assumed the role of *joint global coordinator* , being a member of the underwriters syndicate established to ensure the proceeds from the operation.
- In terms of Sectoral Approach the Bank focused on mapping and proximity to the tourism ecosystem for the generation of business opportunities enabling the establishment of an increasingly value added dialogue with companies and investors. This approach is particularly important within the current pandemic context.
- Lastly, we must mention the election of Millennium investment banking, for the 2nd consecutive year, as "*Best Investment Bank*" in Portugal by Global Finance, an international magazine specialized in the financial sector, an additional recognition to the one already awarded, also for the 2nd consecutive time, by Euromoney.

arcus INFRASTRUCTURE PARTNERS
FINANCIAL ADVISORY
Financial advisory to Arcus IP in the sale of a stake in Brisa
Undisclosed
2020
Millennium investment banking

edp
JOINT LEAD MANAGER
1,7% hybrid green bonds
750.000.000 €
2020
Millennium investment banking

BLUE TICKET
FINANCIAL ADVISORY
Financial advisory in the sale of Blueticket (51% stake) to Altice Portugal
Undisclosed
2020
Millennium investment banking

JOINT LEAD MANAGER
Public Bond Offer 2020-2023
50.000.000 €
2020
Millennium investment banking

Região Autónoma da Madeira
JOINT LEAD MANAGER
Bond Issue Government Guaranteed Due 2032
299.000.000 €
2020
Millennium investment banking

JOINT LEAD MANAGER
Bond Issue Due 2030
200.000.000 €
2020
Millennium investment banking

Real estate business

Main performance pillars in the course of the first six months of 2020:

- Management of real estate properties available for sale - the Bank continued to pursue its objectives of reducing the portfolio of assets available for sale, notwithstanding the COVID-19 pandemic and respective impact on business. In that sense, the Bank developed several promotional initiatives, some innovative, resorting also to digital platforms and online, placing itself closer to potential interested parties, providing support in the decision-making process and showing that it continues to trust the market and its agents. Taking into account the composition of the portfolio being sold, mostly composed by non-residential assets, the investment in communication was addressed to that segment and the Bank carried out a campaign with a relative visibility *"O Comércio Local não pode parar"*, (Local trade must continue) with extremely positive results. All the strategies continue to be based on the sale of properties in a personalized manner and at fair prices to be able to provide the best contribution for the Bank's profit and loss account.
- Management of real-estate assets not available for sale - continuity in the physical, legal and administrative fine-tuning and implementation of valuing actions / non-degradation of the real estate properties acquired for the recovery of loans or that are no longer assigned to operations in order to their disposal /sale:
- Management of Stakes controlled by the Bank in Entities that manage real estate risk, Funds and Companies.

Interfundos

Reinforcement of the continuity and of financial sustainability of the Real Estate Investment Entities (OII), based on the preservation and creation of value and of liquidity conditions for the participants and Shareholders, together with the consolidation of the leading position in the market:

- Global sales reached 16 million euros, corresponding to 63 real estate properties in total;
- Transfer of the management of a Real Estate Investment Fund (Imovalue);
- Extension of the term for the duration of two Real Estate Investment Funds (Renda Predial and Imopromoção);
- Carrying out of a capital reduction operation (Fimmo);
- In the 1st half of 2020, the volume of assets of the 33 OIIs (Real Estate Investment Funds and SICAFI's) managed by Interfundos reached 1,309 million euros.

International Division

This half-year was featured by the effects of the pandemic on international business, with a sudden interruption in the distribution chains due to lockdown in regions and countries and consequent international trade contraction. The impact on business was visible in several domains, namely) reduction in trade finance activity and in cross-border payments; ii) need to provide the Portuguese companies with loans under competitive conditions, taking advantage of the instruments negotiated with group EIBI/EIF and, on the other hand, iii) the challenge represented by placing contingency plans into action very rapidly, with the opportunity of revising work procedures and their governance, adjusting performance protocols in correspondent banking, namely by achieving more efficient and sustainable ways to interact with counter-parties. .

Within this framework, we must point out the following:

Group EIBI/EIF: a particularly dynamic period in the negotiation of financial instruments with this European institution, enabling the Bank to maintain a position of reference in the domestic market, originating the offer of considerable benefits targeted at aiding the Portuguese entrepreneurial sector .

The following is particularly noteworthy:

- Signature of a contract with FEI CCS – Cultural and Creative Sectors, in the amount of 200 mio euros, addressed to companies of the cultural and creative sectors, 70% guaranteed by the EIF;
- Signature of a contract within the scope of Program for Employment and Social Innovation (EaSI) amounting to120 million euros, an European initiative to promote sustainable employment and social inclusion, 80% guaranteed by the EIF.
- Achievement of an additional FEI InnovFin – COVID guarantee for a 60 million euros portfolio, with a 50% coverage.
- Partial restructuring of the guarantee FEI COSME for COVID aid.

In **custody**, the Bank continued to consolidate its role as an important reference in the Portuguese market. There was, however, some volume contraction in this period which was more than offset by the increase in transactions in the portfolios, with a positive aggregated balance in the half-year income. This trend continued to be particularly obvious in the provision of custodian bank services to Risk capital Funds.

Million euros

COMPANIES, CORPORATE & INVESTMENT BANKING	30 Jun. 20	30 Jun. 19	Chg. 20/19
PROFIT AND LOSS ACCOUNT			
Net interest income	118	140	-16.3%
Other net income	70	69	2.8%
	188	209	-10.1%
Operating costs	59	67	-12.7%
Impairment	156	138	13.9%
Income before tax	(27)	4	
Income taxes	(9)	1	
Income after tax	(18)	3	
SUMMARY OF INDICATORS			
Allocated capital	1,277	1,164	9.7%
Return on allocated capital	-2.9%	0.6%	
Risk weighted assets	10,647	10,077	5.7%
Cost to income ratio	31.2%	32.1%	
Loans to Customers (net of impairment charges)	13,035	12,769	2.1%
Balance sheet Customer funds	8,291	7,966	4.1%

Notes:

Allocated capital, Loans to customers (net of recoveries) and Balance sheet Customer funds figures based on average balance.

Income

Companies, Corporate and Investment Banking segment in Portugal went down from 3 million euros in the first half of 2019 to a loss of 18 million euros in June 2020. The performance of this segment remains constrained by the progressive implementation of the Bank's non-performing exposures reduction plan, with an impact on the reduction of the loan portfolio and on its levels of impairment charges. In this context, it should be noted that impairments charges ended up being penalized by the additional amounts recorded following the revision of the credit risk parameters linked to the update of the macroeconomic scenario underlying the impairment calculation model. The performance of this segment in 2020 is explained by the following changes:

- Net interest income stood at 118 million euros as at 30 June 2020, 16.3% below the amount attained in the previous year (140 million euros), penalized by the reduction in the income arising from the loan portfolio, mainly influenced by lower average interest rates. Despite the reinforcement of the credit portfolio with the new loans granted under the credit lines to support the economy during the pandemic, portfolio rates continue to be under pressure by the current macroeconomic context characterized by a persistent low interest rate scenario.
- Other net income reached 70 million euros in June 2020, being 2.8% higher compared to the amount achieved in June 2019, which is mainly explained by the higher level of commissions.
- Operating costs totalled 59 million euros by the end of June 2020, 12.7% down from 30 June 2019, mainly due to the fact of the Specialized Credit and Real Estate Division has ceased to be considered as a commercial network and is now included as part of the segment Other.
- Impairments showed a 13,9% growth, increasing from 138 million euros in June 2019 to 156 million euros in June 2020 reflecting the deterioration of the portfolio's credit risk following the economic crisis caused by COVID-19.
- As at June 2020, loans to customers (net) totalled 13,035 million euros, 2.1% higher compared to the existing position in june 2019 (12,769 million euros), although the effort made to reduce the non-performing exposures as mentioned above. Balance sheet customer funds reached 8,291 million euros, 4.1% above the amount recorded in June 2019.

PRIVATE BANKING

Millennium private banking was prepared to deal with the challenges placed by the pandemic and demonstrated versatility and capacity to adjust to this new environment. The entire commercial network had the technological means and the necessary knowledge to operate remotely and the procedures were rapidly revised to guarantee the same level of response the Customers are used to. Thus, during the period of time comprised between 13 March and 18 May, practically 80% of the staff of Millennium *private banking* worked remotely from home and it was observed that the productivity of the teams and Customer servicing levels remained the same.

At the same time, the area endeavoured a great effort to provide digital channels to the Customers that did not yet use digital solutions and fostered a culture of an even greater proximity between Private bankers and Customers via the usual tools and platforms such as Skype, Teams, or other, according to the preference of the Customer.

To ensure the alignment of the entire commercial network with the challenges presented by this new work model, the bank developed a Teleworking Manual that details all the procedures to follow to ensure normal business functioning. We must mention the close follow-up of Customer assets and also the implementation of exceptional protection measures in terms of credit, aiming at aiding families and companies affected by the pandemic.

Since, because, apart from being a partner in assets management, Millennium private banking aims to become a partner in all aspects of the life of its Customers, the Bank provided ongoing information to its Customers on the impacts of the pandemic via e-mail messages and also by implementing the first "*Private Talks*". Specifically, it organized a webinar for Customers on "A Sociedade do Futuro" (the society of the future), conducted by Prof. Nadim Habib and 4 digital micro-conferences on the Impact of COVID-19 on financial markets, on the performance of the portfolios and what can be expected until the end of 2020. During these digital micro-conferences, the Customers were able to interact in real time with the Vice-Chairman of Millennium bcp, the Coordinating-Manager of Private Banking and with the Chief Economist of Millennium bcp.

The launching and implementation of a major portion of the measures identified within the scope of Project Private 2.0, a 3-year project that began in early 2019, were not harmed since the teams of the Marketing Division of Private Banking were 100& prepared and already possessed the technological means to operate within a teleworking context . Hence, during the first six months of 2020:

- The commercial structure increased and a new space denominated "Private Direct" was inaugurated. This space was especially targeted at Millennials and Generation X (with a digital profile), a Customer segment which does not require a different investment offer but values an approach and a day-to-day management based on a very visual and digital relationship;
- The service provided to Customers evolved via execution through the creation of an investment nucleus.

- The Bank adopted new tools that match the challenges imposed by the different types of Customers and offer and, in particular, continued to invest in the implementation and promotion of the paperless processes (and, consequently, in the digital signature) and centred efforts on the digital account opening process. Currently, this type of account opening can be made using only the citizen's card;
- Measures to systematize the commercial network and business were also implemented;
- The Bank launched a new line of communication that translates the future-oriented spirit of the new Private Banking; and
- The Bank also developed and implemented a new type of not in-person events, comprised within a new communication strategy, more adjusted to present days than ever, considering the distance imposed by the pandemic.

The ambition of Millennium private banking is to be a partner in all aspects of the life of it Customers and wishes to continue to make the difference in all those aspects by promoting spaces for the dialogue on actual themes that really add value and developing its business models and offer to be able to, on a daily basis, exceed the expectations of the Customers that chose and trust BCP.

Million euros

PRIVATE BANKING	30 Jun. 20	30 Jun. 19	Chg. 20/19
PROFIT AND LOSS ACCOUNT			
Net interest income	11	4	184.2%
Other net income	13	13	3.9%
	24	17	44.5%
Operating costs	11	10	14.3%
Impairment	(1)	(1)	-4.9%
Income before tax	14	8	74.4%
Income taxes	5	3	74.4%
Income after tax	9	5	74.4%
SUMMARY OF INDICATORS			
Allocated capital	72	66	10.0%
Return on allocated capital	26.0%	16.4%	
Risk weighted assets	599	570	5.2%
Cost to income ratio	47.1%	59.6%	
Loans to Customers (net of impairment charges)	268	248	8.2%
Balance sheet Customer funds	2,365	2,193	7.9%

Notes:

Allocated capital, Loans to customers (net of recoveries) and Balance sheet Customer funds figures based on average balance.

Income

Income after tax from Private Banking business in Portugal, computed according to the geographic segmentation perspective, totalled 9 million euros in June 2020, reaching a 74.4% growth compared to the net profit posted in the same period of 2019, mainly due to the favourable performance of banking income. Considering the performance of the main items of the income statement, the relevant situations are highlighted as follows:

- Banking income stood at 24 million euros in June 2020, 44.5% up from the previous year (17 million euros). This increment is mainly explained by the favourable performance of net interest income, but also, to a lesser extent, by the evolution of other net income. Net interest income totalled 11 million euros in June 2020, comparing to 4 million euros in the first half of 2019, mostly benefiting by the higher income arising from the internal placements of the excess of liquidity. Other net income amounted to 13 million euros in June 2020, reflecting an increase of 3.9% compared to the same period of the previous year, due to the higher volume of commissions raised with stock exchange operations and with the management of Customer portfolios.
- Operating costs amounted to 11 million euros in June 2020, above the operating costs recorded in the first six months of 2019 (10 million euros).
- Impairments impacted positively the profit and loss account, although slightly less than in the first half

of 2019, with reversals in June 2020 being 4.9% lower than the reversals recorded in June 2019.

- Loans to customers (net) amounted to 268 million euros by the end of June 2020, showing an increase of 8.2% compared to figures accounted in the same period of the previous year (248 million euros), while balance sheet customer funds grew 7.9% during the same period, from 2,193 million euros in June 2019 to 2,365 million euros in June 2020, mainly due to the increase in customer deposits.

FOREIGN BUSINESS

Poland

- Net income of 16.2 million euros, affected by one-off provisions (including 38.0 million euros for legal risk on CHF loans) and by Euro Bank's integration.
- Euro Bank's integration: synergies of 14.0 million euros more than compensate integration costs of 8.0 million euros in 1H 2020.
- Customers funds up by 9.7%; loans to Customer increased by 5.9%.
- CET1 ratio of 16.96%, with total capital of 20.02%; ROE of 2.2% (8.7% excluding one-offs[4]).

Switzerland

- Net income of 3.7 million euros in the first half of 2020 (-2.2%; in CHF -7.9%; the lower decrease in EUR is associated to CHF appreciation impact on financial statements conversion to EUR). ROE of 9.4%.
- Net operating revenues decreasing in CHF (-6.2%; in EUR -0.4%), mainly influenced by lower net interest income (-33.3%; in EUR -29.2%), due to decreasing USD interest rates.
- Operating costs with a slight decrease in CHF (-0.9%); in EUR expanded +5.2% to 13.1 million euros.
- Income tax marginal rate with a reduction in 2020 from 24.16% to 14.00%, causing an additional income of 0.4 million euros.
- Total customer funds with a decrease in CHF (-3.3%); in EUR increased +1.0% to 3.2 billion euros.
- Customer deposits increased 13.5% (in CHF +8.7%) and credit portfolio (gross) decreased -12.2% (in CHF -15.9%).

Mozambique

- Net income of 42.5 million euros.
- Customer funds grew 13.4%; a conservative approach, given the challenging environment, resulted in a limited growth rate of loans to Customers (+1.3%).
- Capital ratio of 41.8%, with ROE of 17.6%.

Macao

- Net income of 3.5 million euros (-35.3%), mainly due to reduction on net interest income, impacted by reduced credit portfolio and interest rates, together with lower financial operations gains.
- As of June 2020, customer funds stood at 498 million euros (-6.4%) and gross loans reached 327 million euros (-15.6%).
- The Branch acted as a support platform for Portuguese companies doing business in Macao and Continental China.
- Financing Macao and international's business Customers.
- Trade finance operations to support Portuguese companies with exports to and/or imports from China.
- Attracting trading companies with international trade operations with China.
- Attracting Chinese Clients who intend to invest in Portugal, either on an individual or on a business basis.
- Promoting contacts between the Investment Banking area of Millennium bcp with Chinese companies seeking investment opportunities in Portuguese-speaking countries.
- Promoting the wealth management solutions of Millennium Banque Privée to potential Chinese Customers.

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4 One-offs in 1H 2020: Euro Bank integration costs, provisions for FX mortgage legal risk, Covid-19 provisions, provisions for the return of commissions on loans repaid earlier by Customers and linear distribution of BFG resolution fund fee; one-offs in 1H 2019: Euro Bank integration costs, release of tax asset provision, addition impairment on Euro Bank's merger and linear distribution of BFG resolution fund fee).

Cayman Islands

- Net income of 1.1 million euros (-23.2%), with a 0.7% ROE.
- Continued reduction in commercial activity, translated into a reduction on net operating revenues and on credit recoveries, despite reduction on operating costs.
- As of June 2020, Millennium bcp Bank & Trust presented customer funds of 2 million euros (-1.7%) and gross loans of 2 million euros (-79.6%).

Million euros

FOREIGN BUSINESS	30 Jun. 20	30 Jun. 19	Chg. 20/19
PROFIT AND LOSS ACCOUNT			
Net interest income	380	341	11.5%
Other net income (*)	100	119	-16.7%
	480	460	4.2%
Operating costs	243	213	14.3%
Impairment	147	61	138.5%
Income before tax	90	186	-51.9%
Income taxes	37	47	-22.4%
Income after income tax	53	139	-61.8%
SUMMARY OF INDICATORS			
Allocated capital (**)	2,963	2,957	0.2%
Return on allocated capital	3.6%	9.5%	
Risk weighted assets	15,857	15,135	4.8%
Cost to income ratio	50.8%	46.2%	
Loans to Customers (net of impairment charges)	16,966	16,989	-0.1%
Balance sheet Customer funds	21,733	20,348	6.8%

(*) Includes equity accounted earnings related to the investment in Banco Millennium Atlântico.

(**) Allocated capital figures based on average balance.

Income

Income after tax from Foreign Business, computed in accordance with the geographic perspective, stood at 53 million euros in June 2020, reflecting a 61.8% decrease compared to 139 million euros achieved in June 2019. This evolution is mostly explained by the impairment performance and, although to a lesser extent, by the increase in the operating costs. However, it should be highlighted that banking income presented a favourable performance, benefiting from the Polish subsidiary, in particular from the effect of the consolidation of Euro Bank, S.A..

Considering the different items of the income statement, the performance of Foreign Business can be analysed as follows:

- Net interest margin stood at 380 million euros in June 2020, which compares to 341 million euros achieved in June 2019. Excluding the impact arising from the foreign exchange effects, the increase would have been 15.3%, reflecting mainly the positive performance of the subsidiary in Poland, partly mitigated by the evolution observed in the subsidiaries in Mozambique and Switzerland.
- Other net income decreased 16.7%. Excluding foreign exchange effects, other net income decreased 13.1%, determined by the performance of the subsidiary in Poland, which was penalized by the increase in mandatory contributions, by the Mozambican subsidiary, whose results in 2019 had been influenced by relevant gains from the sale of other assets, and by the lower contribution of Banco Millennium Atlântico, reflecting mainly the macroeconomic context in Angola, characterized by a situation of economic recession, as well as the effect of the devaluation of the kwanza.
- Operating costs amounted to 243 million euros as at 30 June 2020, 14.3% up from June 2019. Excluding foreign exchange effects, operating costs would have risen 17.6%, mainly influenced by the operation in Poland, namely by the costs associated with the acquisition, merger and integration of Euro Bank S.A..
- Impairment charges at the end of the first half of 2020 presented a substantial increase compared to figures reported in the same period of 2019, reflecting mainly the impact of the additional provision related to risks from COVID-19 pandemic, recorded both by the Polish and Mozambican subsidiaries, and also by an additional extraordinary provision for legal proceeding related to mortgage loans granted in Swiss francs, booked by the Polish subsidiary.
- Loans to customers (net) stood at 16,966 million euros at the end of June 2020, in line with the amount attained as at 30 June 2019 (16.989

million euros). Excluding foreign exchange effects, the loan portfolio increased 4.5%, explained by the growth achieved by the Polish subsidiary. The Foreign business' balance sheet customer funds increased 6.8% from 20,348 million euros reported as at 30 June 2019 to 21,733 million euros as at 30 June 2020. Excluding the foreign exchange effects, balance sheet customer funds increased 11,9%, mainly driven by the performance of the Polish subsidiary.

BANCASSURANCE BUSINESS

Sale of Insurance throught the banking channel

During the first half of 2020, all the strategic pillars and ongoing projects were continued, which allowed the achievement of an excellent Customer service and maintenance of the Group's leadership in the sale of insurances through the Banking channel (Bancassurance). The following themes stood out:

- Digital transformation and intensification of the focus on models of analytical insight supporting the appeal to Clients, their management and retention, across the sections of both Life and Non-Life insurance;
- Increase of digital sales, with the promotion of several regular campaigns thereon;
- Several cross-selling actions, with the goal to increase the offer of products held per Customer and simultaneously, reduce the cancellation rate;
- Launching of campaigns with advantages in prices, an example being the campaign on the 20% discount in new Non-Life policies and the offer of two monthly fees in Health insurances;
- Launching of Médis Vintage in April involving the reinforcement of the prevention and service components, being an example the annual check-up, the influenza vaccine, the clinical analysis at home and Médico Online.
- Development of the network for dental care "Clínicas Médis", with the opening of three new clinics, in Av. Novas and Parque das Nações (Lisbon), and in Aveiro;
- In terms of market share, there was a decrease in Life insurances, mainly concerning saving products and also the maintenance of the market share in non-Life insurances. We must point out as positive the reinforcement of the strategic business lines of unit-linked products (24.5%) and Health products (25.8%).

COVID-19

- The first six months of 2020 were obviously marked by the impact of COVID-19, transversal to all society. In the several lines of business, protection is now undoubtedly a crucial factor for BCP' Customers, being examples of that reality:
    - Life Insurances that cover situations of death and disability due to COVID-19;
    - Work accidents insurance, covering teleworking;
    - Payment Protection Plan Insurances, that ensure cover in case of illness provoked by COVID-19;
    - Médis Health Insurances, wherein Médis as a personal health service, created a number of measures to support and protect the health of its Customers, such as the implementation of the online medical service on the app, medication home delivery, the evaluator of COVID-19 symptoms and the payment of diagnosis tests.

Main indicators	1H/2020	1H 2019	Change
Market Share - Premiums			
Life Insurance	16.4%	19.0%	-2.6 p.p.
Non-Life Insurance	7.2%	7.2%	-
Market Share– Premiums in Bancassurance			
Life Insurance	21.1%	22.7%	-1.6 p.p.
Non-Life Insurance	35.8%	36.0%	-0.2 p.p.

Strategy

Strategic Plan 2018-2021

Millennium bcp has successfully executed an operational turnaround, reinforcing its financial and capital position despite the adverse setting of the banking sector in the core Portuguese market. This position reflects its relentless path and multiple achievements, such as a cost reduction of approximately 40% in Portugal since 2011, and a reduction in Group NPEs exceeding 60% since 2013 (from 13.7 billion euros to 3.9 billion euros in June 2020). Three distinctive competences were at the core of this turnaround: a Customer-oriented relationship model, market-leading efficiency, and a competitive international portfolio.

Millennium is now ready to embark on a new cycle of growth with profitability, requiring complementary capabilities to cope with the evolving context and the need to secure a fully sustainable position. These include leading digital, mobile, and analytics capabilities (preparing the organization to be competitive in the new age) and integration in value chains and ecosystems (embedding into its Customers' needs and reach), complemented by a robust balance sheet and rigorous capital allocation and shaped by strong governance (continuing its effort to de-risk the portfolio and reinforcing focus on value-added business).

Against this backdrop, Millennium has defined five overarching priorities for the future:

Talent mobilization, which will entail energizing Employees to drive the Bank's agenda as a team, promoting greater engagement and proactivity and empowering decision making in a collaborative model. The Bank's talent will also to be reinvigorated by developing a merit-based growth model and fostering the development of new capabilities. Finally, the Bank will review its compensation processes across teams to ensure alignment with the new agenda and performance.

Mobile-centric digitization, aspiring to double down on efforts to transform Customer experience and enable productivity gains across geographies, reemphasizing Millennium's innovation trademark. The main priorities consist of redesigning the digital experience from a mobile-centric approach, transforming top Customer journeys, setting up a convenient and productive omnichannel model, and transforming operations through the deployment of NextGen technologies (such as robotics and natural language processing). In parallel, an IT strategy focused on upgrading technology, data, security, and ways of working will enable these levers.

Growth and leading position in Portugal, aiming to maximize the potential of the unique position in which the Bank emerges out of the financial crisis (the largest private Portuguese bank) implying a renewed commitment to grow the Customer base and expand relationships. This will materialize into helping Portuguese businesses thrive (e.g., building a position as the preferred partner for sound small businesses), while serving its individual Customers across their full range of needs. The Group further aspire to capture the full potential of ActivoBank's simple and value-based offer and assess potential internationalization options.

Growth in international footprint, with the objective of capitalizing on the opportunities offered by the high-growth intrinsics of markets where the Bank has a presence and competitive advantage. This implies growing in Poland by deepening retail relationships and enlarging the Customer business base; a step change in Switzerland by growing existing business and exploring new markets and digital advice; leveraging market leading position in Mozambique to focus on profitability and capturing the tailwinds of large commodity investments planned; building on its position in Angola as a trusted and sound business partner with unique local relationships; and exploring emerging China related opportunities (trade and investment flows, payments, private banking).

Business model sustainability, maintaining the improvement of its credit portfolio quality as a clear priority, by reducing the NPE stock (reduction to 3 billion euros by 2021) and simultaneously lowering the cost of risk. Risk and compliance governance will also be strengthened to ensure a sustainable growth of credit volume with a sound risk profile.

		1H19	1H20		Steady state* (original plan)
Franchise growth	Active Customers	4.9 million	5.6 million	. . .	>6 million
	Digital Customers	57%	61%	. . .	>60%
Value creation	Mobile Customers	37%	44%	. . .	>45%
	Cost to income	49% (46% excluding non-usual costs)	52% (50% excluding non-usual costs)	. . .	≈40%
	RoE	5.7%	2.6%	. . .	≈10%
	CET1	12.2%	12.1%	. . .	≈12%
	Loans-to-deposits	88%	85%	. . .	<100%
Asset quality	Dividend payout	10%		. . .	≈40%
	NPE stock	€5.0 billion	€3.9 billion	. . .	≈€3 billion Down ≈60% from 2017
	Cost of risk	74bp	85bp	. . .	<50bp

NPE include loans to Customers only.

*To be achieved after the economic impact of the current pandemic.

Risk and Outlook

Internal Control System

The internal control system substantiates in the set of principles, strategies, policies, systems, processes, rules and procedures established in the Group aimed at ensuring:

- Efficient and profitable performance of the activity, in the medium and long-term, ensuring the effective use of the assets and resources, the business continuity and survival of the Group, namely through an adequate management and control of the activity risks, through a prudent and correct assessment of assets and liabilities, as well as through the implementation of mechanisms for prevention and protection against errors and fraud;
- The existence of financial and managerial information which is complete, pertinent, reliable and timely, to support decision-making and control processes, both at an internal and external level;
- Observance of the applicable legal and regulatory provisions issued by the supervision authorities, including those relative to the prevention of money laundering and financing of terrorism, as well as professional and ethical standards and practices, internal and statutory rules, codes of conduct and Customer relations, guidelines of the governing bodies and recommendations of the Basel Banking Supervisory Committee and European Banking Authority (EBA), so as to preserve the image and reputation of the institution before its Customers, Shareholders, Employees and supervisors.

In order to achieve these objectives, the internal control system is based on the Compliance function, the risk management function and internal audit function, which are exercised by centralised divisions and operate transversally across the Group. The Heads of these three divisions are appointed by the Bank's Board of Directors – the body that has has the capacity to aprove the technical and professional profile of these top managers, as appropriate for the exercise of their respective functions -, by proposal of the Committee for Nominations and Remunerations, after an opinion from the Audit and Risks Assessment Committes.

The internal control system is based on:

- A control environment supported by high integrity and honesty standards, promoting a strict compliance with the laws and regulations, by the effective enforcement of a 'check and balance' system, including adequate segregation of duties, with the objective of preventing conflicts of interest, and also by process based operational management models and control activities, that allow for clear identification of the implemented controls and the assessment of their efficiency;
- A solid risk management system, aimed at the identification, evaluation, follow-up and control of all risks which might influence the Group's activities;
- An efficient information and communication system, designed to guarantee the collection, processing and transmission of relevant, encompassing and consistent data, within a timeframe and manner that allows for an effective and timely management and control of the institution's activity and risks;
- An effective monitoring and correction process, implemented with a view to ensuring the adequacy and effectiveness of the actual internal control system over time, to immediately identify any flaws (defined as the group of existing, potential or real defects, or opportunities for the introduction of improvements that will strengthen the internal control system), and ensuring the triggering of corrective action;
- Strict compliance with all the legal and regulatory provisions in force by the Group's Employees in general, and by the people who hold senior or managerial positions, including members of the management bodies, to ensure compliance with the Group's Code of Conduct and other codes of conduct applicable to the banking, financial, insurance and brokerage (of securities or derivatives) activities;
- A governance model that defines that the business areas are responsible for risk taking, ensuring the effective monitoring, control and management ofs the risks assumed, and supporting the independent review of the risk levels incurred as complant with the Risk Apetite Framework.

The internal control system is consistently applied across all Group entities, taking into account and complying with local, legal or regulatory requirements of the countries where operations are based.

The internal control system is based on the three lines of defence model, aiming at ensuring:

- A clear accountability of the business areas for their respective risk taking;
- An effective monitoring, control and management of the risks assumed; and
- An independent assessment, reported to the Board of Directors and its Executive Committee, of the incurred risk levels, their compliance with the Risk Appetite Framework and of the effectiveness of the control systems established.

The Risk Management System, the Information and Reporting System and the Internal Control Monitoring System

The internal control system includes the following subsystems: the risk management system, the information and reporting system and the internal control monitoring system.

The Chief Risk Officer of Banco Comercial Português is responsible for coordinating the risk management system at Group level, through the Risk Officers and Compliance Officers of each Entity that functionally report to him.

The Chief Financial Officer of Banco Comercial Português is responsible for coordinating the information system for the accounting and financial elements and for the planning process at Group level, with the collaboration of the risk management function.

The risk management system corresponds to the series of integrated and permanent processes which enable the identification, assessment, monitoring and control of all material risks, derived internally or externally, to which the Group's institutions are exposed, in order to keep them at levels that are predefined by the management and supervisory bodies, and take into consideration risks related to credit, markets, interest rates, exchange rates, liquidity, compliance, operating, information systems, strategy and reputation, as well as all other risks which, in view of the specific situation of the Group's institutions, could become materially relevant.

This system is suitably planned, reviewed and documented and is supported by risk identification, assessment, monitoring and control processes, which include appropriate and clearly defined policies and procedures, aimed at ensuring that the objectives of the institution are achieved and that the necessary measures are taken to respond adequately to previously identified risks.

The risk management system ensures the segregation between the risk management function and the risk-generating business activities.

The information and reporting system ensures the existence of information which is substantive, up-to-date, understandable, consistent, timely and reliable, so as to enable an overall and encompassing view of the financial situation, the development of the business, the achievement of the defined strategy and objectives, the risk profile of the institution and the behaviour and prospective evolution of relevant markets. For this purpose, each entity of the Group develops, implements and maintains formal processes for obtaining and processing information that is appropriate to the respective size, nature and complexity of the activity carried out, developing communication processes and reporting lines that ensure an adequate and swift transmission of relevant information to the due intervenient, both internal and external.

The financial information process is supported by the accounting and management support systems which record, classify, associate and archive, in a timely, systematic, reliable, complete and consistent manner, all the operations carried out by the institutions and its subsidiaries, in accordance with the rulings and policies issued by the Executive Board of Directors.

The monitoring process includes all the control and assessment actions developed with a view to ensure the effectiveness and adequacy of the internal control system, namely through the identification of deficiencies in the system, either in terms of its design, implementation and/or use. The control and monitoring actions are implemented on a continuous basis and as an integral part of the Group's routines, being complemented with regular or exceptional autonomous assessments. Any deficiencies of material impact which might be detected through the control procedures are duly registered, documented and reported to the appropriate management and supervisory bodies.

Within this context, the internal audit function is performed by the Audit Division on a permanent and independent basis, assessing, at all times and pursuant to the established plan, the adequacy and effectiveness of the different components of the internal control system, as a whole, issuing recommendations based on the outcome of those assessments. Within this scope, the Audit Department is informed of the conclusions of the inspection and internal audit actions carried out in each entity of the Group, especially from those that assess the effectiveness and integrity of the entity's internal control system.

In terms of risks' management, these subsystems of the internal control system are managed by the Risk Office and the Compliance Office , complemented, for information and reporting, by the Planning, Research and ALM Division, the Treasury, Markets and International Division, the Accounting and Consolidation Division and by the areas responsible for accounting in the different subsidiaries which which ensure the existence of the necessary procedures to obtain all relevant information for the consolidation process, for the accounting and financial information and for other elements that support the management, as well as for the monitoring and control of risks at Group level.

The Risk Office's activity is essentially focused on ensuring the effective application of the Group's risk management system, namely, by developing, proposing, implementing and controlling the use of a set of assessment methodologies and metrics, that allow for a correct assessment of the risks incurred and arising from the Group's activities, which are documented by internal rules and regulations. It is also responsible for promoting and coordinating the policies and rules applicable to risk management and control at all entities of the Group, with the responsibility of ensuring the global monitoring of risk and the alignment of concepts, practices and objectives on a consolidated basis. Under this framework, the Risk Office has access to all the sources of information of the Group entities that are necessary for the exercise of the identification, measurement, limitation, monitoring, mitigation and reporing of the various types of risk at consolidated level.

The activity of the Compliance Office is transversal to all Institutions of the Group, in terms of applicable compliance policies, with observance of the legal specificities of each jurisdiction. The Compliance Office has access to the preventive information systems on money laundering and terrorism financing adopted by the different entities of the Group, being equally informed and giving an opinion on all changes to the IT alert systems and the processes for identifying Customers and communication of irregular cases verified in the Group's entities, within the scope of the control of money laundering and terrorism financing, in order to promote an alignment of systems, methodologies and criteria with those used by BCP.The Risk Office, the Compliance Office, the Accounting and Consolidation Division, the Planning, Research and ALM Division and Audit Division ensure the implementation of the procedures and means required to obtain all the relevant information for the information consolidation process at Group level - both of an accounting nature and relative to management support and risk monitoring and control - which should include:

- The definition of the contents and format of the information to be reported by the entities included in the consolidation perimeter, in accordance with the accounting policies and guidelines defined by the management body, as well as the dates when the reporting is required;
- The identification and control of the intra-Group operations;
- Assurance that the managerial information is consistent between the different entities, so that it is possible to measure and monitor the evolution and profitability of each business, verify compliance with the objectives that have been established, as well as evaluate and control the risks incurred by each entity, both in absolute and relative terms:
- Validating and monitoring the implementation of the corrective measures to resolve internal control deficiencies that have a material potential impact.

Main Risks and Uncertainties

Risk	Sources of risk	Risk level	Trend	Interactions
	ENVIRONMENT			
Regulatory	■ Risks related to verdicts issued by polish courts in individual lawsuits against banks (including Bank Millennium) raised by borrowers of FX-indexed mortgage loans. ■ Regular practice of conducting Stress Tests by the ECB ■ Absence of fiscal framework for the IFRS 9 transition ■ European Commission and ECB guidelines on NPL provisioning ■ EBA's guidelines on IRB models	Medium	↔	■ Provisioning for legal risk in Poland ■ Total CET1 requirements in 2020: 9.813% (10.25% fully implemented) ■ Approval of a set of measures aimed at temporarily easing capital requirements, in order to enable European banks to be able to support the economy during the crisis motivated by the short of COVID-19 ■ Most guidelines have already been translated into our risk models, which, pursuant to continuous dialogue with the ECB
Sovereign	■ Global recession and recession in the euro area and in Portugal as a result of the impacts of the COVID-19 ■ Low interest rates and compression of the spread for active interest rates in Portugal ■ Still high indebtedness of public and private sectors in Portugal ■ Exposure to Portuguese and Mozambican and Angolan sovereign debt	High	↑	■ Possible increase in bankruptcies and unemployment ■ Share prices fall in capital markets ■ Implementation of contingency measures at European and national level ■ Recovery of profitability limited by the low nominal interest rates and by the low potential growth ■ Still high level of NPA ■ Increasing funding costs ■ Uncertainty as regards the timing of normalization of the ECB's monetary policy
	FUNDING AND LIQUIDITY			
Access to WSF markets and funding structure	■ IMM operating irregularly ■ Widening of spreads and lack of liquidity in the WSF debt markets, as a result of increased volatility in the financial markets related to COVID-19 ■ Cost of issuing debt to comply with MREL requirements ■ Incentive to placement of financial instruments with retail investors	Medium	↑	■ Balance sheet customer deposits and funds paramount in the funding structure ■ Need for access to the financial markets to meet MREL requirements, although the gap is manageable
	CAPITAL			
Credit risk	■ Possible interruption of the downward trend in NPAs, due to the economic impact of COVID-19 ■ Still high NPA stock ■ Execution Risk of the NPA Reduction Plans, including CRFs ■ Exposure to real estate assets, directly or by participating in real estate investment or restructuring funds ■ Credit to Mozambican companies ■ Exposure to emerging countries strongly dependent on commodities	High	↔	■ NPA reduction plan execution is critical to prevent an increase in capital requirements (SREP) ■ Loan book expansion limited by the reduction of NPEs ■ Need to decrease the workout time, for both loans and/or companies ■ Need to decrease exposure to real estate risk, despite the positive trend in real estate prices ■ Need to reduce the exposure to CRFs ■ Deterioration of the quality of loans granted directly to emerging countries or to companies in those countries or to Portuguese companies with business relationships with those countries

Risk	Sources of risk	Risk level	Trend	Interactions
		CAPITAL		
Market risk	■ Volatility in capital markets ■ Decrease of fair value of assets/pledges/collaterals	Low	⟷	■ Market uncertainty ■ Central Banks monetary policies ■ Profitability of the assets of the pension fund ■ Lower trading income
Operational risk	■ Restrictions on the normal working of financial institutions, as a result of the impact of COVID-19 ■ Inherent to the Group's business	Low	⟷	■ Service restrictions at branches ■ Remote work ■ Streamlining processes ■ Degrading controls ■ Increased risk of fraud ■ Data base security /cybersecurity ■ Business Continuity
Concentration risk	■ Concentration of assets of some size	Medium	⟷	■ Need to reduce the weight of the main Customers in the total credit portfolio
Reputational, legal and compliance risk	■ Inherent to the Group's business ■ Incentives to place financial products that enable recovery of profitability, not matching the Customers' risk profile or needs ■ Migration from on-BS customer funds to Off-BS customer funds	Medium	⟷	■ Possible complaints from Customers ■ Possible sanctions or other unfavourable procedures resulting from inspections ■ Unstable regulatory framework applicable to financial activities ■ AML and counter terrorism financing rules
Profitability	■ Possible impacts on net interest income, commissions and cost of risk as a result of the impacts of COVID-19 ■ Interest rates at low levels in nominal terms ■ Risks related to decisions issued by Polish courts in lawsuits, instituted against banks (including Bank Millennium) by borrowers on mortgage loans indexed to foreign currency. ■ Imposition of asymmetric regulatory limitations on the pricing policy for assets and liabilities ■ More limited space to reduce fees on time deposits in new production ■ Regulatory limitations on commissioning ■ Imposition of limitations on the coverage of problematic assets due to impairments ■ Exposure to emerging economies ■ Fintech competition	Medium	⟷	■ Negative impacts on net interest income: price effect, volume effect and overdue credit effect ■ Negative impacts on commissions, in the event of a slowdown in banking activity or extraordinary measures taken to support companies ■ Need to continue control over operating costs ■ Increase in cost of risk ■ Maintaining adequate coverage of problematic assets by provisions ■ Reformulation of the business model and digital transformation

Risk management

Framework

Risk appetite

The BCP Group carries out its business activities in a controlled, prudent and sustainable manner, always based on the adequacy and compatibility between the objectives set for the business and the levels of risk tolerance defined in terms of sustainability and profitability, in the long-term.

Thus, the Group establishes and implements controls and limits on the material risks to which its activities are subject, based on its “Risk Appetite Statement” (RAS) which concurs, in a relevant way, for a standing of prudence and sustainability of the business, in view of its profitability, as well as of the satisfaction of the different Stakeholders: Shareholders, Customers and Employees.

The RAS is composed by a set of 26 indicators that are considered of primary importance and representative of several risks classified as "material", within the formal risks’ identification and quantification process, carried out at least once a year.

For each of the indicators concerned, two levels of limitation are established: an 'alert level', up to which the level of risk represented is acceptable and from which corrective measures must be taken immediately (in order to that the level of risk regained to an acceptable level) and a 'level of breach’, which requires immediate measures with significant impact, aimed at correcting a risk situation considered unacceptable.

Stemming from the RAS indicators, other lower-level indicators (and respective limits) are established, with a higher level of granularity, ensuring a more detailed monitoring, appropriate for a day-to-day approach to the risks’ control of business processes, based on specialised metrics and with a marked technical nature. All risk limits are approved by the competent Governance bodies defined in the internal and are periodically reviewed and updated.

For the main geographies in which the Group operates, specific risk appetite indicators (“individual” RAS) are also established. Thus, the definition of RAS involves indicators for Portugal, Poland, Mozambique and Switzerland, some of which are common to all geographies (but with appropriate limits for each of the operations and structure in question), while others aim to measure idiosyncratic risks in each geography.

Risk strategy

The above definition of RAS - as the primary set of indicators that render and materialise the risk appetite - is one of the guiding vectors of the Group's "Risk Strategy", which is approved by the Board of Directors, by proposal of the Risk Assessment Committee. Based on the RAS, several lines of action are established, to be developed by different organizational units of the Group, specifically identified, in order to address the mitigation or control of all material risks identified within the risks’ identification and assessment process. These lines of action formally constitute the Group's Risk Strategy.

Hence, the RAS and the Risk Strategy are inseparable and central elements of the Group's risk management, both aiming to control and mitigate risks classified within the risks’ identification process.

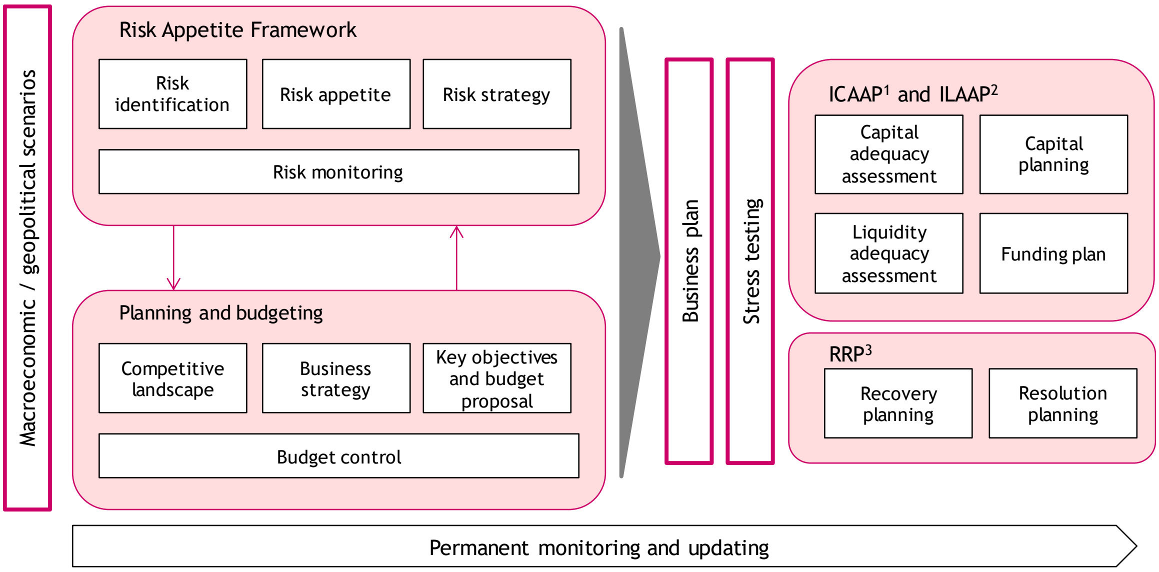
Integration between the business and risk management

The risk appetite structure - which includes the identification of material risks, the RAS and the Risk Strategy and is reviewed at least once a year or whenever the quarterly risks´ monitoring so advises (e.g. conclusion that there are new material risks) - provides a reference framework for the permanent monitoring of risks affecting the business and business support activities developed, for the monitoring of all variables, indicators and respective limits that are derived from RAS. Therefore, the permanent follow-up based on this structure is the result of a strong link between the risk management framework thus defined and the great diversity of methods and indicators applicable to the various activities carried out, this link being essential for the performance of the Group's risk management.

In addition, there is an interaction, in both senses, between the definition of the Group's risk appetite structure and its business objectives, represented in the business planning and budgeting. Thus, the risk appetite structure conditions the environing business objectives, since the business plan respects the risk limits established by the Board of Directors.

In its turn, the business objectives and risk appetite structures are the foundations for all activities and lines of business developed, also setting out the global controls on the Group's financial strength, such as the stress tests and the internal processes to assess capital and liquidity adequacy (ICAAP and ILAAP).

The following figure summarises the relationships described above, providing a graphic representation of the integration of risk management within the scope of the business developed by the BCP Group.



[1] Internal Capital Adequacy Assessment Process
[2] Internal Liquidity Adequacy Assessment Process
[3] Recovery and Resolution Planning

Internal control

The Risk Management function is an integral part of the Group's Internal Control System (SCI), along with the Compliance and Internal Audit functions, contributing for a solid control and risk-limiting environment upon which the Group carries out its business (and business support) activities.

Within the SCI, the Risk Management and Compliance functions form the Group's Risk Management System (SGR), which materialises in an integrated and comprehensive set of resources, standards and processes that ensure an appropriate framework to the nature and materiality of the risks underlying the activities carried out, so that the Group's business objectives are achieved in a sustainable and prudent manner

In this sense, the SCI and the SGR provide the Group with the ability to identify, evaluate, monitor and control the risks - internal or external - to which the Group is exposed, in order to ensure that they remain at acceptable levels and within the limits defined by the management body.

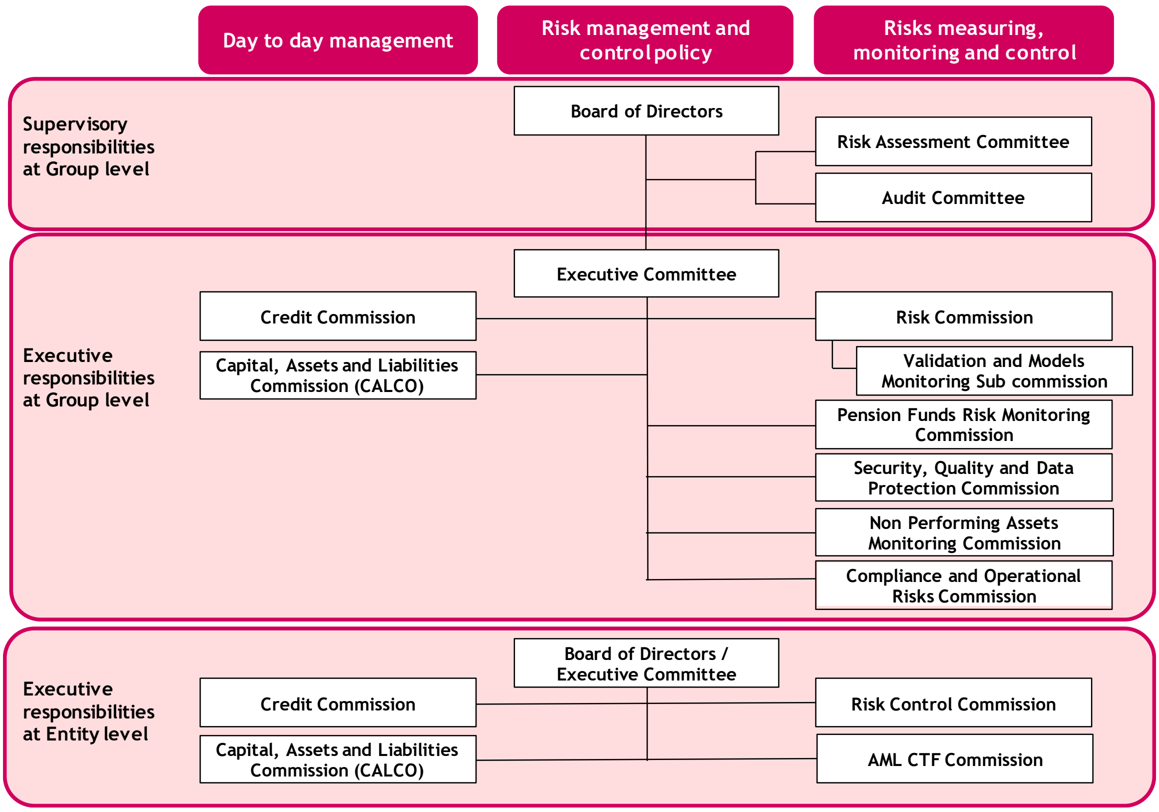
Thus, the SGR embodies the second Line of Defence in relation to the risks that impend over all the Group's activities. Under this approach, the first Line of Defence is ensured, on a day-to-day basis, by all of the Group's organizational units - based on adequate training and awareness of risks, as well as on the framing of activities through a complete and detailed regulations' structure - while the third Line of Defence is developed through the internal supervision/internal review function (IRF) ensured by the Internal Audit function.

It should also be mentioned that the SCI:

- Is supported by an information and communication system that ensures the collection, processing, sharing and disclosure – both internal and external - of relevant, comprehensive and consistent data about the business, the activities carried out and the impending risks on the latter, in a timely and reliable way. This data processing and management information infrastructure is aligned with the principles of the Basel Committee with respect to efficient aggregation of risk and risk reporting data (BCBS 239 - Principles for effective risk data aggregation and risk reporting);
- Is continuously monitored by the Group, the insufficient internal control situations being registered - under the form of recommendations/ deficiencies or improvement opportunities – for correction/elimination and regulatory reporting.

Risk management Governance

The following figure represents the SGR's Governance, as at 31/12/2019, exerted through various organizational bodies and units with specific responsibilities in the area of risk management or internal supervision.



The composition, capacities and responsibilities of the management and supervision bodies that intervene in the risk management governance - besides those of the Board of Directors (BoD) and its Executive Committee (EC) – are the following:

Committee for Risk Assessment

The Committee for Risk Assessment, appointed by the BoD, is composed by three to five non-executive Directors and has, among others, the following capacities:

- Advising the BoD on risk appetite and risk strategy, accompanying and intervening in the definition and review of the Group's Risk Appetite Framework and providing an opinion on its adequacy to the BoD;
- Monitoring the evolution of the RAS metrics, verifying their alignment with defined thresholds and levels and monitoring the action plans designed to ensure compliance with the established risk limits;
- Advising the BoD on the policies regarding the risks' identification, management and control within the Group, monitoring the global risk levels in order to ensure that those are compatible with the goals, the available financial resources and the approved strategies for the development of the Group's activities;
- Monitoring the capital and liquidity planning processes (ICAAP and ILAAP), providing an opinion to the BoD concerning the respective conclusions, as well as analysing and approving the conclusions of the regular follow-up on these processes;
- Monitoring and intervening in the Recovery Plan review, providing an opinion to the BoD on the respective adequacy.

Within the resolution planning, the Committee for Risk Assessment approves its annual work plan and monitors its execution.

The Risk Officer functionally reports to this Committee and participates in its meetings, presenting the evolution of the key risk metrics and indicators, as well as all incidences, changes and evolutions relative to the SGR.

Audit Committee

The BoD's Audit Committee is elected by the Shareholders' General Meeting and is composed by three to five non-executive Directors. Within the risk management governance, this Committee has global corporate supervising capacities - e.g. in what concerns the risk levels follow-up - as well as those that are attributed within the SCI, namely:

- Supervising and controlling of the SGR's and the SCI's effectiveness (and, also, of the Internal Audit System);
- Analysing and regularly following-up of the financial statements and the main prudential indicators, the risk reports prepared by the Risk Office, the Compliance Office's activity, the handling of claims and complaints and the main correspondence exchanged with the supervisory authorities;
- Issuing of a prior opinion concerning the entity defined by the Bank to assess the adequacy and effectiveness of the SCI.
- The Audit Committee holds regular meetings with the Heads of the Audit Division, the Risk Office and the Compliance Office.

The Compliance Officer reports functionally to this committee and participates in the respective meetings, presenting the evolution of the monitoring of compliance and compliance risks, as well as all developments and interactions with regulation / supervision in terms of regulatory compliance.

The Risk Officer participates in this Committee's regular meetings, reporting on the evolution of the main indicators and metrics concerning risks and credit impairment, as well as on the implementation status of the recommendations that concern the SGR, issued within the scope of internal control or by the supervisory/regulatory authorities.

Risk Commission

This Commission is appointed by the EC and has the responsibility for defining, at an executive level, the framework and the risk management policies and instruments within the Group, establishing the respective principles, rules, limits and practices for the Group Entities, considering the defined risk thresholds.

The Risk Commission monitors the overall levels of credit, market, liquidity and operational risk, as well as all other risks considered materially relevant for the Group, ensuring that the risk levels are compatible with the goals, available financial resources and strategies that have been approved for the development of the Group's activity. This Commission also validates the compliance of risk management with all the applicable laws and regulations.

The Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO), as well as, optionally, the Chief Operations Officer (COO) and the EC members responsible for the Corporate/Investment Banking and the Retail business (Chief Corporate Officer/CCorpO and Chief Retail Officer/CRetO, respectively) are members of this Commission.

Other members of the Commission are the Risk Officer, the Compliance Officer and the Heads of the following Divisions: Treasury, Markets and International (DTMI), Credit (DCR), Rating (DRAT), Models Validation and Monitoring Office (GAVM) and Regulatory and Supervision Monitoring Office (GARS). The Head of the Audit Division (DAU) is a permanently invited member of the Risk Commission, without voting rights.

NPA(*) Monitoring Commission

This Commission is appointed by the EC and has the responsibility of monitoring the evolution of credit risk, under various aspects:

- Monitoring of the NPA Reduction Plan, including its operational scope and the fulfilment of the quantitative goals assumed; besides the NPE reduction, the Commission also monitors the disinvestment process of the real estate portfolio and other assets received in lieu of payment as the result of credit recovery processes (foreclosed assets) and other non-performing assets;
- Analysis of the credit recovery processes' performance;
- Portfolio's quality and main performance and risk indicators;
- Impairment, including the main cases of individual impairment analysis.

The CEO, the CRO, the CRetO and the COO are members of this Commission, as well as, optionally, the CFO. Any other executive Directors may participate in this body's meetings if they deem convenient to do so. The Heads of the following Divisions are also members of this Commission: Risk Office (ROFF), DCR, DRAT, Specialised Monitoring (DAE), Retail Recovery (DRR), Specialised Recovery (DRE), Legal Advisory and Litigation (DAJC), Management Information (DIG) and Specialised and Real-Estate Credit (DCEI). The Head of DAU is a permanently invited member of the Risk Commission, without voting rights.

(*) Non-performing assets.

Pension Funds Risk Monitoring Commission

This Commission is appointed by the EC and has the following competences:

- Assessing the performance and risk of the Group's Pension Funds in Portugal;
- Establishing, for these, the appropriate investment policies and hedging strategies.

The Commission members are the CEO, the CFO, the CRO. Any other members of the EC may participate in the Commission's meetings, if they deem convenient to do so. The other Commission's members are the Heads of the following Divisions: ROFF, Research, Planning and ALM (DEPALM), Wealth Management (DWM) and Human Resources (DRH). Representatives of the Pension Funds management entity and of Ocidental Pensões also participate in the Commission's meetings, by invitation and without voting rights.

Compliance and Operational Risks Comission

This Commission is appointed by the EC and has the following capacities and responsibilities:

- Ensure and monitor the adoption and compliance, by all the Group's institutions, of the internal and external standards that conform its activity, of the relevant contractual commitments and of the organization's ethical values, in order to contribute to mitigate the risks of Compliance and operational, strengthening the internal control environment, mitigating / eliminating the imputation of sanctions or significant equity or reputational losses;
- Monitoring of the Bank's activities, as well of those of the other Group entities, regularly coordinating and managing the policies and the duties of the Bank and its branches/subsidiaries, in order to ensure the compliance with the legal and internal rulings;
- Monitoring of the operational risks management framework, which encompasses the management of the IT risks and the Outsourcing risks;
- Monitoring of the exposures to operational risks, as well as the implementation status and the effectiveness of the risks mitigation measures and of those that aim at the reinforcement of the internal control environment;
- Following-up of the management and improvement to the Bank's processes, in order to monitor and reduce the level of exposure to compliance and operational risks, thus reinforcing the internal control environment.

The Commission members are the CEO, the COO, the CRO and the CRetO. Any other members of the EC may participate in the Commission's meetings, if they deem convenient to do so. The Heads of the following Divisions are also members of the Commission: COFF, ROFF, IT (DIT), Operations (DO), Quality and Network Support (DQAR). The Head of DAU, the AML(*) Officer and the managers responsible for the COFF areas that deal with the matters under discussion are also permanently invited members of this Commission, without voting rights.

Quality, Security and Data Protection Commission

This Commission is appointed by the EC and has the following capacities and responsibilities:

- Definition of guidelines and approval of the management policies for IT systems, data management and quality, physical security, business continuity and data protection;
- Regular review of the emerging threats and most relevant trends in terms of data security and information technologies, with a particular focus upon cyber-security;
- Analysis of the periodical security incident's reports (regarding systems/data and physical), identifying the appropriate remediation and improvement measures;
- Follow-up of initiatives and projects in the fields of systems/data security, physical security and data protection and monitoring of the performance metrics for these areas;
- Approval of the annual plans for the exercises of safety assessment, Disaster Recovery Plan (DRP) and business continuity, and their respective quantitative/qualitative evaluation.

The Commission members are the COO, the CRO and the CRetO. Any other members of the EC may participate in the Commission's meetings, if they deem convenient to do so. The Heads of the following Divisions are also members of this Commission: COFF, ROFF, DIT, DQAR, and Data Security (DSI). The head of the Physical Security and Business Continuity Department (DSFCN), the Data Protection Officer (DPO) and the Chief Data Officer (CDO) are also

(*) Anti-money laundering.

permanent members of this Commission, along with the Head of DAU (the latter, without voting rights).

Credit Commission

This Commission is appointed by the EC and its functions are to assess and decide on credit granting to Customers of Banco Comercial Português, in accordance with the competences established by internal regulation ('Credit Granting, Monitoring and Recovery'). This commission may also issue advisory opinions on credit proposals from subsidiary Group entities.

The members of this Commission are the CEO, the CFO (optional), the CCorpO, the CRetO (optional), the CRO (with veto rights) and the COO (optional), as well as the Heads of the following Divisions: DCR, DAJC, DRAT, DCEI, Corporate Network North and South, Large Corporates, DAE, DRE and Investment Banking Division (DCBI), as well as Level 3 credit managers and, depending on the proposals to be decided upon, the coordination managers of other proposing areas (e.g., Private Banking, Retail, DRR) or members of the subsidiaries' Credit Commissions. The Company's Secretary, the Risk Officer, the Compliance Officer and the Head of the Institutional Banking Division (DBI) are permanently invited members of this Commission, without voting rights. Other Group Employees may also be invited to participate (without voting rights), if they are relevant for the matters under discussion.

Group CALCO

The Group CALCO - also referred to as the Capital, Assets and Liabilities Management Commission - is responsible for the management of the Group's overall capital, for assets and liabilities management and for the definition of liquidity management strategies at a consolidated level. Specifically, the Group CALCO is responsible for the structural management of interest rate and liquidity risks, including, among others, the following aspects:

- Establishment of management guidelines for assets, liabilities and off-balance sheet items at consolidated level;
- Definition of the capital allocation and risk premium policies;
- Definition of transfer pricing policy, in particular with regard to liquidity premiums;
- Monitoring of the capital and liquidity indicators, of the Recovery Plan indicators and of the execution of the Liquidity Plan;
- Definition of policies and strategies to access wholesale funding markets and definition of the liquidity buffer composition;
- Definition of the investment policy of the Investment Portfolio and monitoring of its performance;
- Definition of the strategy and positioning within the scope of the interest rate risk management, as well as of the respective policies and limits, taking into account the market conditions at any given moment.
- The Group CALCO meets every month and is composed of the following executive Directors: CEO (optional), CFO, CCorpO, CRetO, CRO and COO (optional). The other members of the Group CALCO are the Risk Officer, the Chief Economist and the Heads of DEPALM, DIG, DTMI and DWM, the responsible for the ALM Department of DEPALM and 2 representatives nominated by the Retail and the Corporate & Investment Banking Commissions.

Risk Office

The Risk Office (ROFF) is the structure unit responsible for the risk control function at Group level, promoting the overall alignment of concepts and procedures concerning risk monitoring and assessment. The ROFF is responsible for informing the Risks Assessment Committee and the Risk Commission on the general risk level, for proposing measures to improve the control environment and for the implementation of controls which assure compliance with the approved limits. The ROFF has the following functions:

- Supporting the establishment of risk management policies and methodologies for the identification, measurement, limitation, monitoring, mitigation and reporting of the different types of risk;
- Proposing and implementing a set of metrics for the different types of risk;
- Coordinating the NPA (non-performing assets) Reduction Plan;
- Ensuring the existence of a body of rules and procedures, of an effective IT platform and of a database for the robust and complete management of risk;
- Controlling, on an ongoing basis, the evolution of the different risks and compliance with the applicable policies, regulations and limits;
- Participating in the Internal Control System;
- Preparing information relative to risk management for internal and market disclosure;

- Supporting the works of the following Commissions: Risk, NPA Monitoring, pension Funds Risk Monitoring, Internal Control and Operational Risk Monitoring and participating in the Credit Commission, CALCO, Security, Quality and Data Protection Commission and Compliance and Operational Risks Commission.
- The Risk Officer is appointed by the BoD, reporting on a line basis to the EC and functionally to the Risk Assessment Committee.

Compliance Office

The Compliance Office (COFF) ensures typical functions of a second line of defence functions, within the scope of the so-called "3 Lines of Defence Model", in relation to compliance risk, i.e., the risk of non-compliance with applicable laws and regulations and other applicable standards.

COFF's main missions, in relation to all Group entities, are the following:

- To vitalize the adoption and compliance with the internal and external regulations that frame the Group's activity, watching over the fulfilment of the relevant contractual commitments assumed;
- To promote the organization's ethical values and to contribute for an internal control culture, in order to mitigate the risk of sanctions being imposed 's imputation or of the occurrence of property or reputational damages.

The Compliance Officer is appointed by the BoD, reports hierarchically to the EC and, functionally, to the Audit Committee, exercising his/her functions in an independent, permanent and effective manner, defining the policies, guidelines and tools that are appropriate for a proactive and preventive risks' assessment.

As a second line of defence structure responsible for for regulatory compliance and compliance risk, for the risks associated with money laundering and the financing of terrorism, with conduct and market abuse and for other risks of an operational nature, the COFF issues decisions, with binding force for its recipients, aiming at the legal and regulatory compliance of the various business and business support areas. The COFF' s performance is based on a risk approach, monitoring business, Customers and transactions risks, thus contributing for the promotion of an effective internal control and rigorous environment.

Within the scope of opinions and the associated analyses produced at request of several Group areas and Divisions, the COFF:

- Identifies and evaluates the various types of risks – either concerning in what refers to corporate products and services approval processes and conflicts of interest;
- Issues proposals for the correction of processes and risks mitigation;
- Permanently analyses the general supervisory environment and, in general, provides specialised support in matters of control and regulatory compliance.

Within the scope of its specific functions, the COFF also ensures an assessment and intervention in what concerns:

- The control and monitoring of compliance risks;
- The Anti-Money Laundering and Counter Terrorism Financing (AML/CTF);
- The mitigation of reputation risk at all Group entities, aiming at the alignment of concepts, practices and goals in these matters.

It also has the competence for the preparation and submission of reports to the management body, at least once a year, identifying the compliance flaws verified and the recommendations issued for their correction.

The COFF intervenes and actively participates in the training policy of Employees, namely, through training actions in Compliance, for the entire universe of the Group, maintaining a large knowledge repository for matters of its competence, namely, in what concerns the AML/CTF.

Main developments and accomplishments in 2020

In 2020, the focus of risk management activities was maintained on the continuous improvement of the Group's risk control environment, in addition to the permanent monitoring of the risk levels incurred in relation to the RAS tolerance limits - both at consolidated level and for each geography in which the Group operates - ensuring, at the same time, full compliance with regulatory and supervisory requirements and updating the internal regulations structure that is appropriate for risk management and control:

- Participation in the implementation of the Bank's contingency plan to meet of the COVID-19 pandemic, particularly in adjusting to risk framerwork to the challenges arising from the pandemic (e.g. design and implementation of specific reporting to monitor the credit portfolio within the scope of pandemic; identification of non-productive assets; adjustment of IFRS9 methodologies; isolation of operating costs related to the coronavirus; monitoring of economic support measures within the scope of the impact of the COVID-19 pandemic and its reporting to the Supervisory Entities);

- Continuous improvement of the governance, management, measurement and risk control model at the Group level;
- Completion of annual reports from ICAAP and ILAAP;
- Reinforcement of supervision and support for the BCP Group's subsidiaries, continuously promoting a solid and common risk management framework;
- Focus on improving the effectiveness of the internal control system;
- Implementation of a new department in the Risk Office specifically dedicated to credit risk monitoring;
- Definition of the procedures to meet the credit granting requirements for increased risk debtors, following Banco de Portugal Circular Letter CC / 2020/00000013;
- Implementation of the provision for backstop provisioning as directed by the SSM as well as the respective reporting system;
- Review of the NPA reduction plan;
- Consolidation and monitoring of the implementation process of the new definition of default and its dissemination within the organization;
- Submission of several authorization requests in the scope of IRB models, in Portugal and Poland, responses to TRIMIX inspections, broadening the scope of model development and monitoring (Retail PD models) and launching the re-development of several models;
- Continuous improvement of the liquidity and funding risk control and management systems at the Group level, in particular, the design and implementation of an intraday liquidity stress test approach and the implementation of short-term liquidity risk indicators term by the International Bank of Mozambique;
- Improvement of the interest rate risk control framework of the banking portfolio, in line with the most recent guidelines of the regulator in force on the subject;
- Participation in the 2020 EBA benchmarking exercise;
- Participation in the Group's Recovery and Resolution planning activities;
- Continuation of the FRTB implementation project - Fundamental Review of the Trading Book;
- Continuous improvement of the quality of the data supporting the Group's risk management decisions, notably participating in BCBS 239 related projects;
- Conclusion and presentation of the results of the annual risk self-assessment exercise;
- Deepening of the outsourcing risk monitoring process of the most relevant contracts in conjunction with the respective contract managers (contract managers);
- Continuous review of internal regulations on policies and procedures related to risk management and control;
- Reinforcement of account opening and transaction filtering processes, in order to ensure compliance with the sanctions and embargoes regimes enacted by the competent national and supranational authorities, as well as their monitoring, in order to detect and prevent potentially irregular situations;
- Development of new, more efficient solutions, based on automation processes to analyze the risk factors inherent in establishing new business relationships or deepening existing relationships;
- Reinforcement and specialization of the Compliance Office teams within the scope of PBC / FT in its various dimensions;
- Execution of the Communication Plan dedicated to the 1st lines of defense with the most important aspects to be taken into account both in terms of the risk of financial crime and in other risks of compliance and regulatory compliance;
- Reinforcement of the monitoring mechanisms on the risks of conflict of interest, with the development of a new platform for registering operations and entities;
- Integration of the normative documents management function in the Compliance Office, in order to take advantage of the joint management of legal and compliance risks in reinforcing the Bank's regulatory framework;
- Implementation of new management structures for the monitoring and monitoring of AML/CTF risk, designated by International AML/CTF Committees, with the participation of management and Compliance bodies of the subsidiary units, with a view to assessing and monitoring of specific risk factors for compliance in each geography,

as well as the existing business segments in each operation.

- Development of joint Compliance Office projects with teams from branches and subsidiaries abroad with a view to analyzing and improving efficiency

Credit risk

The materialisation of this risk arises from the losses occurred in the loan portfolio, due to the incapacity of borrowers (or their guarantors, when applicable), issuers of securities or contractual counterparts to comply with their credit obligations. This type of risk is very relevant, representing the largest part of the Group's overall exposure to risk.

The control and mitigation of this risk are carried out through a solid and reliable structure of risk analysis and assessment, based on internal rating systems suited to the different business segments, through a model for the early detection of potential default of the portfolio, through processes regarding the management and follow-up of the collateral value and through structural units that are exclusively dedicated to credit recovery, for non-performing situations.

Evolution and breakdown of the loan portfolio

The next table presents the evolution of the Group's portfolio subject to credit risk and counterparty credit risk between 31/12/2019 and 30/06/2020, in terms of EAD (Exposure at Default)*, in the three main geographies where the Group operates (Portugal, Poland and Mozambique), which represented almost 100% of the Group's EAD by 30/06/2020.

(million euros)

Geography	Jun 20	Dec 19	Change	
			Amount	%
Portugal	56,694	50,979	5,715	11.2%
Poland	23,747	23,439	309	1.3%
Mozambique	2,037	2,177	(140)	-6.4%
TOTAL	**82,478**	**76,594**	**5,884**	**7.7%**

Using for comparison purposes the end of 2019, the Group's loan portfolio, measured in euros (EUR), grew by 7.7% in the first half of 2020, very close to that seen in the whole of 2019 (+8,3%). Unlike to 2019, the year in which the growth came mainly from the geographies abroad, namely due to the impact of the acquisition of Euro Bank in Poland, the evolution occurred in the first six months of 2020 was almost interely by the 5.7 billion euros increase in Portugal, which corresponds to a growth rate of 11.2%, without any annualization effect.

The relevance of the increase in Portugal is explained, on one hand, by the expressive level ot the Bank's support to the companies through the state-guaranteed lines to respond to the impact of the pandemic outbreak COVID-19 (about 1,9 billion euros) and, on the other hand, due to the exposure to Banks and Sovereigns, which represented a total increase of approximately 3,3 billion euros, where the Portuguese Sovereign held the biggest share with a growth that also stood at around 1.9 billion euros. It should be noted that this evolution was made while a 338 million euros NPE portfolio reduction was achieved.

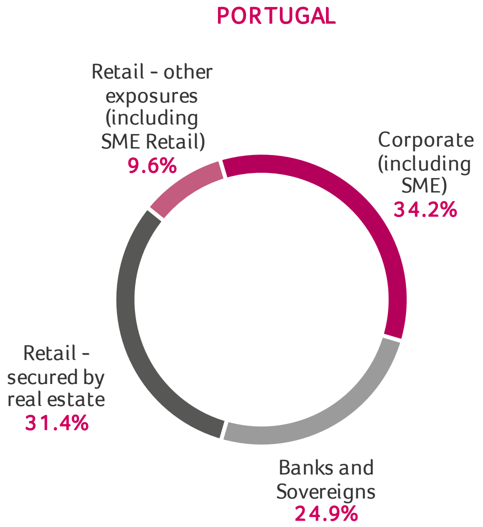
In the Polish loan portfolio, there was a 1,3% growth, measured in EUR. As of June 2020 in terms of EAD, the portfolios expressed in PLN and CHF, which represented respectively around 81% and 14% of Poland's global portfolio measured in EUR on that date, recorded changes in the original currencies in relation to the end of 2019 of 6,8% (PLN portfolio) and -4,8% (CHF portfolio). Measured in EUR, these first semester variations were +2,2% and -2,7%, respectively, given the 4,5% EUR appreciation between 31/12/2019 and 30/06/2020 to PLN and EUR depreciation of -2,1% against CHF.

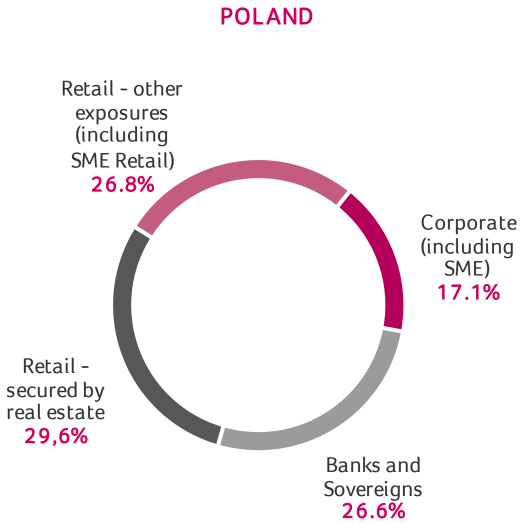
In what concerns Mozambique, there was a 6,4% reduction in the loan portfolio, measured in EUR. In order to break down the evolution in this geography, it should be noted that the EAD of the portfolios expressed in MZN and USD represent weights of, respectively, 78% and 20%, measured in EUR on 30/06/2020. Despite the overall decrease in EUR, the MZN portfolio in local currency registered a positive evolution of 4,5% compared to the end of 2019, while

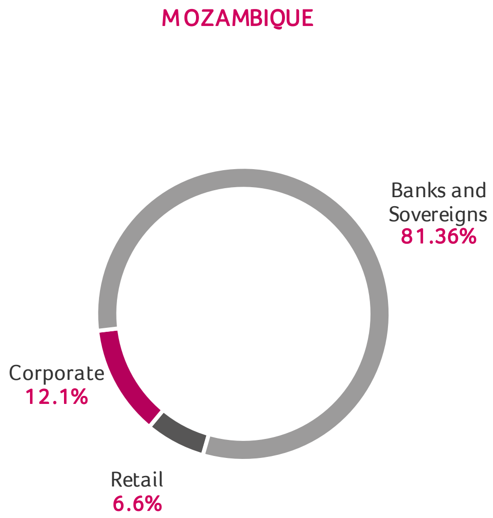
* Without impairment deduction to the exposures treated prudentially under the Standardised Approach (STD) and including all risk classes (i.e. besides credit to customers, debt positions from Sovereign entities and Institutions are included).

the USD portfolio decreased by 9,5% in the original currency. Measured in EUR, these half-yearly variations were -6,6% and -9,5%, respectively, given the 11,9% EUR appreciation against MZN.

With regards to the portfolio breakdown by risk classes, this is illustrated by the following graphs, representing the portfolios' structures as at 30/06/2020:







With regard to the structure of the portfolios by counterparty segment, in Portugal the most significant portion continues to be assumed by the retail segment with 41% of the total, with 31.4% concerning to exposures that benefit from mortgage guarantee. Corporates maintain a weight of around 34%, similar to the end of 2019, while the Banks and Sovereigns segment knew an increase to a level close to 25%, coming from a weight of 21% on 31/12/2019.

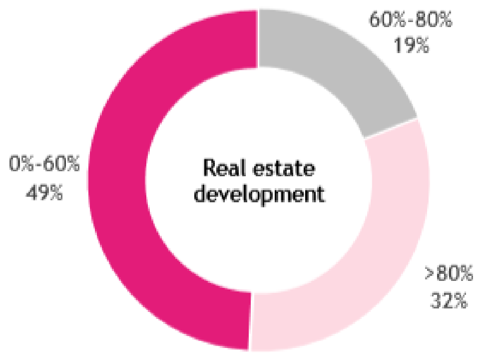
In Poland, after the relevant impact in the segment portfolio structure as a result of Euro Bank's acquisition, between the end of 2019 and June 2020, there were no significant changes, with the collateralized retail segment taking on the most relevant weight, around 30%, and the remaining segments of retail and Banks and Sovereigns having similar weights (26.8% and 26.6%, respectively). Corporate Customers represent around half of the level achieved in Portugal with 17.1%.

The first half of 2020 was highly impacted by the pandemic outbreak COVID-19. In order to assess the level of exposure in Portugal to the sectors considered most sensitive to the effects of the aforementioned pandemic, the chart below depicts the seven sectors of activity considered most vulnerable, from which we can coclude that they represent only 7.3% of the total domestic exposure.

Exposures to sectors more sensitive to the pandemic

Sector	Exposure
Hotels	938
Real estate development	878
Restaurant	427
Tourism support activities	140
Rent-a-car	99
Passenger transportation	91
Travel agents	55
Total	2,628
% of Total	7.3%

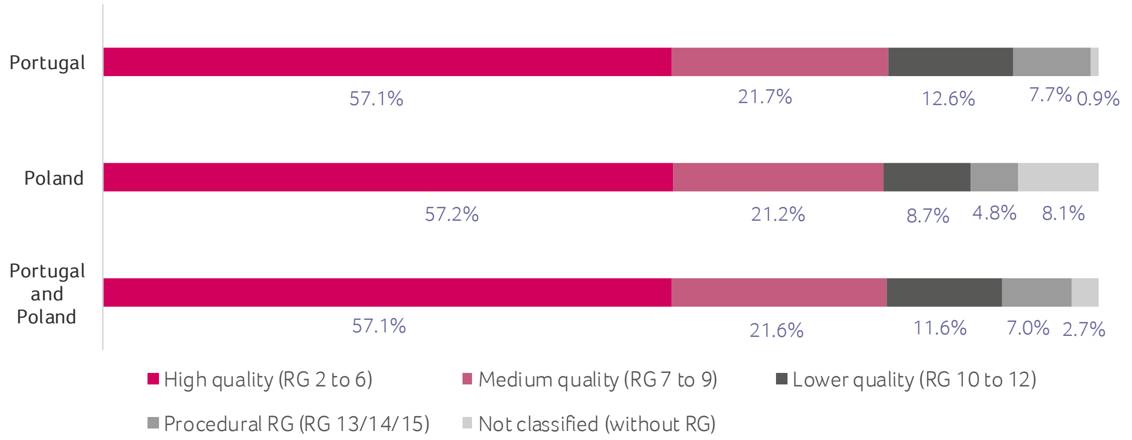
It should also be noted that the hotel and property development sectors, which represent the most significant portion of this group of sectors identified as the most vulnerable, with around 70%, have a comfortable degree of collateralization by real assets. As an example, the following graph shows the structure of the real estate promotion portfolio by level of protection (Loan to Value), from which it can be assessed that for 68% of the portfolio this indicator is lower than 80% and half of the portfolio has a Loan to Value below 60%.



Probability of Default (PD) and Loss Given Default (LGD)

The main parameters for credit risk assessment, used in the calculation of Risk Weighted Assets (RWA) within the scope of the Internal Ratings Based method (IRB) - the Probability of Default (PD) and the Loss Given Default (LGD) – assigned to the portfolio's credit operations, have been registering a continuous positive evolution, reflecting a clear trend of improvement in the portfolio's quality.

The following graph illustrates the distribution of the portfolio amounts (in terms of EAD) by the risk grades (internal ratings) attributed to the holders of credit positions in Portugal and Poland, on 30/06/2020. These risk grades (RG) are defined on an internal scale, transversal to the Group (the Rating Master Scale), with 15 grades, corresponding to different levels of debtors' PD. Risk grades 13 to 15 are called "procedural" and correspond to problematic credit; RG 15 corresponds to the Default status.



Banks and Sovereigns and Specialised Lending not included, as well as exposures from eurobank's portfolio

As shown in the graph above, the weight of EAD corresponding to risk grades of medium and high quality, for the two geographies concerned, represented 78,7% of the total EAD on 30/06/2020, the structure being very similar in the two geographies. This structure compares with similar corresponding weights of 76.8%, 73.6% and 69.8% at the end of 2019, 2018 and 2017, respectively, reflecting a consistent favorable evolution, which in the first half was registered in both geographies and with an identical size.

With regard to the exposure weight of the two main geographies as a whole related to Customers with procedural RG (without access to new credit), the figure reached a value of 7.0% on 30/06/2020, keeping the downward trend from previous years: 7.8% (2019), 11.3% (2018), 14.8% (2017) and 18.5% (2016). In the case of Portugal, the trend towards a more pronounced reduction of exposure to Clients with procedural RG also continued: 7.7% (1st Sem 2020), 8.8% (2019), 12.8% (2018), 17.1 % (2017) and 21.8% (2016).

Main credit risk indicators

The following chart presents the quarterly evolution of the main credit risk indicators, between 31/12/2018 and 30/06/2020, for the Group and the portfolios of Portugal, Poland and Mozambique:

	Jun-20	Mar-20	Dec-19	Sep-19	Jun-19	Mar-19	Dec-18
CONSOLIDATED							
NPE/Gross credit	**7.00%**	7.20%	**7.70%**	8.40%	9.10%	10.10%	10.90%
NPL > 90 days / Gross credit	**2.50%**	2.60%	**2.70%**	2.90%	3.40%	3.50%	3.80%
Past due credit / Gross credit	**2.70%**	2.90%	**2.90%**	3.20%	3.70%	3.70%	4.10%
Impairment / Gross credit	**4.10%**	4.00%	**4.50%**	4.60%	4.90%	5.50%	5.70%
PORTUGAL							
NPE/Gross credit	**7.60%**	7.80%	**8.80%**	9.90%	11.00%	11.90%	12.90%
NPL > 90 days / Gross credit	**2.50%**	2.70%	**3.00%**	3.20%	4.00%	4.10%	4.50%
Past due credit / Gross credit	**2.50%**	2.80%	**3.00%**	3.30%	4.10%	4.20%	4.70%
Impairment / Gross credit	**4.30%**	4.30%	**5.10%**	5.40%	5.80%	6.20%	6.40%
POLAND							
NPE/Gross credit	**5.10%**	5.10%	**4.70%**	4.50%	4.40%	4.60%	4.60%
NPL > 90 days / Gross credit	**2.30%**	2.10%	**2.00%**	2.00%	1.90%	1.80%	1.90%
Past due credit / Gross credit	**2.90%**	2.80%	**2.50%**	2.80%	2.70%	2.30%	2.40%
Impairment / Gross credit	**3.20%**	2.90%	**2.80%**	2.70%	2.70%	3.20%	3.40%
MOZAMBIQUE							
NPE/Gross credit	**25.50%**	25.70%	**24.40%**	22.70%	20.30%	18.60%	20.00%
NPL > 90 days / Gross credit	**12.10%**	11.40%	**8.40%**	8.00%	6.70%	6.70%	5.40%
Past due credit / Gross credit	**12.20%**	11.50%	**8.40%**	8.00%	6.80%	6.80%	5.50%
Impairment / Gross credit	**13.80%**	12.60%	**11.90%**	11.40%	9.80%	11.70%	11.30%

Gross credit = Direct credit to clients, including credit operations represented by securities, before impairment and fair value adjustments

Despite the negative impacts resulting from the pandemic outbreak COVID-19, the evolution of credit risk indicators in the first half of 2020 was favorable in Portugal and at a consolidated level, although with a slower pace of evolution in the second quarter, period where the adverse effects of the mentioned pandemic were stronger. This positive trend is evidenced in the 'NPE / Gross Credit' ratio, with a reduction of 0.7 percentage points at a consolidated level and of 1.2 percentage points in Portugal. The same favorable evolution was observed in the Overdue Credit and Overdue Credit 90 days over Gross Credit ratios, at the domestic and consolidated level.

The dynamics of these ratios result from a positive effect that were due not only to the continuation of the effort to reduce credits classified as non-performing and overdue pursued in recent years, but also from the growth of Gross Credit, largely due to the impact of the high level of the Bank's supports to the economy through the lines sponsored by the State to respond to the impact of the pandemic outbreak COVID-19. In any event, this increase in the portfolio continues to be based on prudent credit concession criteria in order to preserve the quality of the portfolio in the long term and the high coverage provided by the guarantee underlying the operations carried out on the aforementioned lines should be taken into consideration.

It should also be noted that between the end of 2019 and 30 June 2020 the consolidated 'Impairment / Gross Credit' ratio decreased to a lesser extent than the 'NPE / Gross Credit' ratio (0.4 vs. 0.7 percentage points), which also reflects the conservative provisioning policy.

Unlike to what occured in Portugal and at a consolidated level, in Poland there was a slight worsening of risk indicators, which stood at 0.4 percentage points in the 'NPE / Gross Credit' and ´Credit Due / Gross Credit' ratios, also explained by adverse impacts of the global pandemic and a deterioration in the level of risk, especially in the Corporate segment. As the 'Impairment / Overdue Credit' ratio showed a similar increase, it can be concluded that the provisioning levels remained at a similar level.

Reflecting the persistence of a less favorable economic and financial environment, aggravated by the impact of the pandemic COVID-19, the operation in Mozambique also registered a deterioration in the credit risk indicators. This increase was more pronounced in the 'Overdue Credit to Gross Credit' ratios than in the ratio related to the weight of non-performing exposures on the loan portfolio.

NPA/NPE Reduction Plan

The implementation of the Group's NPA Reduction Plan continued to be a priority along the first semester of 2020, under its two components - of NPE and of assets received in lieu of payment, the foreclosed assets (FA) - focusing mainly on NPE portfolios and on real estate FA held for sale, in Portugal, although strongly conditioned by the adverse impact of the COVID-19 outbreak from the end of the first quarter.

The NPA Reduction Plan is framed by a specific Governance model and by a robust management framework, organized by specialised areas of credit recovery and based on systematically defined recovery strategies – either stemming from automated analysis and decision models (for Retail) or based in the relationship of recovery managers with their Corporate Clients, allowing for tailor-made solutions. The FA management is based on a specialised structure, privileging circuits and procedures oriented towards the speed of the reception-preparation-sale cycle and the enhancement of the properties' values, in order to facilitate the sale of these assets.

The NPA Reduction Plan also benefits from a technological environment that is supported on specific IT infrastructures for the activities connected with credits recovery, NPE reduction and FA management, with its monitoring being reinforced through the Operational Plan for NPA Reduction, that defines initiatives aiming at accelerating and conferring effectiveness to the recovery or sales' processes (both of loans and real estate properties), distributed throughout the several phases of the credit recovery and NPA reduction processes: prevention; collection; executions; insolvencies and, finally, FA reception, treatment and respective sales.

The fulfilment of the reduction targets for each area involved in NPA reduction is measured on a monthly basis, both in terms of management information for the respective dedicated structures, and of the specific focused activities and initiatives defined in the above-mentioned Operational Plan, with reporting to the top management.

The NPA Reduction Plan recorded very positive results consistently until the beginning of the pandemic outbreak COVID-19, that even exceeded those initially projected. However the expected deceleration after the surge of this unexpected impact is already being noticed.

The following table presents the evolution of NPE volumes between 31/12/2018 and 30/06/2020, for the Group and for Portugal:

(Million EUR)

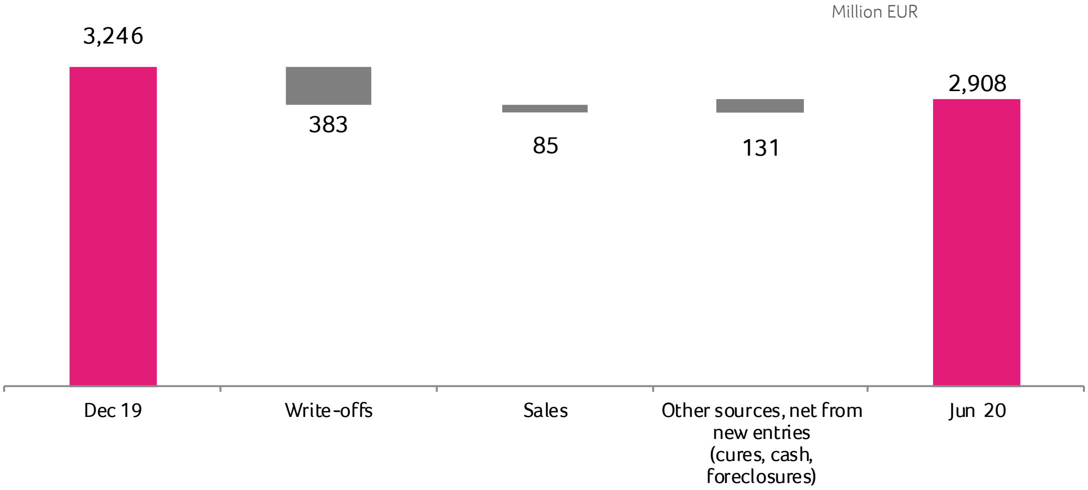
	Jun-20	Mar-20	Dec-19	Sep-19	Jun-19	Mar-19	Dec-18
CONSOLIDATED	3,934	3,928	4,206	4,602	4,970	5,179	5,547
Change YoY	-272		-1,341				
PORTUGAL	2,908	2,918	3,246	3,691	4,088	4,438	4,797
Change YoY	-338		-1,551				

Comparing the value of Customers classified as NPE at the end of the first semester of 2020 with the one verified at the end of 2019, there is a very favourable evolution, with a reduction of 272 million euros at the consolidated level and of 338 million euros in the activity in Portugal, which corresponds to a contraction rate of 6.5% and 10.5%, respectively. This result reflects the consistent work carried out over the past few years in the identification and implementation of procedures that allow the reduction of these non-performing assets.

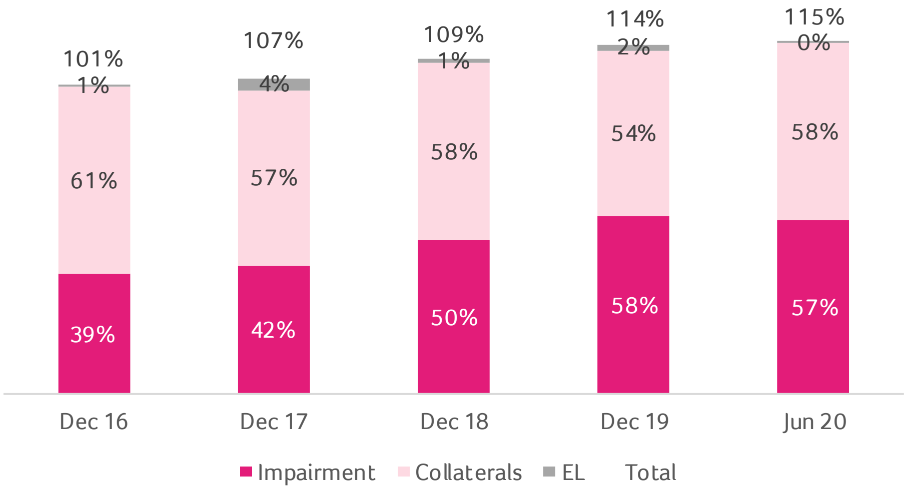
However, the quarterly analysis leads to a conclusion that this evolution occurred only in the first quarter, a period in which the magnitude of the decrease was not very distant in annualized terms from the levels reached in 2019, with the NPE figures at a consolidated level and in Portugal at the end June near to those of 31 March.

The chart below presents the structure of operations that explain the NPE reduction in Portugal during the first half of 2020, where it is possible to verify the major contribution of write-offs.

Also noteworthy is the reduction in the weight of sales, namely from the sale of credit portfolios to institutional investors, and the net increase in NPE in the item "Other sources, net of new entries", in which, in addition to the exposures that ceased to be classified as NPE in the period under review (situations of "cure", due to the extinction of the reasons for this classification), the new entries are also reflected, in particular from the classification as unlikeness to pay (UTP) of some Clients with an activity more vulnerable to the adverse effects of the new environment resulting from the COVID-19 pandemic.



We also highlight the consistent improvement in the of the NPE portfolio coverage from impairment, collateral and Expected Loss Gap, at consolidated level and in Portugal. The following graph, which refers to the evolution of the domestic activity, shows an increase of one percentage point in the coverage level, reaching 115% at the end of June, with an increase in coverage by collaterals to 58%, a slight reduction to 57% of the impairment component and a meaningless amount of Expected Loss Gap.



The trend observed in the first half of 2020 with regard to the balance sheet assets resulting from credits repayment (foreclosed assets) was favorable, as shown in the following table, which presents the evolution of the total stock of Foreclosed Asset in Portugal and the the breakdown by type of assets, as well as the aggregate value of assets of this nature of the subsidiaries abroad (amounts before impairment):

(MillionEUR)

	Jun 20	Dec 19	Dec 18	Dec 17	Dec 16
Real estate properties	**951**	1,020	1,474	1,778	1,782
Real estate Funds and companies	**304**	306	330	466	538
Other assets (non-Real estate)	**86**	87	156	95	75
SUB-TOTAL - Portugal	**1,341**	**1,413**	**1,960**	**2,339**	**2,395**
Other geographies Foreclosed Assets	**47**	52	58	37	18
GROUP TOTAL	**1,387**	**1,465**	**2,019**	**2,376**	**2,413**

Despite the magnitude of the decrease being less than those recorded in previous years and the more adverse context in the real estate sector for carrying out divestment operations of assets of this nature, in the first semester of 2020 there was a reduction of 5% in the Foreclosed portfolio in relation to the position at the end of 2019, corresponding to an amount of 78 million euros, explained mainly by the Real Estate component in Portugal, which amounted to 69 million.

Taking into consideration the negative environment for carrying out operations of disposal of larger assets, special attention from the respective monitoring areas has been devoted to the preparation of assets for disposal when the market environment allows the development of effective sale efforts. In this respect, it is also worth mentioning the reduced flow of new entries of Foreclosed Assets in the first half of 2020, which amounted to 35 million euros, composed almost exclusively by residential and commercial real estate assets, which are known to have greater liquidity, explained by the smaller size of the NPE portfolio as well as the reduced activity of the courts in the second quarter of 2020.

Credit concentration risk

The following chart presents the weights, in total exposure, of the Group's 20 largest performing exposures, as at 30/06/2020, in terms of EAD and using the concept of "Groups of Clients/Corporate Groups", excluding the risk classes of "Banks and Sovereigns":

	Jun-20	Dec-19
Client Groups	Exposure weight in total (EAD)	Exposure weight in total (EAD)
Client Group 1	1.0%	1.1%
Client Group 2	0.6%	0.6%
Client Group 3	0.5%	0.6%
Client Group 4	0.5%	0.5%
Client Group 5	0.5%	0.5%
Client Group 6	0.4%	0.4%
Client Group 7	0.4%	0.4%
Client Group 8	0.3%	0.4%
Client Group 9	0.3%	0.3%
Client Group 10	0.3%	0.3%
Client Group 11	0.3%	0.3%
Client Group 12	0.3%	0.3%
Client Group 13	0.3%	0.3%
Client Group 14	0.2%	0.2%
Client Group 15	0.2%	0.2%
Client Group 16	0.2%	0.2%
Client Group 17	0.2%	0.2%
Client Group 18	0.2%	0.2%
Client Group 19	0.2%	0.2%
Client Group 20	0.2%	0.2%
Total	**7.0%**	**7.4%**

Globally, this set of 20 largest performing exposures accounted for 7.0% of total EAD as of 30/06/2020, which compares with a global weight of 7,4% by the end of 2019. Hence, in terms of EAD, there was a reduction of credit concentration on the 20 largest performing exposures.

It should be noted that, in addition to the compliance with the regulatory limits relative to Large Exposures, the Group has specific goals defined for the control of credit concentration, materialised into RAS metrics. Besides, metrics for specific concentration types are monitored regularly: single-name, by sectors of activity, by country, for Institutions and for Sovereign risks.

Except for sectoral concentration, the concentration limits definition depends on the internal/external risk grade attributed to the Clients at stake and consider their respective Net Exposure (= LGD x EAD, with LGD =45% whenever an own estimate does not exist or is not applicable). The concentration assessment regarding Sovereigns and countries excludes the geographies in which the Group operates (Portugal, Poland, Mozambique, Switzerland and Cayman Islands) and their respective Sovereigns.

In the case of the single-name concentration, the limits are only defined for performing Clients, since the NPE are covered by the NPA Reduction Plan. For Clients with exposure above the established limit excess, specific reduction plans are drawn-up.

Operational risk

Operational risk materializes in the occurrence of losses resulting from failures or inadequacies of internal processes, systems or people, or resulting from external events.

In the management of this type of risk, the Group adopts duly documented principles and practices, which are expressed in control mechanisms subject to continuous improvement. This framework has a variety of features, such as: functions segregation, definitions for lines of responsibility and respective authorisations, tolerance limits for exposures to risks, appropriate internal regulations' framework (including ethical codes and codes of conduct), risks self-assessment (RSA) exercises, key risk indicators (KRI), access controls (physical and logical), reconciliation activities, exception reports, loss events data capture, a structured process for new products approval, contingency plans, contracting of insurance (for the total or partial transfer of risk), follow-up of the Bank's outsourcing contracts and internal training on processes, products and systems.

The operational risk management framework encompasses the three relevant Group geographies – Portugal, Poland and Mozambique – and the operational risk management system adopts the 3 lines of defence model, based on a end-to-end processes structure. Each geography defines its own processes structure, which is regularly reviewed/updated. This approach, transversal to the functional units of the organisational structure, is more appropriate for the perception of risks and to implement the corrective measures for their mitigation. Furthermore, this processes' structures also support other initiatives, such as the actions to improve operating efficiency and the management of business continuity.

The responsibility for the day-to-day management of operational risk lies with the 1st line of defence, with special relevance of process owners (seconded by process managers), whose mission is to characterise the operational losses captured under their processes, to monitor the respective KRI, to perform the RSA exercises, as well as to identify and implement appropriate actions to mitigate operational risk exposures, beyond the management of their processes' effectiveness and efficiency, thus contributing to the strengthening of control mechanisms and the improvement of the internal control environment.

The Risk Management System represents the 2nd Line of Defence, which implements the defined risk policy for the Group, having the responsibility of proposing and developing methodologies for managing this risk, supervising its implementation and challenging the 1st Line of Defence regarding the levels of risks incurred.

The highlights of the first half of 2020 in what concerns the management and control of operational risk in Portugal are:

- The computation and presentation of the results of the first RSA exercise for Information and Communication Technology (ICT) risks carried out in the last quarter of 2019;
- The computation and presentation of the results of the processes 2019 RSA exercises (Portugal, Poland and Mozambique). For the exercise carried out in Portugal, the CORPE (Compliance and Operational Risk Evaluation) methodology was complementarily applied for the first time, which introduced and highlighted operational risk components resulting from the status of Compliance and internal control factors (less evident or more difficult to quantify through the process owners' assessment), allowing objectivity gains by including specific quantitative elements in the risk assessment of each process.

The COVID-19 pandemic

The first half of 2020 was marked by the COVID-19 pandemic, which constituted an unprecedented global contingency event and significantly affected the entire Group's activities.

The Group's operating ability, together with the protection of Clients and Employees, was ensured through the activation of contingency plans for business continuity, which implied the extensive use of telework - with considerable reinforcement of the IT and communications infrastructure in Portugal, alongside specific measures and increased vigilance in the area of systems security - the distribution / installation of protective materials and rules for occupying spaces and for people's movements within the premises, through the use of appropriate signage.

From a transactional point of view, it is also important to highlight the impact - translated into operational effort and increased operational risk – implied by the moratoriums on loans granted to individuals and companies (as well as credit lines with mutual guarantees covered by the State, in Portugal), from the second half of March. In domestic operations, this impact was mitigated by introducing, in a very short time, automatic and massified processing mechanisms that ensured an operational response that was not only effective, but also robust (from the point of view of controlling the risk of errors in the processing of operations).

Risks self-assessment (RSA)

The RSA exercises are based on workshops, attended by the Risk Office and with the participation of the process owners (and process managers), or performed through answers to questionnaires sent to the process owners, for a review of previous RSA results, according to predefined updating criteria.

The aim of the RSA exercises is to promote the identification and mitigation (or elimination) of risks, either actual or potential, in each process, through the assessment of each of the 20 subtypes of operational risk considered. These assessments are positioned in a risk tolerance matrix, considering the ‘worst-case event’ that might occur in each process, for three different scenarios: Inherent Risk (without considering the existing/implemented controls), Residual Risk (considering the existing/implemented controls) and Target Risk (the desirable risk level). These exercises are typically carried out in the second half of each year.

The processes operational RSA exercise of 2020 in Portugal will take into account, as input for 3 of the 20 risks assessed, the results of the ICT RSA exercise computed at the beginning of the year, as already mentioned. This exercise was carried out based on the identification of a set of 109 critical technological assets (software, hardware, lines and communications structures), under 3 dimensions of evaluation: availability/integrity/confidentiality of data. As a result of this assessment, 7 critical technological assets were classified as “medium risk” assets (third degree of a scale with five degrees), which implies the definition of mitigation measures to reduce the risk.

Besides this, the CORPE methodology mentioned above will be maintained as a risk quantification complement, from the perspective of specific elements of internal control, acting by establishing minimum frequency thresholds for the occurrence of related risks.

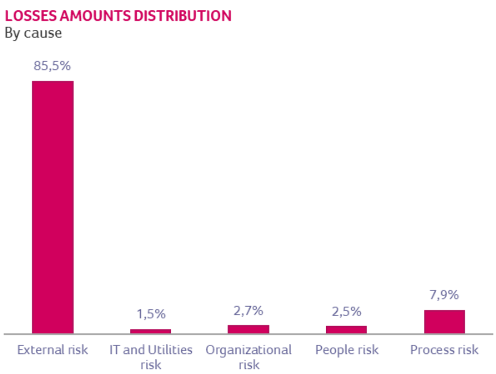
Operational losses capture

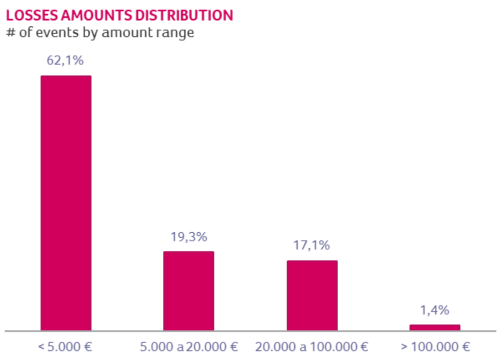
The operational losses data capture (i.e. the identification, registration and characterisation) of operational losses and of the originating events aims at the strengthening of the awareness to this risk and to provide relevant information for process owners to incorporate within their process management. As such, it is an important instrument to assess risk exposures as well as for a generic validation of the RSA results.

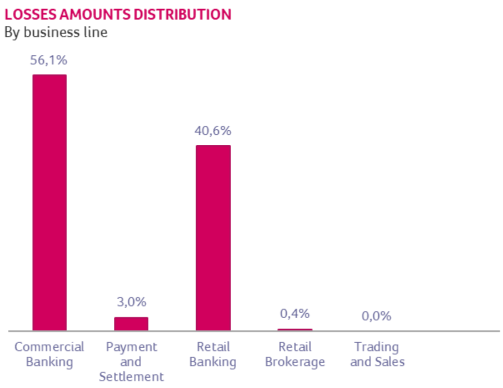
The detection and reporting of operational losses is a responsibility of all Employees of the Group, the process owners playing a crucial role in the promotion of these procedures within the context of the processes for which they are responsible.

The identified events in which the losses, effective or potential, exceed the defined materiality limits (for each geographical area) are characterised by the process owners and process managers of processes to which the losses are related, including the description of the respective cause-effect and, when applicable, the valuation of the loss and the description of the improvement action identified to mitigate the risk (based on the analysis of the loss cause). For losses of amounts exceeding certain thresholds, “lessons learned” reports are presented to and discussed by the specialised governing body for operational risk (the Compliance and Operational Risks Commission).

The following graphs present the profile of the losses captured in the respective database in the first half of 2020:







As illustrated by the graph of the loss events distribution by cause (in terms of amount of losses), external risks assumed an undeniable preponderance in the losses registered in the 1st half of 2020, with a weight far superior to any of the other types of cause. This preponderance was essentially the result of a fraud event by a corporate client, which reached a very significant global amount and thus significantly influenced the distribution of losses.

Regarding the distribution of losses by amount ranges (in number of losses), there was no change in the typical profile of the distribution of operational losses. Finally, in what concerns the distribution of losses by business line in the first half of 2020, this was influenced by the significant fraud event already mentioned (in the weight of losses for Commercial Banking), along with an increase in the weight of losses for Retail Banking, when compared to the profile of the year 2019 (to the detriment of the weight of losses for Retail Brokerage and Trading & Sales).

Key risk indicators (KRI)

KRI provide alerts concerning changes in the profile of the operational risks or in the effectiveness of controls, thus enabling to identify the need to introduce corrective actions within the processes, in order to prevent potential risks from materialising into losses. These indicators currently encompass all processes in the main Group operations (Portugal, Poland and Mozambique).

Processes management also uses Key Performance Indicators (KPI) and Key Control Indicators (KCI), the monitoring of which, even if oriented towards the assessment of operative efficiency, also contributes for the detection of risks.

Business continuity management

The management of business continuity covers two complementary components: the Business Continuity Plan relative to people, facilities and equipment, and the Technological Recovery Plan relative to information systems, applications and communications infrastructure. These plans are defined and implemented for a series of critical business processes and are regularly tested within a maintenance program promoted and coordinated by dedicated structure units.

In the Group's main subsidiaries (Poland and Mozambique), operational plans are also established (and tested), to ensure the recovery of the main business activities in the event of a catastrophe or important contingency.

As mentioned above, the occurrence of the COVID-19 pandemic led to the activation of a specific contingency plan in the first quarter of 2020: the Pandemic Contingency Plan. Within the scope of this plan, the Bank implemented a set of measures to respond to this threat, following the guidelines of the health authorities and in conjunction with its main Stakeholders, of which the following stand out:

- Emergency response procedures for occurrences (detection and referral of affected Employees, creation of isolation rooms);
- Prevention and protection measures: creation of a specific internal information channel for the dissemination of preventive measures (behaviours to be observed), distribution of protective equipment (gloves, masks, disinfectants, acrylic separators, etc.), reinforcement of cleaning routines;
- Measures to ensure continuity of the Bank's operations, namely: the creation of conditions for teleworking for a large number of Employees, the segregation of the most critical teams, as well as the necessary coordination with the main suppliers/outsourcers.

Insurance contracting

The contracting of insurance for risks related to assets, persons or third-party liability is another important instrument in the management of operational risk, where the objective is the transfer - total or partial - of risks.

The proposals for the contracting of new insurance are submitted by the process owners under their respective duties for the management of the operational risk inherent to their processes, or are presented by the head of area or organic unit, and then analysed by the Compliance and Operational Risks Commission and authorised by the EC.

Legal, Compliance, Conduct and Financial Crime risks

In carrying out its banking activity, Banco Comercial Português is governed by operating principles and rules that ensure a good conduct, following the best international practices and adopting the appropriate measures in terms of preventing compliance and conduct risks. Pursuing the objective of permanently adapt its internal practices to the best market practices, to the evolution of banking activity, and to society as a whole, the Bank regularly reviews its internal regulations and procedures to safeguard that the conduct of its Employees is always guided by highest ethical principles, of satisfaction and protection of the interests of the client and the Bank, in the pursuit of sustainable profitability. The Compliance Office strengthened the monitoring of the Bank's activity and internal conduct, by implementing a system for monitoring potential situations of conflicts of interest, covering various aspects of this issue such as operations with related parties, credit operations, development of extra-professional activities and the receipt of gifts by Employees.

To comply with the relevant legal and regulatory norms related with Anti Money Laundering and Counter Terrorism Financing (AML/CTF), as well as to safeguard the compliance with best international practices on this matter, the Bank has a set of policies, procedures and systems that ensure an effective control of the financial crime risk prevention, also ensuring an operational model that allows the Bank to identify, assess and mitigate the potential risks inherent to the activity of its Clients, non-Clients and business relationships established with one or the other.

The impact and relevance of this risk in the banking activity developed, compels the Bank to address this risk in multiple dimensions and on a continuous basis, whether in the establishment of new business relationships or in the continuous evaluation of an already established business relationship. Through a risk-based approach (RBA) for the assessment and monitoring of its business relationships or occasional transactions execution, the Bank complies with all the required duties enshrined in Law no. 83/2017, of 18 of August, like for example, due diligence, abstention, refusal or reporting.

For an effective and efficient AML/CTF activity, the Bank defines a set of policies and procedures that are supported by a wide range of information systems, of which it is worth highlighting:

- Business Relations monitoring and alerts system;
- Financial transactions monitoring system;
- Entity filtering system;
- New Business relationships validation system;
- External information platforms.

Pursuing the continuous improvement of the internal control processes, the risks management system remained robust throughout the first half of 2020, to enable the Bank to respond adequately to the demands of the future banking business with origin in market dynamics changes and regulation evolution. From the set of initiatives, it is worth mentioning the following:

- Reinforcement of resources and expertise of the operational AML/CTF model
- Establishment of International Committees AML/CFT to specifically monitor the Group's subsidiaries and affiliates;
- Definition of risk assessment structure for the Group's subsidiaries and branches;
- Strengthening of the "Culture of Compliance" communication strategy, with regular communication actions to the Bank's 1st Line of Defense;
- Development of a communication strategy to encourage the use of the reporting channel;
- Implementation of new AML/CFT controls in specific business processes;
- Implementation of new Compliance training controls, focusing on AML/CTF courses;
- Revision of the new products and services approval process
- Strengthening the subcontracting process regarding the identification of conflict of interest situations.
- Development of a new monitoring process of the legislative changes and / or Regulatory

Market risks

Market risks consist of the potential losses that might occur in a given portfolio as a result of changes in interest or exchange rates and/or in the prices of the different financial instruments of the portfolio, considering not only the correlations that exist between those instruments but also their volatility.

For purposes of profitability analysis and market risks quantification and control, the following management areas are defined for each entity of the Group:

- Trading - Management of positions whose objective is the achievement of short-term gains, through sale or revaluation. These positions are actively managed, tradable without restriction and may be valued frequently and accurately. The positions in question include securities and derivatives of sales activities;
- Funding - Management of institutional funding (wholesale funding) and money market positions;
- Investment - Management of all the positions in securities to be held to maturity (or for a longer period of time) or positions which are not tradable on liquid markets;
- Commercial - Management of positions arising from commercial activity with Customers;
- Structural - Management of balance sheet items or operations which, due to their nature, are not directly related to any of the management areas referred to above; and
- ALM - Assets and Liabilities Management.

The definition of these areas allows for an effective management separation of the trading and banking books, as well as for the correct allocation of each operation to the most suitable management area, according to its respective context and strategy.

In order to ensure that the risk levels incurred in the different portfolios of the Group comply with the predefined levels of tolerance to risk, various market risks limits are established, at least yearly, being applicable to all portfolios of the risk management areas over which the risks are incident. These limits are monitored daily (or intra-daily, in the case of financial markets) by the Risk Office.

Stop Loss limits are also defined for the financial markets' areas, based on multiples of the risk limits defined for those areas, aimed at limiting the maximum losses that might occur. When these limits are reached, a review of the strategy and of the assumptions relative to the management of the positions in question is mandatory.

Trading Book market risks(*)

The Group uses an integrated market risk measurement that allows for the monitoring of all risk subtypes that are considered relevant. This measurement includes the assessment of the following types of risk: general risk, specific risk, non-linear risk and commodity risk. Each risk subtype is measured individually using an appropriate risk model and the integrated measurement is built from the measurements of each subtype without considering any kind of diversification between the four subtypes (worst-case scenario approach).

For the daily measurement of general market risk (relative to interest rate risk, exchange rate risk, equity risk and price risk of credit default swaps) a VaR (value-at-risk) model is used, considering a time horizon of 10 business days and a significance level of 99%.

For non-linear risk, an internally-developed methodology is applied, replicating the effect that the main non-linear elements of options might have in P&L results of the different portfolios in which these are included, similarly to what is considered by the VaR methodology, using the same time horizon and significance level.

Specific and commodity risks are measured through standard methodologies defined in the applicable regulations, with an appropriate change of the time horizon considered.

The table below presents the amounts at risk for the Trading Book, between 01/07/2019 and 30/06/2020, as measured by the methodologies referred to above, that registered moderate levels along the period under analysis:

(*) Positions assigned to the Trading Management Area (not specifically included in the accounting trading book).

(Thousand EUR)

	Jun 20	Max of global risk in the period	Min of global risk in the period	Jun 19
GENERIC RISK (VaR)	2,244	4,894	826	4,865
Interest rate risk	772	4,954	800	4,967
FX risk	1,972	220	183	232
Equity risk	63	20	91	15
Diversification effects	*(563)*	*(299)*	*(249)*	*(350)*
SPECIFIC RISK	84	23	10	17
NON-LINEAR RISK	0	0	0	0
COMMODITIES RISK	0	3	3	3
GLOBAL RISK	2,328	4,920	839	4,884

VaR model monitoring and validation

In order to check the appropriateness of the internal VaR model for the assessment of the risks involved in the positions held, several validations are conducted over time, of different scopes and frequency, which include back testing, the estimation of the effects of diversification and the analysis of the comprehensiveness of the risk factors.

The VaR model's hypothetical back-testing exercise for the Trading Book of Portugal, during the second half of 2019 and the first half of 2020, resulted in 4 negative excesses over the model's predictive results (and 7 positive), representing a frequency of 2% in 256 days of observation. Hence, in terms of the frequency of excesses verified, this back-testing results validate of the model as appropriate for measuring the risk at stake.

Trading Book Stress Tests

As a complement to the VaR assessment, the Group continuously tests a broad range of stress scenarios, analysing the respective results with a view to identifying risk concentrations that have not been captured by the VaR model.

The results of these tests on the Group's Trading Book, as at 30/06/2020, in terms of impacts over this portfolio's results, were the following:

(Thousand EUR)

	Negative impact scenario	Impact
STANDARD SCENARIOS		
Parallel shift of the yield curve by +/- 100 bps	+100 bps	-105
Change in the slope of the yield curve (for maturities from 2 to 10 years) up to +/- 25 bps	+25 bps	-118.6
4 combinations of the previous 2 scenarios	+100 bps and +25 bps	-36.3
	+100 bps and -25 bps	-243.5
Variation in the main stock market indices by +/- 30%	-30%	-85.9
Variation in foreign exchange rates (against the euro) by +/- 10% for the main currencies and by +/- 25% for other currencies	-10%, -25%	-11,903.7
Variation in swap spreads by +/- 20 bps	-20 bps	-912.1
NON-STANDARD SCENARIOS		
Widening/narrowing of the bid-ask spread	Widening	-294.4
Significant vertices (1)	VaR w/o diversification	-1,161.9
	VaR w/ diversification	-1,201.5
Historical scenarios (2)	7/Oct/2008	-5,990.4
	18/Jul/2011	-93,33.6

(1) Scenarios in which the more adverse variations of the last seven years, relative to the portfolio's five most significant risk factors for VaR, are applied to the current portfolio.

(2) Scenarios in which past extreme markets variations are applied to the current portfolio; in this case, the significant dates refer to the 2008 financial crisis and the Eurozone Sovereign Debt crisis in 2011.

These results show that the exposure of the Group's trading book to the different risk factors considered remains relatively limited and that the main adverse scenario to be taken into account refers to a general increase in interest rates, especially when accompanied by an increase in the slope of the yield curve (the case of a higher increase in longer terms than in shorter terms). In what concerns the non-standard scenarios, the main loss case refers to the variations occurred at 18/07/2011when applied over the current portfolio.

Interest rate risk of the Banking Book

The interest rate risk arising from the Banking Book operations is assessed by the Bank in two complementary ways: the portfolio's economic value method (EVE) and the financial margin sensitivity method (NII), through a risk sensitivity analysis carried out every month, for the universe of operations included in the consolidated balance sheet of the Group, broken down by the currency of exposure.

Variations of market interest rates influence the Group's net interest income, both in the short term – affecting the Bank's NII – and in the medium/long term, affecting the balance sheet economic value (EVE method).

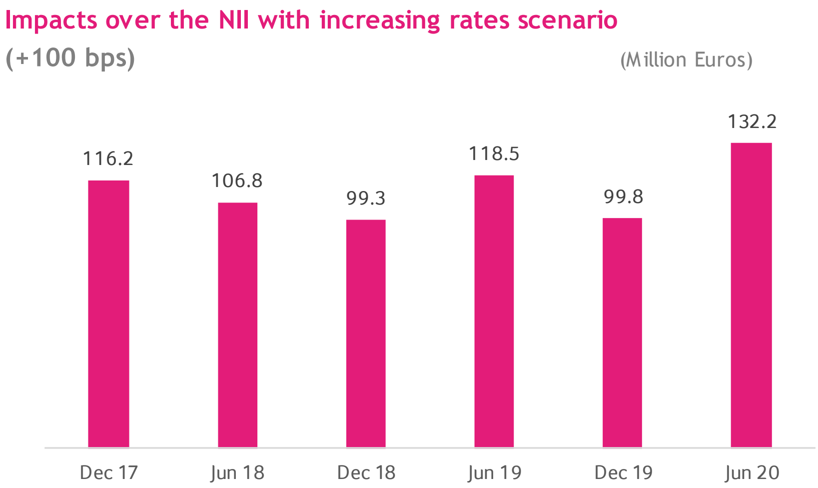
The main risk factors arise from the repricing mismatch of the portfolio positions (gap risk) which may cause direct or indirect financial losses in the banking Book, due to changes in interest rates that have different impacts over assets and liabilities' classes, making the Bank vulnerable to variations of the yield curve. On their turn, the changes in interest rates may alter the behaviour profile of Clients, inducing pre-payments/withdrawals in assets and liabilities, including the exercise of options' rights incorporated in the products' design (behavioural and optional risk). Besides this, but with less impact, there is also the risk of unequal variations in different reference rates with the same repricing period (basis risk).

In order to identify the exposure of the Group's banking book to these risks, the monitoring of the interest rate risk takes into consideration the financial characteristics of each of the relevant contracts, with the respective expected cash-flows (principal and interest, without the spread component but including cost components for liquidity, capital, operations and other) being projected according to the repricing dates, thus calculating the impact on economic value resulting from alternative scenarios of change of market interest rate curves. The impacts stemming from the Clients' behaviour are also considered, in particular, for the products for which this is especially relevant – namely, for products without defined term (checking accounts, revolving credit) – as well as the impacts resulting from changes in contractual cash flows (credits prepayments).

The result of this analysis for a +100 basis point change in the level of the Euro interest rates (for all maturities, i.e. assuming a parallel shift of the yield curve), on the Banking Book portfolio as at 30/06/2020 consists in a positive impact on the balance sheet's economic value of around +84,7 million euros. On the other hand, the impact of a generalized drop in Euro rates of -100 basis points and considering a floor of 0% for the cash flows discount rate, would be of around +38,4 million euros. Hence, on that date, the Group was positively exposed to interest rates' variations (increase or decrease).

Complementing the previous approach, the Bank calculates monthly the impact on net interest margin projected for the following 12 months, due to changes in market interest rates (NII method). For this purpose, all assets, liabilities and off-balance products that generate interest are considered and the calculation of interest cash flows is performed based on the repricing and amortization characteristics of the products and on yield curves for 12 months projected in accordance with the 'cash and carry trade' and 'non-arbitrage principle' methods. This exercise assumes a static balance for 12 months in which, for each amortization, an exposure with the same features of maturity and price is generated.

To capture the net interest margin sensitivity, several simulations are processed, corresponding to 10 different scenarios of the market's interest rates evolution. The next graph shows the estimated impact over the net interest income, over the last 2 years, at the end of each semester, considering the scenario in which interest rates globally increase +100 bps combined with the most "aggressive" scenario for the coefficients that transmit the market variations over the deposits' rates and other liabilities that generate interest ('betas'), which illustrates the evolution of the NII sensitivity to changes in the markets' rates:



Hence, for a change of +100 bps in interest rates, as at 30/06/2020, the financial margin would have an increase of around 130 million euros.

FX and equity risks of the Banking Book

The exchange rate risk of the banking book is transferred internally to the Trading area, in accordance with the risk specialisation model followed by the Group for the management of the exchange rate risk of the Balance Sheet. The exposures subject to exchange rate risk that are not included in this transfer – the financial holdings in subsidiaries, in foreign currency - are hedged on a case-by-case basis through market operations, taking into consideration the defined policy and the conditions and availability of instruments.

As at 30/06/2020, the Group's holdings in convertible foreign currency were fully hedged. On a consolidated basis, these hedges are identified, in accounting terms, as 'Net investment hedges', in accordance with the IFRS nomenclature. On an individual basis, hedge accounting is also carried out, through a 'Fair Value Hedge' methodology, I this case.

Excluding the financial holdings from the participations in the foreign subsidiaries, the exposure to FX risk is quite limited, corresponding to 1.97 million euros in terms of VaR, as at 30/06/2020.

Regarding equity risk, the Group maintains a set of small size and low risk equity positions, essentially in the investment portfolio, which are not held for trading purposes. The management of these positions is carried out by a specific area of the Group, with the respective risk being controlled on a daily basis, through the indicators and limits defined for market risks' control.

Liquidity risk

Liquidity risk is the potential incapacity of the Group to meet its liabilities concerning funding repayment without incurring in significant losses, whether due to the deterioration of funding conditions (funding risk) or due to the sale of assets for amounts below market value (market liquidity risk).

The Group's Wholesale Funding (WSF) structure is defined for each annual period by the Liquidity Plan (which is an integral part of the budgeting process), formulated at consolidated level and for the main subsidiaries of the Group. The preparation of this plan is coordinated by the Group Treasurer and its implementation is monitored continuously throughout the year, being reviewed whenever necessary.

In the first half of 2020, an increase of 2,995 million euros in net wholesale financing needs was observed in consolidated terms, attributable to the increase of 3,097 million euros in the Portuguese operation and the reduction of 102 million euros in Bank Millennium. In Portugal, the variation was mainly due to the impact of the increase of 3,260 million euros in placements in sovereign and private debt.

The composition of the medium and long-term financing structure at the end of the first half of 2020 was influenced by decisions taken by the Bank following the change in context resulting from the COVID-19 crisis. Although the extent of the implications of the pandemic is not yet fully known, the global recession it has generated will have an adverse impact on the banking system and conditions for access to the capital market. For this reason, and in response to the crisis, Central Banks and Supervisors have implemented several actions and measures to mitigate negative impacts for banks, involving the provision of additional liquidity to the banking system through the so-called "Targeted longer-term refinancing operations III "(" TLTRO III ") and the introduction of flexibility measures for collateral eligible for discount with the ECB.

As part of the response to the crisis, the Bank decided to adjust its financing policy. With regard to the use of ECB financing, and considering the deterioration of market conditions in March and April and the uncertainty and volatility observed in the capital markets, BCP decided to increase its participation in TLTRO III to 7,550 million euros, which occurred on the same date as the refinancing of 4,000 million euros of TLTRO II at its maturity and that of other 1,500 million euros borrowings made in April, already in the context of reaction to the crisis. On the other hand, taking advantage of its comfortable liquidity position, the Bank opted for early repayment, also at the end of the first half of 2020, of collateralized long-term loans with the EIB in the amount of 750 million euros, simultaneously reinforcing its collateral pool eligible for discount at the ECB by issuing own covered bonds in the amount of 1,702 million euros after haircuts.

After these operations, facing December 2019, the increase in the liquidity needs of the operation in Portugal was reflected in increases in ECB net funding (of 3,999 million euros, to 4,283 million euros) and money market instruments (20 million euros, in this case related to the interbank market, as funding through repos remained unchanged with a zero balance) and a decrease of 901 million euros in long-term loans from EIB (most of them collateralized).

The following table illustrates the WSF structure as of 31 of December 2019 and 30 of June 2020, in terms of the relative weight of each of the instruments used:

	Jun 20	Dec 19	Change in weight
Money Market(*)	**0,2%**	-0,7%	0,9%
ECB(*)	**55,0%**	5,9%	49,1%
Private Placements	**0,0%**	1,5%	-1,5%
REPOS	**-0,2%**	0,0%	-0,2%
Loan Agreements	**12,3%**	39,3%	-27,0%
EMTN	**0,7%**	1,2%	-0,5%
Covered Bonds	**12,8%**	20,8%	-8,0%
Subordinated Debt	**19,2%**	31,9%	-12,8%
Total	**100,0%**	**100,0%**	

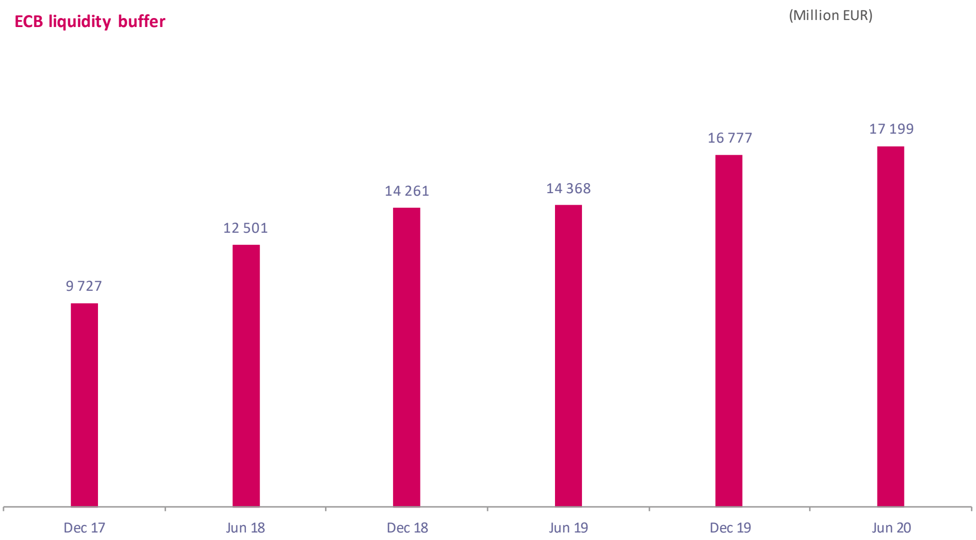
The aforementioned funding decisions involved the increase of the weight of the net resort to ECB funding, from 5,9% to 55,0%, and a decrease of the weight of loan agreements, from 39,3% to 12,3% among less material variations.

The liquidity impacts of the COVID-19 crisis have been monitored in the main operations of the Group through the indicators and limits defined in the internal liquidity risk management framework and also through daily reporting required by the Supervisor. In this context, the evolution of the liquidity buffers discountable with central banks

(*) WSF components considered in net terms (= borrowing – lending/deposits) on this table; in previously reported versions, only the Money Market component was so considered; the ECB component is strongly reduced when considered in net terms.

showed a favorable evolution in the first half of 2020 in the three main operations of the Group, assuming in any case a very comfortable dimension compared to the total of customer deposits, a measure internally used by the Group to assess the resilience of the liquidity buffer to a financial stress scenario.

In Portugal, and as a result of the aforementioned factors, the liquidity buffer with the ECB increased by 422 million euros, compared to December 2019, to 17,199 million euros:



Bank Millennium and Banco Internacional de Moçambique, also showing a high stability of their deposit bases, in particular of their retail components, reached respectively a growth of 417 million euros (to 5,505 million euros) and a slight decrease of 47 million euros (to 838 million euros) in their liquidity buffers with central banks.

The Group's counterbalancing capacity is defined by the ability to generate additional liquidity in the short term to cope with potential situations of financial stress. The measures for its reinforcement are described in the Recovery Plan and, as of 30 of June 2020, registered for Portugal an estimated total value of 1,935 million euros, with the following sources: sale of corporate bonds, securitization of a consumer credit portfolio and own issue of covered bonds to be mobilized for the ECB's monetary policy pool.

In consolidated terms, the future refinancing needs of medium and long-term instruments will remain with low levels of materiality in the next five years, exceeding 1,000 million euros only in 2022, with the repayment of an issue of mortgage bonds of the same amount, which collateral will be integrated into the ECB's discounted liquidity buffer after repayment. Therefore, this will result in a minor reduction in available liquidity.

The conclusions of the Bank's ILAAP process reiterate the adequacy of the Group's liquidity to meet its liquidity commitments as well as the conformity of its liquidity risk management practices to the supervisory's requirements.

Liquidity risk control

The Group's liquidity position is assessed on a regular basis, with the identification of all factors underlying the variations that have occurred.

The Group controls its liquidity profile in the structural and short-term perspectives by regularly monitoring a set of internal and regulatory indicators that aim to characterize it, for which pre-established limits are defined and reviewed periodically, and which together define the Bank's appetite for liquidity risk, such as: the loans-to-deposits ratio (83% on June 30, 2020), the regulatory indicators LCR (Liquidity coverage ratio) and NSFR (Net stable funding ratio) - 249% and 137% respectively on June 30, 2020 (very comfortable levels, in the first case much higher than on December 31, 2019) - and, also, the dimension of the collateral buffer available for discount at the European Union central banks compared to total customer deposits - an indicator previously mentioned and which was comfortably within the levels of liquidity considered adequate, within the scope of risk appetite of the Group.

Pension Fund risk

This risk arises from the potential devaluation of the assets of the Fund associated with the Defined Benefit Plan or from the reduction of its expected returns as well as from actuarial differences that may occur from the evolution of demographical factors, in relation to the actuarial assumptions considered. Confronted with such scenarios, the Group may have to make unplanned contributions in order to maintain the benefits defined by the Fund. The responsibility for the regular monitoring of this risk and the follow-up of its management lie with the Pension Funds Risk Monitoring Commission.

In the first half of 2020, the BCP Group Pension Fund had a negative net performance of -0.19%, with a positive performance in national shares (fixed and variable rates), which allowed to minimize the negative impact of the european and international shares during a first semester strongly marked by the COVID-19 pandemic.

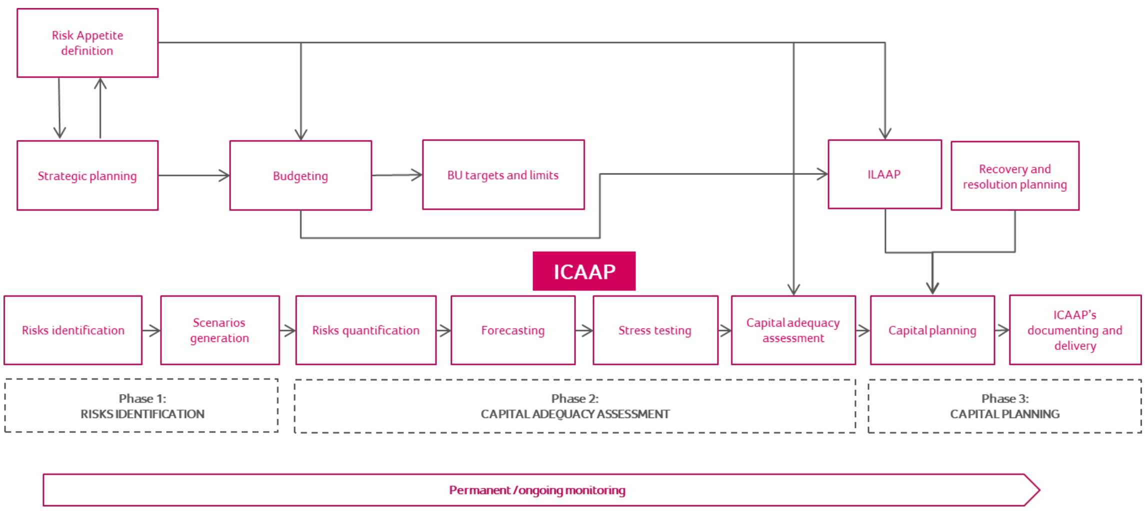
Since the beginning of the year, the Fund has presented a positive performance of 1.25% compared to the benchmark, explained mainly by the valuation in the shares component, namely by the performance of the participation in EDP and by the favorable behavior of the european shares component, when compared to the respective benchmark. In the bond component, the positive performance of the variable rate stands out, which offset the lower relative yield of the fixed rate component.

In view of the situation registered at the end of 2019, the shares portfolio was repositioned during the first half of the year, increasing global exposure and increasing the level of diversification. In the Fixed Rate component, the defensive position carried over from 2019 was maintained, reflected in a shorter duration compared to the benchmark, which was attenuated throughout the semester.

The evolution of market interest rates in the first half of 2020 led to the need to update the discount rate to determine the Fund's liabilities. Thus, the discount rate in effect on 12/31/2019, from 1.4%, was changed to 1.55% on 06/30/2020. On this date, the coverage of the Pension Fund's liabilities was in excess of approximately 31.7 million euros.

Internal Capital Adequacy Assessment Process (ICAAP)

The adequacy of capital to cover the level of risks to which the Group's activity is subject is permanently monitored under the Internal Capital Adequacy Assessment Process (ICAAP). The following figure summarizes the process in question:



The ICAAP is a key process within the scope of the BCP Group's risk management function and developed under an internal governance model that ensures the involvement of the BoD (the body responsible for approving the results) and its Risks Assessment Committee, of the EC, of the Risk Commission and of the top management, along the various stages of the process.

The ICAAP's results enable the management bodies to test whether the Bank is appropriately capitalized to face the risks arising from its activity at present, as well as those inherent to the balance sheet projections and results of the strategic plan and budget, in order to ensure the Group's sustainability in the medium term, respecting the risk limits defined in the Risk Appetite Statement (RAS) approved by the BoD.

For this purpose, the ICAAP is rolled-out from a prospective vision of the impact estimates concerning the occurrence of risks over the Bank's capital (capital requirements), considering their scale or dimension, complexity, frequency, probability and materiality, against a background consisting of the medium term (3 years) projection for the developments of the Group's activities. The impacts are estimated for different scenarios, including stress scenarios, with a severely negative evolution of macro-economic indicators. Through this process it is possible to test the Group's resilience and to verify the adequacy of the capital levels to cover the risks to which its activity may become subject. To this effect, the different risks are modelled or incorporated into the Group's stress tests methodology framework.

The ICAAP's first stage is the identification of the material risks to which the Group's activity is subject, which involves the Bank's management and the management from the main subsidiaries abroad. For this purpose, the Group uses a methodological approach based on an internal taxonomy covering more than 60 different risks, considering the relevancy of each one by taking into consideration its probability of occurrence and the magnitude of the impacts of its occurrence – either before or after the implementation of risk mitigation measures.

The result of this stage is the list of risks to be incorporated in the ICAAP, as well as of the variables to be considered for the establishment of the base and the stressed scenarios. The approval of the results of the risks identification process is a capacity attributed to the Committee for Risk Assessment (CRA).

In a second stage, the base and stressed scenarios that make the ICAAP's framework were defined. While the base scenario represents the Group's vision of the most probable evolution of the business constraints in the medium term (baseline scenario), the stressed scenarios incorporate extreme conditions, with low probability of occurrence but with severe impact over the Group's activity (adverse scenarios). The approval of the scenarios to be considered in the ICAAP is also a responsibility of the CRA.

In the third stage of the ICAAP, the impact of the risks identified is modelled for the reference date and the capital requirements are calculated for that date. All of the material risks identified by the Bank are quantified in terms of their impact over the Risk Weighted Assets (RWA) level or over the P&L, in accordance with a set of methodologies and internal models, formally approved, documented, validated and audited, considering a significance level in line with the regulatory requirements (CRR or Solvency 2) and a time horizon of 1 year (which is lower for the trading portfolio, due to its business nature). The non-quantifiable or non-material risks are considered through an additional buffer to the capital. The approval of the estimation methodologies for the risks impacts in the Group's activity is a competence of the Risk Commission.

Once the impacts of the various risks over the Group's P&L and balance sheet and, in particular, over own funds - are estimated, the Group is able to assess the adequacy of its Risk-Taking Capacity (RTC) against the expected profile for its exposure.

The Group adopts a RTC that is aligned with the definitions of the regulatory capital ratios, pursuant to Directive 2013/36/EU and Regulation (EU) No 575/2013 (the CRR – Capital Requirements Regulation), including some adjustments in order to encompass other elements or capital instruments that the Group considers appropriate to cover the existing risks, prudently projected along the timeframe under analysis.

The ICAAP's results are assessed by the EC and by the Risk Assessment Committee and approved by the Board of Directors, being one of the main sources for the review of the Group's RAS.

Quarterly, the Bank reviews the ICAAP's assumptions assessing, namely: the materiality of the risks that are considered as "non-material"; the validity of the projections considered under the macroeconomic scenarios; the analysis of deviations against the business plans; the quantification of the main material risks; and the RTC calculation. The results are reported to the Bank's management body, through the EC and the CRA.

The results of the ICAAP show that current capitalization levels are adequate for the 3-year time horizon, both in the baseline scenario and in the stressed/adverse scenario, which is confirmed by the quarterly monitoring performed by the Bank.

Models validation and monitoring

This function is ensured by the Models Monitoring and Validation Office (GAVM), reporting to the Chief Risk Officer.

This function is ensured by the Models Monitoring and Validation Office (GAVM), reporting to the Chief Risk Officer.

GAVM is a structure unit from the 2nd line of defence, within the scope of model risk management, functionally independent from the areas that are responsible for the models (model owners and developers) and from the Internal Audit Division. Hence, an adequate functions' segregation is assured. Its mission consists in monitor and validate therisk assessment used at BCP and other Group entities in Portugal, as well as to independently ensure the quality and adequacy of the risk management framework in what concerns internal models, metrics and completeness of the associated data.

GAVM's scope of action encompasses, *inter alia*, the validation of the internal models for credit risk, market risk and for the risks included in ICAAP, as well as the regular monitoring of their performance and evolution. The results of the monitoring and validation exercises are reported to the Models Monitoring and Validation Sub-Commission and to the Risk Commission.

Besides the activities directly connected with the monitoring and performance validation of models, GAVM is responsible for the coordination of the model risk management (MRM) activities, including the maintenance of a complete repository of the internal risk models used by the Bank and its permanent monitoring and updating through the use of the model management and risk assessment tool implemented at the Bank to support the MRM framework.

In thfr fisrt semester of 2020, several actions were carried out to monitor and validate the internal models in use by the Bank including the regulatory report of the new templates on the validation results of the credit risk internal models according with ECB instructions "Instructions for reporting the Validation results of internal models". These actions aim, *inter alia*, to reinforce the confidence in the models, to monitor their performance and evolution, verifying their adequacy to the business reality and their compliance with applicable regulatory requirements and international best practices, as well as to reinforce the identification and reaction capabilities to changes in their predictive quality.

Within the scope of models' validation, a highlight is made on the analysis of the risks quantification under the ICAAP, the validation of the internal model for market risks, the validation of the credit risk internal models concerning the Probability of Default (PD) for the Retail, Corporate and Real estate Promotion segments, as well as of the Slotting Criteria model applied to Project Finance.

GAVM has the responsibility to maintain a robust and documented validation process for internal risk models and systems, in line with current regulations, challenging existing systems and models. Inthis sense, it develops and applies validation methodologies capable of ensuring proper model assessments and the alignment with the applicbleregulatory requirements, by reinforcing (i) the scope of validation exercises, (ii) the depth of analysis and (iii) the transparency and auditability of the work performed.

Within the scope of model monitoring, GAVM is also responsible for ensuring the report on the Benchmarking regulatory exercise, promoted annually by EBA and in the same scope the response to thr requests made, in collaboration with other areas of the Bank.

Recovery Plan

Complying with the applicable law - Directive 2014/59/EU and its transposition to the *Regime Geral das Instituições de Crédito e Sociedades Financeiras* (RGICSF) through Decree-Law 23-A/2015, from the 26th of March – the Group annually revises the Recovery Plan for its business and activities, in which a large set of key indicators are defined; these are permanently monitored, allowing for immediate management action whenever there are deviations that exceed pre-defined thresholds (also defined in the Plan), the report of which, to the Group's management and supervision bodies, is mandatory.

Indeed, from the strategic analysis and the establishment of possible scenarios for the business evolution and the external environment and from the modelling of all variables, metrics and scenarios considered, the business evolution is permanently monitored within the scope of the Recovery Plan and its respective indicators.

The priorities, responsibilities and specific measures to be taken in a capital and or liquidity contingency situation are defined by the Recovery Plan, which is supported by an Early Warning Signals (EWS) system, for the anticipation of the occurrence of possible crises, namely, of liquidity. Simultaneously, the Recovery Plan contains a 'playbook', intended to provide key information for rapid decision-making in a crisis situation.

The Recovery Plan is aligned with the definition of the business continuity framework and its respective plans (see the Operation Risk section), the Communication Plan – towards the market and Stakeholders (in contingency situations), Bank Millennium's Recovery Plan (Poland) and the results from the capital and/or liquidity adequacy assessment processes already mentioned (ICAAP e ILAAP).

Ratings assigned to BCP

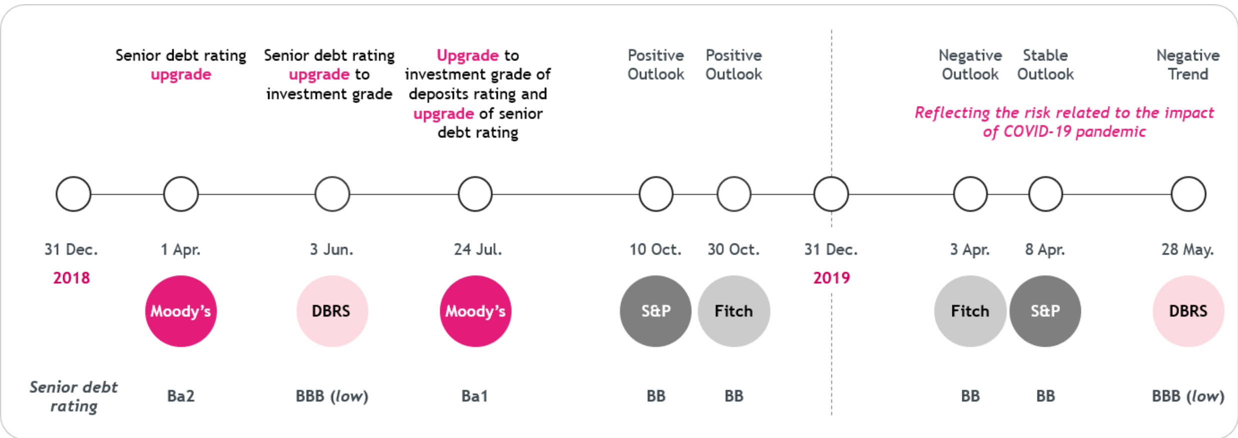
During the first half of 2020, the unprecedented economic shock following strict lockdown measures to contain the health crisis is a key risk for Portuguese banks' ratings, with Rating Agencies therefore taken negative rating actions on Portuguese banks since April 2020.

The considerable support extended to households and companies such as loan moratoria and state guaranteed credit lines will mitigate the impact on asset quality. However here is the risk that in 2021 asset qualtiy and profitability to deteriorate. It is possible also a moderate deterioration in solvency metrics at most banks, in a context where there is widespread regulatory forbearance.

It is expected limited pressure on Portuguese banks' funding and liquidity in the next years. Most banks have rebalanced their funding profiles since the previous crisis and loans/deposits ratios are below 100%. Banks hold relatively large liquidity buffers. In the first half of 2020, Portuguese banks increased their funding through the ECB that reached levels around 21 billion euros, which remains well below peak levels seen in 2012.

The Portuguese financial sector is better prepared for this crisis than when it entered the global financial crisis. Portuguese banks have materially improved asset quality and capital and have more efficient cost structures.

Rating Agencies have taken negative rating actions on Portuguese banks since April 2020



	Moody's		Standard & Poor's	
Intrinsic	Baseline Credit Assessment	ba2	Stand-alone credit profile (SACP)	bb
	Adjusted Baseline Credit Assessment	Ba2		
LT/ST	Counterparty Risk Assesment LT/ST	Baa2 (cr) / P-2 (cr)	Resolution Counterparty Credit Rating LT/ST	BBB- / A-3
	Counterparty Risk LT/ST	Baa2 / P-2	Issuer Credit Rating LT/ST	BB / B
	Deposits LT/ST	Baa3 / P-3	Senior debt	BB
	Senior debt LT/ST	Ba1 / NP	Senior Non Preferred	B+
	Senior Non Preferred	Ba3	Outlook	Stable
	Outlook deposits / senior	Stable		
Other	Subordinated debt - MTN	(P) Ba3	Subordinated debt	B
	Subordinated debt	Ba3	Additional Tier 1	CCC+
	Additional Tier 1	B2 (hyb)		
	Other short term debt	P (NP)		
	Covered bonds	Aa3		

	Fitch Ratings		DBRS	
Intrinsic	Viability Rating	bb	Intrinsic	BBB (low)
	Support	5	Critical obligations	BBB (high) / R-1 (low)
	Support floor	Sem *floor*		
LT/ST	Deposits LT/ST	BB+ / B	Deposits LT / ST	BBB / R-2 (high)
	Senior debt LT/ST	BB / B	Senior debt LT / ST	BBB (low) / R-2 (middle)
	Senior Non Preferred	BB-	Senior Non Preferred	BB (high)
	Outlook	Negative	Trend	Negative
Other	Subordinated Debt Lower Tier 2	B+	Dated subordinated notes	BB
	Additional Tier 1	B-	Additional Tier 1	B
	Covered bonds	BBB+	Covered bonds	A

Capital

According to our interpretation of CRD IV/CRR to date, the CET1 estimated ratio as at 30 June 2020 stood at 12.1% both phased-in and fully implemented, consistent with the amounts presented at the same period of 2019 (12.2% phased-in and fully implemented) and above the minimum required ratios under the SREP (Supervisory Review and Evaluation Process) for 2020, meanwhile updated to allow the Group to partially use capital instruments that do not qualify as Common Equity Tier 1 (CET1) capital to meet the Pillar 2 Requirements (P2R), bringing forward a measure schedule as part of the latest revision of the Capital Requirements Directive – CRV V. (CET1 8.828%, T1 10.75% and Total 13.313%).

In March 12, 2020, the European Central Bank announced to the banks a set of measures to be adopted in order to guarantee the continue financing of households and corporates experiencing temporary difficulties, due to the economic effects that are felt worldwide. The agreed supervisory measures aim to support banks in serving the economy and addressing operational challenges, including the pressure on their staff.

The capital buffers have been designed with a view to allowing banks to withstand stressed situations and since the European banking sector has built up a significant amount of these buffers, the ECB will allow banks to operate temporarily below the capital level defined by Pillar 2 Guidance (P2G), the capital conservation buffer (CCB) and the systemic buffer (O-SII) as well as the relaxation of the countercyclical capital buffer (CCyB) by the national macroprudential authorities.

The CET1 phased-in ratio performance during 2020 mainly reflects the organic generation of capital, that mitigated the general increase of the weighted assets.

SOLVABILITY RATIOS

(Euro million)

	30 Jun. 20	31 Dec. 19	30 Jun. 19	30 Jun. 20	31 Dec. 19	30 Jun. 19
	PHASED-IN			FULLY IMPLEMENTED		
OWN FUNDS						
Common Equity Tier 1 (CET1)	5,605	5,508	5,443	5,602	5,496	5,427
Tier 1	6,138	6,012	5,945	6,135	6,000	5,928
TOTAL CAPITAL	7,172	7,036	6,558	7,176	7,028	6,545
RISK WEIGHTED ASSETS	46,218	45,031	44,676	46,141	44,972	44,626
CAPITAL RATIOS (*)						
CET1	12.1%	12.2%	12.2%	12.1%	12.2%	12.2%
Tier 1	13.3%	13.4%	13.3%	13.3%	13.3%	13.3%
Total	15.5%	15.6%	14.7%	15.6%	15.6%	14.7%

(*) Includes the cumulative net income recorded in each period.

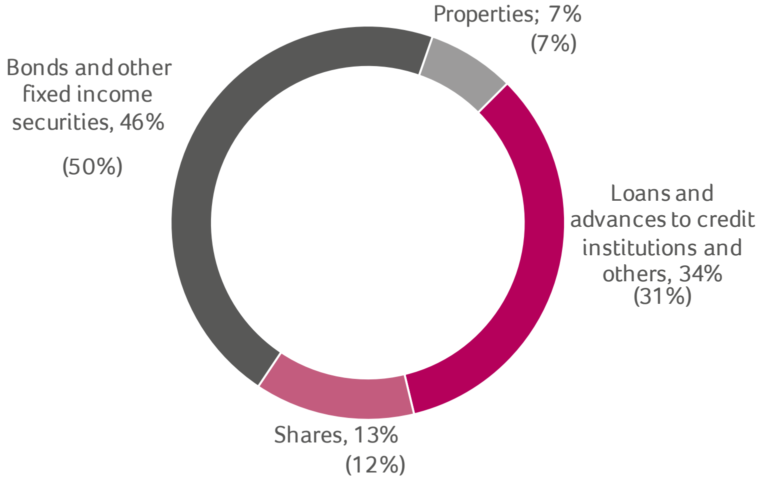
Pension Fund

The Group's responsibilities with pensions on retirement and other benefits are related with the payment to Employees of pensions on retirement, permanent disability pensions and widow and orphan benefits. As at 30 June 2020, the Group's responsibilities stood at 3,391 million euros, comparing to 3,490 million euros at the end of 2019.

The Pension Fund's assets reached 3,423 million euros at the end of first half of 2020 (3,501 million euros as at 31 December 2019) and a year-to-date rate of return marginally negative of 0.2%, which compares to the actuarial assumption of +1.4% per annum. As at 30 June 2020, a discount rate of 1.55% was considered by the Group to measure its liability for defined benefit pension plans of its Employees and managers.

The structure of the Pension Fund's asset portfolio as at 30 June of 2020, shows a reduction in the bonds and other fixed income securities category compared to the position existing at the end of 2019, in contrast to the increase verified in the value invested in Loans and advances to credit institutions and others. As at 30 June 2020 and 31 December 2019, the main asset categories in the Pension Fund's portfolio, were as follows:

STRUCTURE OF THE PENSION FUND'S ASSETS AS AT 30 JUNE 2020



(xx%) Proportion as at 31 de December 2019

The actuarial assumptions considered by the Group for calculating the liabilities with pension obligations were based on market indicators, particularly the inflation rate estimates and the long-term interest rate for Euro Zone, as well as the demographic characteristics of its Employees. The main actuarial assumptions used to determine the Pension Fund's liabilities at the end of the first half of 2020 and at the end of 2019 and 2018 are shown below:

ASSUMPTIONS	18	19	1H20
Discount rate	2.10%	1.40%	1.55%
Increase in future compensation levels	0.25% until 2019 0.75% after 2019	0.75%	0.75%
Rate of pensions increase	0% until 2019 0.5% after 2019	0.50%	0.50%
Projected rate of return on fund's assets	2.10%	1.40%	1.55%
Mortality tables			
Men	TV 88/90	TV 88/90	TV 88/90
Women	TV 88/90 - 3 years	TV 88/90 - 3 years	TV 88/90 - 3 years
Disability rate	Not applicable	Not applicable	Not applicable
Turnover rate	Not applicable	Not applicable	Not applicable
Normal retirement age	66 years and 4 months	66 years and 5 months	66 years and 6 months
Total salary growth rate for Social Security purposes	1.75%	1.75%	1.75%
Revaluation rate of wages / pensions of Social Security	1.00%	1.00%	1.00%

In September 2019, the Bank established an agreement with the trade unions regarding the review of salary tables and other pecuniary clauses for 2018 and 2019, with reference to 1 January 2018 and 1 January 2019, respectively. This agreement establishes from 1 January 2018 onwards, the increase in the base salary by 0.75% up to salary level 6 and by 0.50% for salary levels 7 to 20 and the increase of other pecuniary clauses, such as the lunch allowance, seniority payments, among others.

At the end of 2019, the Bank started a negotiation process with the Unions for the full revision of the Collective Bargaining Agreements, with work continuing to take place during the first months of 2020, until they were interrupted in March, in view of the constraints imposed by the pandemic. In June, negotiations with the Unions resumed, following the proposals received in the meantime from the Unions regarding the 2020 update of the Salary Tables and other clauses of pecuniary expression of the Collective Labor Agreements under negotiation, the Bank formally presented on 3 July 2020, a counter-proposal to the Unions to update them by 0.30%, in line with the variation recorded in 2019 in the Consumer Price Index, according to official information from the National Statistics Institute.

It should be noted that, at the end of July, the Bank reached an agreement with the Union of Northern Bankers, the National Union of Staff and Banking Technicians and the Independent Banking Union, to update the salary tables and other pecuniary clauses for 2020. The agreement established effectively provides for a 0.30% salary update on the level of remuneration for each Employee, an increase in the lunch allowance, birth allowance and in other cash benefits, namely seniority allowances, subsistence allowances and student allowances, among others. The Bank will continue to complete the negotiation process with the remaining sector's trade unions.

The actuarial differences recorded in the first half of 2020 were positive by 20 million euros, before taxes, including 81 million euros of actuarial gains as a consequence of the increase in the discount rate, 46 million euros of negative financial deviations related to the pension fund's return and 16 million euros of negative actuarial deviations between expected and actual liabilities.

The main indicators of the Pension Fund as at the end of first half of 2020 and at the end of 2019 and 2018 are as follows:

MAIN INDICATORS	18	19	1H20
Liabilities with pensions	3,066	3,490	3,391
Minimum level of liabilities to cover*	3,015	3,431	3,335
Value of the Pension Fund	3,078	3,501	3,423
Coverage rate	100.4%	100.3%	100.9%
Coverage rate of the minimum level of liabilities*	102.1%	102.0%	102.6%
Return on Pension Fund	0.2%	8.1%	-0.2%
Actuarial (gains) and losses	98	285	-20

* According to the Bank of Portugal requirements

As of 30 June 2020, the Group's responsibilities showed a 100% coverage level, being fully funded at a higher level than the minimum set by Banco de Portugal

Information on trends

COVID-19 pandemic impact

On 16 June, Banco de Portugal revised the projections previously disclosed. The new scenario projects a deeper recession in 2020 (-9,5%), followed by a strong recovery in 2021 (+5,2%) and 2022 (+3,8%). The unemployment rate should increase up to around 10% in 2020 and fall to 8.9% and 7.6%, in 2021 and 2022, respectively. Banco de Portugal also disclosed an alternative extreme scenario for the Portuguese and world economy, according to which a second wave of COVID-19 will presumably occur in 2020. The consequent reintroduction of lockdown measures will have severe and persistent consequences in the labour market and the GPD will fall 12.6% in the euro area and 13.1% in Portugal.

The Portuguese financial sector is nowadays better prepared for this crisis than when it plunged into the previous global financial crisis. The Portuguese banks improved substantially the quality of its assets and the capitalization level and possess more efficient cost structures.

However, the *European Systemic Risk Board* - ESRB and the ECB issued recommendations advising the non-distribution of dividends, at least until 2021.

The European regulators approved a number of measures to temporarily render more flexible the capital requirements to enable European banks to have conditions to aid the economy during the crisis provoked by COVID-19 pandemics.

On 30 October 2019, the SRB updated and confirmed the MREL requirements applicable to BCP, based on information as of 31 December 2017 and within the scope of BRRD1:

- The resolution strategy is the *Multiple Point of Entry* (Portugal, Poland and Mozambique);
- The BCP Resolution Group is composed by Banco Comercial Português, S.A., Banco ActivoBank, S.A., Millennium bco Bank & Trust (Cayman) and by Banque Privée BCP (Suisse), Lda.;
- The resolution measure for the BCP Resolution Group is the bail-in;
- The MREL Target is 25.98% of the RWA and the minimum subordination is 17.25% of the RWA;
- The date for compliance with the MREL requirement is 1 July 2022.

The entrance into effect of the new banking regulations (particularly of the BRRD2) plus the COVID-19 pandemic altered the context:

- The need to comply with the MREL requirement changed to 1 January 2024 (the SRB should also establish interim targets for 1 January 2022 – binding and 1 January 2023 – indicative);
- The revised requirements shall be established by SRB within the scope of the 2020 *resolution planning cycle* and must be communicated to the Bank during the 1st or 2nd quarter of 2021;
- SRB publicly informed the intention of using the discretionary power and the flexibility given by the regulations in force to establish new transition periods and MREL targets. This assessment will be made on a case-by-case basis;
- Within this context, we do not predict that BCP will have the absolute need of making market issues in 2020 and it is possible that , due to the current environment, it will only do so in 2021.

Notwithstanding, it will only be possible to clarify the need for the issue and corresponding funding plan after a definition by the SRB on the capital requirement to be observed by BCP (size and date for its compliance), a fact which will not happen before the 1st quarter of 2021.

In what concerns the Portuguese financial sector, there is the risk of deterioration of the quality of the assets in 2021. The profitability may also be affected. One expects a limited pressure on financing and on liquidity in the coming years. Several banks rebalanced their financing profiles since the previous crisis and the credit/deposit ratio for the sector stands below 100%. The banks have relatively large liquidity buffers. In the first six months of 2020, the Portuguese banks increased its use of funding from the ECB, that reached around 21 billion euros, remaining, however, below the maximum levels attained in 2012.

CHF denominated loans

. Regarding mortgage loans indexed to swiss francs (CHF) granted by Bank Millennium, there are risks related to verdicts issued by polish courts in individual lawsuits against banks (including Bank Millennium) raised by borrowers of FX-indexed mortgage loans.

Vast majority of verdicts in lawsuits concerning Bank Millennium have been favourable to the Bank so far. However, it should be noted that there is a significant risk that such favourable verdicts may change, as a result of which pending lawsuits' verdicts may not be taken in accordance with the Bank's expectation.

If such risk materializes, it may have a significant negative impact on Bank Millennium. Among other factors which are relevant for the assessment of risk related to disputes concerning CHF-indexed mortgage loans, the judgment of the Court of Justice of the European Union (CJEU) on Case C-260/18 should be considered.

On 3 October 2019, the CJEU issued a judgment on

Case C-260/18, in connection with the preliminary questions formulated by the District Court of Warsaw in the lawsuit against Raiffeisen Bank International AG. The judgment of CJEU, combined with the interpretation of European Union Law, is binding on domestic courts.

The referred judgment was based on the interpretation of Article 6 of Directive 93/13, of the European Union, to formulate the answers to the preliminary questions. In the light of the subject matter in question, Article 6 of Directive 93/13 must be interpreted as following: (i) the national court may, based on national law, conclude that a loan agreement cannot continue to exist if the removal of terms that alter the nature of the main subject matter of the agreement occurs; (ii) the effects on the consumer's situation resulting from the cancellation of the contract as a whole must be assessed in the light of the circumstances existing or foreseeable at the time when the dispute arose, and that the will of the consumer is decisive as to whether he wishes to maintain the contract and avoid those effects; (iii) Article 6 precludes the filling of gaps in the contract caused by the removal of abusive terms from it based on national law (even if the non-filling of those gaps would result in the contract annulment to the detriment of the consumer), which provides that the effects expressed in the content of a legal act are to be supplemented, in particular, by principles arising from equality rules or established customs; and, (iv) Article 6 precludes the maintenance of abusive terms in the contract (even if their removal would result in the contract annulment to the detriment of the consumer), if the consumer has not consented to the maintenance of such terms.

CJEU's judgment concerns only the situations where the national court has previously found the contract terms to be abusive. It is the exclusive competence of the national courts to assess, in the course of judicial proceedings, whether a particular contract term can be identified as abusive in the circumstances of the lawsuit.

It can be reasonably assumed that the legal issues relating to FX-indexed mortgage loans will be further examined by the national courts within the framework of the disputes considered, which could possibly result in the emergence of further interpretations relevant for the assessment of the risks associated with subject matter proceedings. This circumstance indicates the need for constant analysis of these matters. Further requests for clarification and ruling addressed to the CJEU and the Supreme Court of Poland with potential impact on the outcome of the court cases may also be filed.

As at the end of the first half of 2020, Bank Millennium had 3,339 loan agreements and, additionally, 351 loan agreements from former Euro Bank, S.A. (3,625 loan agreements before the court of first instance and 65 loans agreements before the court of second instance) under individual litigations concerning indexation clauses of FX-indexed mortgage loans, submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 385.9 million (86.83 million euros) and CHF 17.5 million (16.45 million euros). Until 30 June 2020, only 37 cases had been finally resolved. The claims formulated by the Clients in individual proceedings primarily concern the declaration of invalidity of the contract or the payment for reimbursement of allegedly undue performance, due to the abusive nature of indexation clauses. The pushy advertising campaign observed in the public domais affects the number of court disputes.

On 21 October 2014, a class action was presented to Bank Millennium, in which a group of Bank Millennium's borrowers, represented by the Municipal Consumer Ombudsman in Olsztyn, seek the ascertainment that Bank Millennium is liable for unjust enrichment in connection with the CHF-indexed mortgage loans. The members of the group claim that Bank Millennium unduly collected excessive amounts from them for the repayment of loans. This is not a payment dispute. The judgment in these proceedings will not grant any amounts to the group members. The number of loan agreements covered by these proceedings is 3,281. The date of the first hearing scheduled for 20 March 2020 was canceled due to the situation related to COVID-19. The next date of the hearing was set for 26 October 2020.

According to the Polish Bank Association (ZBP), data gathered from all banks with FX-indexed mortgage loans shows that vast majority of disputes were resolved in favour of the banks until the year of 2019. However, after the CJEU judgment regarding Case C-260/18 issued on 3 October 2019, the proportion has adversely changed and, hence, there is a risk that the so far mostly positive for banks line of verdicts in court may change.

Considering the increased legal risk related to FX-indexed mortgages, Bank Millennium created in the year of 2019 a provision in the amount of PLN 223 million (50.18 million euros) and in the first half of 2020 a provision in the amount of PLN 168 million (37.80 million euros) for legal risk. The methodology developed by Bank Millennium is based on the following main parameters: (i) the number of current (including class actions) and potential future court cases that will appear within a specified (three-year) time horizon; (ii) the amount of Bank Millennium's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account); and, (iii) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector in Poland and legal opinions obtained. Variation in the level of provisions or concrete losses will depend on the final court decisions about each case and on the number of court cases.

Bank Millennium undertakes a number of actions at different levels towards different Stakeholders in order to mitigate legal and litigation risk regarding the FX-indexed mortgage loans portfolio. Bank Millennium is open to negotiate case-by-case favourable conditions for early repayment (partial or total) or the conversion of loans to PLN. On the other hand, Bank Millennium will continue to take all possible actions to protect its interests in courts while, at the same time, being open to find settlement with Customers in the court under reasonable conditions.

In this context, taking into consideration the recent negative evolution of the court verdicts regarding FX-indexed mortgage loans, and if such trend continues, Bank Millennium will have to regularly review the provisions allocated to court litigations and it may need to constitute new provisions reinforcements.

Finally, it should be mentioned that Bank Millennium, as at 30 June 2020, has to maintain additional own funds for the coverage of additional capital requirements related to the FX-indexed mortgage portfolio risks (Pillar II FX buffer) in the amount of 4.87 p.p. at the Group level, part of which is allocated to operational/legal risk.

Resolution Fund

It is not yet possible to determine what will be the final impact of the resolution of BES on BCP as an institution participating in the resolution fund created by Decree-Law no. 31-A/2012, of 10 February (the "Resolution Fund").

The Resolution Fund disclosed on 17 June 2019 a set of clarifications related to the payment due in 2019 under the CCA with Novo Banco, namely:

- For payments from the Resolution Fund to be made (limited to a maximum of 3,890 million euros over the lifetime of the mechanism), losses on the assets under the contingent mechanism should be incurred and the capital ratios of Novo Banco should stand below the agreed reference thresholds;
- The payment to be made by the Resolution Fund corresponds to the lower of the accumulated losses on the assets covered and the amount necessary to restore the capital ratios above the minimum reference threshold;
- The reference capital ratios are, in 2017, 2018 and 2019, linked to the regulatory requirements applicable to Novo Banco (CET1 ratio of 11.25% and Tier 1 ratio of 12.75%), but, as from 2020, the reference ratio will correspond to a CET1 ratio of 12%;
- The initial reference value of the portfolio comprising the contingent capitalization agreement was, as of 30 June 2016, 7,838 million euros (book value of the associated assets, net of impairments);
- The value of the portfolio, as of 31 December 2019, amounted to approximately 3 billion euros (book value, net of impairments), according to Novo Banco's 2019 annual report.

According to the 2019 Resolution Fund's annual report, "in 24 May 2019, the Fund paid Novo Banco 791,695 million euros, with reference to 2017, under the Contingent Capital Agreement signed in the process of the sale of Novo Banco. The Resolution Fund used its available financial resources from banking contributions (direct or indirect) complemented by a State loan of 430 million euros. The Resolution Fund paid to Novo Banco on 6 May 2019 the calculated value relative to the 2018 exercise, of 1,149 million euros under the Contingent Capital Agreement signed in the process of the sale of Novo Banco. For this purpose, the Resolution Fund used its own resources from banking contributions (direct or indirect) and also resorted to a State loan of 850 million euros".

Regarding payments to be made in 2020 under the Contingent Capital Agreement, the following reference is made in the Resolution Fund's 2019 annual report: "Novo Banco's 2019 annual accounts, as publicly presented by its Executive Board of Directors on 28 February 2020, include the quantification of the liability arising from the Contingent Capital Agreement, of 1,037 million euros. In this context, and without prejudice to the verification procedures to be carried out prior to disbursement by the Resolution Fund, a provision was made by that amount for 2019."

According to a notice issued by the Resolution Fund on 4 June 2020, the payment made by the Resolution Fund to Novo Banco in May 2020 of 1,035 million euros, results from the execution of the 2017 agreements, under the process of the sale of the 75% stake of the Resolution Fund in Novo Banco, complying with all the procedures and limits defined therein.

In the same notice, the Resolution Fund also clarifies that the "Resolution Fund and Novo Banco have initiated an arbitration procedure to clarify the treatment that should be given, under the Contingent Capital Agreement, of the effects of Novo Bank's decision to waiver the transitional regime it currently benefits from and which aims to reduce the impact of the introduction of IFRS 9 on credit institutions' own funds. This issue falls within the scope of the implementation of the Contingent Capital Agreement, which sets the maximum amount of payments to be made by the Resolution Fund at 3,890 million euros. Thus, even if the arbitration procedure were to have an unfavourable outcome for the Resolution Fund's claims, its effects would fall under the maximum limit of 3,890 million euros in accordance with the Contingent Capital Agreement. The above arbitral proceedings therefore do not represent an additional risk compared to the ceiling of 3,890 million euros".

Thus, considering the payments already made and the amount of the provision recorded in 2019, the remaining amount that may still be used amounts to 912 million euros.

In a separate notice dated 16 June 2020, the Resolution Fund clarifies that "the Resolution Fund has also provided the Budget and Finance Committee, in writing, of all the clarifications on its decision to deduct from the amount calculated under the Contingent Capital Agreement, the amount related to the variable remuneration attributed to the members of the Executive Board of Directors of Novo Banco".

As at 30 June 2020, Novo Banco is held by Lone Star and the Resolution Fund, corresponding to 75% and 25% of the share capital respectively.

Novo Banco adhered to the Special Regime applicable to Deferred Tax Assets under Law No. 61/2014, of 26 August, having had the confirmation of the conversion of the deferred tax assets into tax credits by the Tax and Customs Authority for the tax period of 2015 and 2016 in exchange for conversion rights attributed to the State. If the Resolution Fund does not exercise its right to acquire the conversion rights attributed to the State, which expires in 2022, the State may become Novo Banco's Shareholder up to a stake of 2.71% of Novo Banco's share capital, while diluting the Resolution Fund's Shareholder position. According to the Resolution Fund's 2019 annual report, under the terms of the Sale and Subscription Agreement of 75% of the share capital of Novo Banco with Lone Star on 17 October 2017, the effect of the dilution associated with the Special Regime applicable to deferred tax assets shall exclusively affect the Resolution Fund's stake. It is estimated, according to note 21, although subject to certain assumptions, that the processes in progress for the conversion of deferred tax assets into tax credits with reference to 2017 and 2018 may correspond to about 7.6 percentage points of the share capital of Novo Banco. These effects may impact the Shareholder position of the Resolution Fund in Novo Banco.

Non-financial information

SUSTAINABILITY POLICY

The BCP Group pursues dynamic strategies adapted to the new challenges imposed by the several interested parties with which it establishes relations. The main objectives of the adopted sustainability policies, which foster a culture of Social Responsibility, has been to positively influence the organisation's value proposition in the long term, balanced with the well-being of the people, the company and communities in which it operates, while preserving natural resources, climate and the environment.

Within this framework, it is possible to divide the Bank's intervention into three major areas of intervention:

- Environment - implementation of measures that foster a fair and inclusive transition into a zero-carbon economic development model, including the incorporation of the environmental component in the Bank's risk models and in the offer of products and services;
- Social - involvement with both the external and the internal communities;
- Corporate Governance - integration of the principles of sustainability in the Bank's decision-making processes.

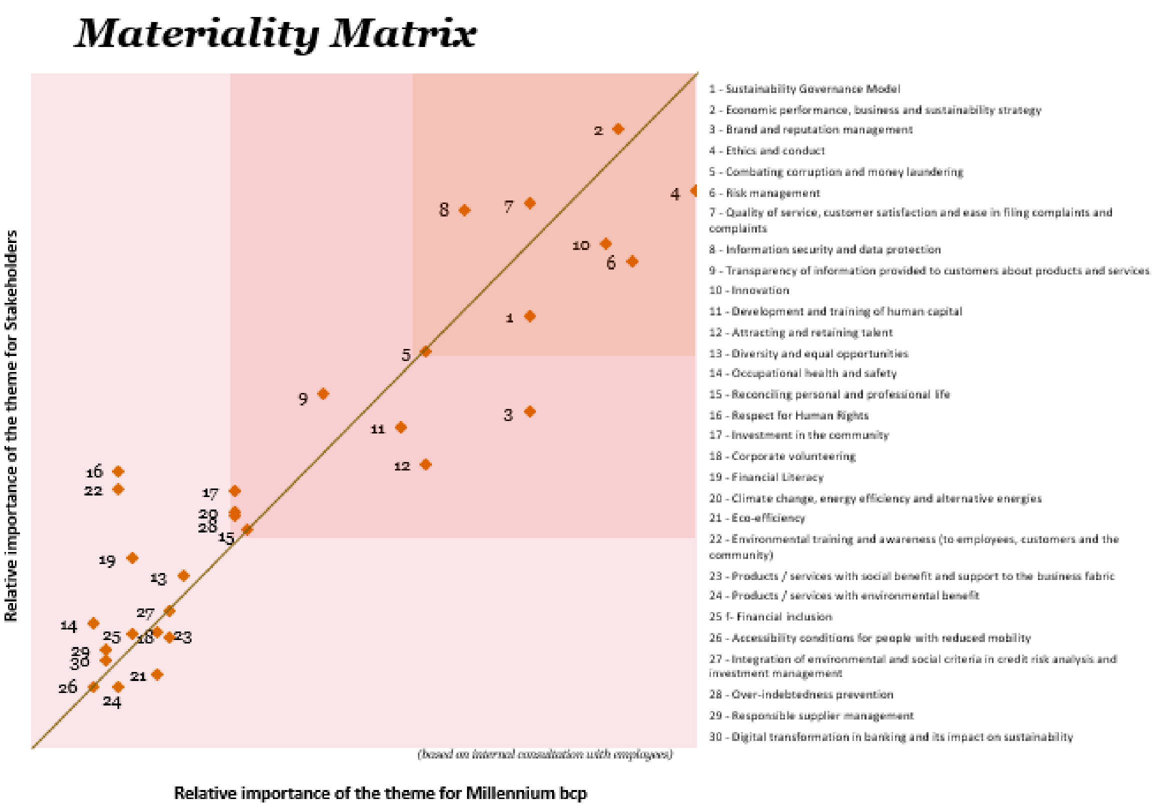
Therefore, as an integral part of its business model, Millennium bcp takes on the commitment to create social value by developing actions to - and with - the various Stakeholder groups with the goal of directly and indirectly contribute to the economic and social development of the countries in which it operates.

In the wake of the subscription in 2005 of the United Nations Global Compact Principles, the BCP Group also commits to support its 10 Principles establishing a set of values in what concerns Human Rights, Labour Conditions, Environment and Anti-corruption.

BCP acknowledges the importance of the Sustainable Development Goals (SDGs) of the United Nations and of its 2030 Agenda.

IDENTIFICATION AND INTEGRATION OF EXPECTATIONS

The strategy of Millennium bcp in terms of Sustainability is translated in the Sustainability Master Plan (SMP), a plan of commitments that aggregates several actions to be carried out by the Bank. The guidelines and the definition of the actions part of the SMP are based on a balanced relation between the identified relevant material issues, the Bank's available resources and the economic and market framework existing at the time.



The identification and the ongoing follow-up of the themes considered material by the Stakeholders of Millennium bcp - an example of which is the survey made in 2019 - enabled the Bank to know the areas that show better performances within the scope of Sustainability, but also enabled it to rapidly detect and characterize improvement opportunities representing a strong contribution for the adoption of an appropriate sustainability strategy adapted to new realities, challenges and requirements.

The Sustainability Master Plan which, through a close, transparent and consequent relation, intends to face the main expectations identified during the regular surveys made to the Bank's main Stakeholders foresees, in its different aspects, the following initiatives and actions:

SUSTAINABILITY MASTER PLAN (SMP) 2021

Dimensions	Actions
Governance Model of Sustainability and Corporate Policies	- Implement a governance model of the Sustainability Area that allows multidisciplinary action, transversal to the organization, including, whenever justified, the international operations; - Revise and update the Group's corporate policies; - Revise the Group's assessment and remuneration policies.
Training on Sustainability	- E -*Learning* on Sustainability (and *Sustainable Finance*).
Management of the brand and reputation	- Reinforce the positioning of Millennium bcp in sustainability indexes; - Subscribe to sustainability principles and commitments; - Define the positioning of BCP concerning the SDG; - Include sustainability in corporate events; - Reinforce communication and disclosure of micro credit; - Improve reporting and communication on sustainability.
Risk management, ethics and conduct	- Foster a culture of compliance and of a strict management of risk; - Ensure the integration of environmental and social risks in the risk assessment process.
Information Safety and data protection	- Guarantee the Employees management of information
Quality of Service and Customer satisfaction	- Optimize service levels; - Foster a culture of ongoing improvement; - Creation of a Customer Charter.
Responsible Management of suppliers	- Formalise compliance with social and environmental requirements in the relationship established with Suppliers.
Innovation	- Foster a culture of innovation.
Policies and regulations on sustainable financing	- Follow up the development of the Action Plan for sustainable finance of the European Commission.
Transparency in the information provided to Customers on products and services	- Include in the communication with Clients items on the sustainability of the proposed investments.
Risk management	- Include ESG risks in the risk management procedures; - Promote climate changes awareness with corporate Clients developing their activities in sectors more exposed to risks and environmental regulations; - Identify and classify Corporate Clients with greater environmental and social risks.
Offer of inclusive and sustainable products	- Promote and launch products that observe social responsibility principles and cope with the new environmental challenges; - Develop an offer of products "ESG", that promote the transition of the economy to a sustainable model.
Accessibilities	- Improve the implementation of differentiated working schedules for Customer servicing; - Improve digital accessibility of Clients.
Capture and retention of talent	- Support to the adoption of healthy lifestyles; - Improve the mechanisms ensuring a greater proximity between the Employees and top managers. - Development of the balance between work - family.
Volunteer Actions	- Making and approval of a Volunteering Policy; - Volunteering program.
Conscious Business Project	- Conscious organization.

Human Rights	- Analyse and communicate positioning in the human rights risk management.
Financial Literacy	- Program of financial literacy; - Implement social and/or environmental awareness actions common to the entire Group;
Investment in the community	- Develop campaigns together with non-governmental organizations and charitable institutions to foster a sustainable development; - Reinforce association with Fundação Millennium bcp; - Reinforce and systematize partnerships with entities that promote and develop Entrepreneurship near local communities; - Develop social responsibility actions; - Measure the impact on the community.
Climate changes, energy efficiency and alternative energy sources	- Contribute to limit global warming to 2^{oC} (Paris Agreement).
Environmental performance	- Minimize the environmental impact of the operations.

Accordingly, the activities developed by Millennium bcp within the scope of Responsible Business practices during the first six months of 2020, summarized in this chapter, materialize the Bank's commitment towards compliance with the SMP in effect.

ETHICS AND PROFESSIONAL CONDUCT

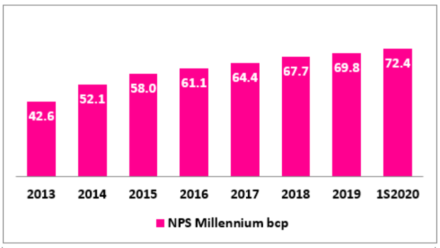
BCP Group develops its activity, in all its operations, in a responsible manner towards Employees, Customers, Shareholders, Suppliers and remaining Stakeholders, always guiding its performance by the compliance with internal principles of rigour, with the applicable legislation and the regulations issued by the supervision and regulatory authorities:

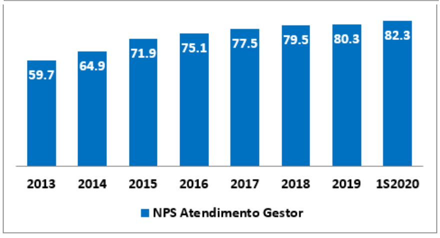
- Within the scope of prevention of money laundering and terrorism financing (ML&TF), the activities of the compliance area, during the first six months of 2020, based on a risk approach, included the filtering of operations a process that ensured the compliance with the sanctions and embargoes regimes imposed by the competent national and international authorities, monitoring them to prevent potentially irregular situations and also the prior validation, substantive and formal, of the opening and maintenance of entities, accounts and of credit operations. This functional perimeter, based on dedicated technological solutions, also foresees the definition and management of risk models according to the evolution of the various competing variables to establish scorings to be applied to operations. We must also point out the development of new solutions, more efficient, based on automated processes, to analyse the risk factors inherent to new account openings and the screening of transactions.
- The first half year also recorded an adjustment of the working procedures as as to be able to reply to the operating challenges posed by COVID-19, pandemic, ensuring the level of service focused on the scrutiny and decision on Customer's transactions, and also all internal controls and remaining functions carried out by the Compliance Office.
- The Bank also reinforced the mechanisms to monitor conflict of interests by developing a new platform for the registration of transactions and entities.
- As a relevant fact in the Bank's integrated risk management, we highlight the integration of the document management function into the Compliance Office, by transfer from the Operations Division , so as to take advantage of the benefits of a joint legal and compliance risk management in the enhancement of the Bank's ruling framework.
- During the first six months of 2020, the bank made a significant effort to train its Employees on compliance and conformity issues, especially focused on ML/TF, MiFID II and the Bank's Code of Conduct.
- In the Group's activities plan, remains as a priority the enhancement of the monitoring of the risks of the several subsidiary companies, with the implementation of new management structures for the follow-up and monitoring of the ML/TF risk, denominated ML/TF International Commissions, with the participation of the management and compliance bodies of the subsidiary companies aiming at assessing and monitoring the specific compliance risk factors of each country , as well as the business segments of each subsidiary company.
- To complement the measure mentioned above, we must mention the projects made by the Compliance Office together with the teams of the Branches and subsidiary companies abroad, focused on the analysis and improvement of the efficiency of the controls in place to mitigate the mist significant risks in terms of ML/TF.

SERVICE QUALITY

Millennium bcp continues to focus on the model of assessment of Customer experiences. 24 hours after interaction with the Bank, the Client is invited to answer a brief questionnaire to assess Client satisfaction with his/her experience with the Bank and the corresponding level of recommendation.

- In the first six months of 2020, were assessed over 73,000 experiences of Clients who visited Branches or were contacted by Client Managers.
- From the replies to the question on the recommendation of the Bank, one estimates the NPS indicator (Net Promoter Score) - the difference between the percentage of Promoter Customers (who grade the Bank with 8 or 9 on a scale from 0 to 9) and the percentage of Detractor Clients (who grade the Bank with 0 to 5 using the same scale) - was computed using the answers to the questions on whether they recommend the Bank. This indicator has shown a positive performance since this process began in 2013, reaching its highest level ever at the first half of 2019, at 72.4 points.





- Another issue dealt with was the recommendation of the service provided by the Employee / Account Manager. This NPS Assistance indicator also records a very positive and ongoing performance, at 82.3 in the first six months of 2020.
- In the first half of 2020, only one wave of *Cliente Mistério* (Mystery Client) took place, totalling more than 421 visits to Mass Market branches. This study was interrupted in March due to the pandemic and was not yet resumed. The purpose of these actions is to assess Customer servicing to be able to continuously improve the experience of our Customers when they visit our Branches. Thus, in 2020 the bank revised the grid used to evaluate these visits. Due to this fact and for the significant reduction of the sample, the results obtained, 74%, are not directly comparable with the ones achieved in 2019, 79%.
- To improve the Employee's competences and the service provided to the Customer, the Bank continued to implement the "Program #1" extending the same to the business sector. In the first half year of 2020 the Bank made a complete diagnosis of the segment and defined an action plan to be implemented.

  In the segments Mass Market and Prestige, we re-designed the "Program #1" and called it "#1 no Coração do Cliente" (#1 in the Customer's Heart). The Customer service behavioural training is now composed of quarterly training modules made by external experts. Due to the COVID-19 pandemic, the launching of this initiative was postponed to the last quarter of 2020.

  We continued with the project "Momento #1", that intends, in a simple manner, to transmit practical knowledge with a direct impact on Customer servicing. We make and disclose every week short videos on practical issues related with products characteristics, use of tools and best Customer service practices.

- Millennium bcp continued to monitor various studies carried out by external companies, so as to obtain indicators able of positioning the Bank in the sector and assess, with regard to quality of the service provided, the Bank's image, the products and services it sells and also Customer satisfaction and loyalty.
  - One of these studies is the CSI Banca, carried out by Marktest. It is a study made every six months and based on a structural model enabling to compare banks in aspects such as "Image", "Communication", "Quality of the Products and Services", "Competitiveness" and "Expectations", resulting in a Customer Satisfaction Index.

    In the first six months of 2020, Millennium bcp recorded a very positive performance in the CSI Banking Index when compared to previous six-months periods, reaching the highest value ever (78.2), above the industry average (75.3), meaning that it ranks second among the 5 largest banks operating in Portugal.

    The CSI Banca index is a result of two indexes, one which intends to evaluate the satisfaction of the Clients which prefer to use the Banks' branches (Index CSI Balcão) and another which intends the evaluate the satisfaction of the Clients who prefer to use internet banking solutions (CSI Internet Banking Index).

    Millennium occupies the second position in Customers that go to branches and 1st position in Customers that use digital channels.
  - On the other hand, the BFin, made by DataE, focuses on the characterization of the banking industry in Portugal, according to the company's perspective, relating to products and services made available by the Banks. In the 2020 survey, Millennium bcp was once more considered the Main Bank for companies in

Portugal. It is also referred to as the "Banco Mais Próximo dos Clientes Empresariais" (the bank closest to corporate Customer), as the "Banco com os Produtos mais Adequados às Empresas" (the bank with the most appropriate products for companies) and as the "Banco Globalmente Mais Eficiente" (the globally more efficient bank).

PROXIMITY, REPORTING AND RECOGNITION

- Was produced and published once again in digital format the 2019 Sustainability Report ,a document that provides an integrated view of BCP Group's performance in the Economic/Governance, Social and Environmental scales, but also a summary of each one of its operations, namely Mozambique, Poland, Portugal and Switzerland..
- The 2019 Sustainability Report of Bank Millennium was also made available, in this case containing detailed information concerning the subsidiary company in Poland.
- Millennium bcp, in addition to periodically reporting non-financial information included in the Sustainability area. It also responds to external and independent entities by completing specific questionnaires on these matters. The participation in these external evaluation processes has enabled, besides the comparison of performances between companies of the sector, the inclusion in sustainability indexes.

  Hence, by the end of the 1HY 2020, Group BCP continued in the indexes "Ethibel Excellence Europe" and "Ethibel EXCELLENCE Investment Register" (analyst VigeoEiris) and "European Banks Index" (Standard Ethics) and joined the "Gender-Equality Index" (Bloomberg).
- In the scope of the continuous communication flow directed at different target audiences on Sustainability themes and initiatives, the systematic dissemination of information was maintained, focusing on the diversity and frequency of publications on:
  - external communication, by regularly updating the sustainability area in the institutional website and of content posted in social media, like Facebook and YouTube;
  - internal communication made through the Bank's corporate channels.

  Millennium bcp, within the scope of its strategy for communication on Sustainability, also joined, as founding member, the editorial project ECO Capital Verde, being also the main sponsor of the editorial project Jornal de Negócios Sustentabilidade.

MOTIVATION AND TRAINING

In order to address the challenges placed by the market and as a way to comply with legal and regulatory demands, the Bank founded in January 2016 its corporate school, the Millennium Banking Academy (MBA), the first in-house academy of a Bank in Portugal and certified by the General-Directorate of Employment and Work Relations (DGERT).

Globally, in the first six months of 2020, in Portugal, the MBA produced 260,160 training hours addressed to Employees (208,186 hours) and Outsourcers (51,974 hours) of the Bank. From these, 11.395 hours correspond to in-house training (7.425 hours addressed to Employees and 3.790 to *Outsourcers*), 188.145 hours correspond to *e-Learning* (Employees 153.063 h and *Outsourcers* 35.082 h) and 45.492 hours to training programs using e-*Learning* (Employees s 33.673 h and *Outsourcers* 11.819 h). Participated in these training actions 93.279 trainees (77.875 Employees and 15.404 *Outsourcers*).

Despite the constraints imposed by COVID-19, it was possible to continue to provide training and development actions addressed to Employees during the first six months of 2020. In the first months of 2020 many actions were made in-house but, from February onwards, due to de decision of suspending the training actions in-house to minimize the risk of propagation of COVID-19, the preferred format became the liveweb, as a supplement of e-*learning* and *webinar*. Briefly, these were the main actions undertaken in the first six months of 2020:

- We continued to develop the digital literacy of our Employees at the Digital Academy. We were able to develop in this half year around 30 initiatives, with in-house training actions and remote one on themes such as agility, technology and behaviour, to leverage the ongoing digital transformation process and provide the Employees with core competences, such as simplification of processes and a swift collaboration;
- We developed a new e-learning action, "Sempre Próximo" (Always close), the purpose of which was to support the Retail teams in the emotional management of the critical period of COVID-19 and adjust service choreographies;
- We certified as Insurance Agents more than 4.000 Employees and more than 600 Customer Managers and heads of Prestige Branches became qualified to provide financial counselling within the scope of MiFID II;
- We continued the 2nd edition of the Program – Trainees Academy. The purpose of this Program is to integrate and develop 46 young talents in the *analytics* and technology areas, with a strong focus on technical

training (involving intensive training and certification) and behavioural competences. The intention is to disclose the key-areas of the Bank and its business so that the young participants may fully experience the culture of Millennium bcp, and help them becoming real *critical thinkers*, finding solutions to face challenges, providing them the ability to work with others.

- We formed a class for the integration of new Employees and one for the *Onboarding* of new Prestige Managers.

Together with the regular training activities, we must also point out during this period, the carrying out of two *rapid learnings* transversal to all Employees of the bank with the purpose of facilitating the use of teleworking – Teleworking Guide – as well as to provide a fast learning of the new rules and procedures at the work place to ensure a safe environment – Return with Confidence and Safety - .

The Bank, aware of the demands that being a parent implies, put into practice a Programme for the Protection of Parenting. This Program started in 2015, to create the necessary conditions to enable Employees to better reconcile work and family life.

- This programme, which celebrated the birth of 71 babies in 2020, includes a set of benefits for Employees and their families, such as a Baby Millennium savings voucher, presented at the time of birth/adoption of the child, whose value increased from 500 euros to 800 euros, as of 1 January 2020,.

  The possibility of taking the afternoon off on the birthday of their children up to 12 years old now enshrined in the employment agreement, benefited 972 Employees, throughout the first six months of the year.

- *Mil Ideias* is an internal programme to generate ideas based on the recognition of Employees as a creative force that originates innovative and valuable proposals. Throughout the 1st half of 2020, 17 new ideas were submitted, which compare with 30 recorded in the same period of 2019.

- The Programme for recognising the best Employees, "Millennium People", continued to give visibility to Employees that commit and outperform. The 2019 edition of this program distinguished a total of 156 Employees, a number that includes all elements of the winning teams. The awards ceremony took place during the 2020 Management Staff Meeting, and around 90 Employees were awarded with the Millennium Líder, Impacto, Excelência, Formador and Equipa awards.

- Besides the above-mentioned awards, around 917 Employees of the Bank's Divisions were awarded, in a decentralised manner, for their distinctive contribution.

- In 2020, the comprehensive disclosure of the results of the Organizational Environment Questionnaire 2019, global and of each Division, was continued by publishing its results on the internal Human Resources website and by holding extended Human Resources meetings with the Bank's Divisions to analyse the results and define Action Plans to improve the indicators achieving a lower rate. This questionnaire, which had a participation rate of 82% is a critical element of Employee involvement in the Bank's strategic goals, creating opportunities for improvement and development. In general, the tendency of the main indicators concerning motivation and satisfaction of Employees is one of stability, and it should be noted the trend of improvement in satisfaction with the Direct Manager.

PRODUCTS AND SERVICES

- The credit card issued by Millennium bcp - Visa/ Mastercard network - continued to encourage social support through loyalty programs that enable exchanging the points of the card into donations for charitable organizations, namely Associação Acreditar, Ajuda de Berço and Associação Portuguesa dos Bombeiros Voluntários. In the first six months of 2020, 1,165 euros were donated.

- Materializing the Bank's cultural commitment, the credit cards issued by Millennium bcp continued to allow their holders to take advantage of the partnership with NOS movie theatres, offering two tickets for the price of one. In the first six months of 2020, this partnership enabled the awarding of 30.452 tickets.

- Providing an answer to the needs of Investors who consider important to include social and environmental risk factors in their investments, Millennium bcp has kept Socially Responsible Investing Funds (SRI - Socially Responsible Investing) available for subscription, either using Millenniumbcp online platform (5 environmental funds, related to energy, totalling in June 30 a portfolio of over 4,079 thousand euros), either from ActivoBank. A portion of the SRI funds traded may also be subscribed through the Millennium bcp and ActivoBank Apps.

- Aiming to continue to support Customers struggling with financial difficulties, and to avoid defaults, the Bank continued to promote the Financial Assistance Service (FAS). In the scope of FAS packages, during the first half of 2020, around 4,285 renegotiation operations were carried out, totaling a restructuring amount of 187 million euros.

- Aiming at reducing the potential factors of social exclusion, Millennium bcp was one of the first banking institutions to voluntarily offer the current account - Minimum Banking Services Account (*SMB*); with a maximum annual cost equivalent to 1% of the social aid index, it can be used with a debit card and allows intra-bank transfers and 24 annual interbank transfers within the European Union through home banking. At the end of the first half of 2020, 11,691 Millennium bcp Customers benefited from this service.

- University Loans - In Portugal, for students who decided to pursue their academic career, the Bank concluded, in the first six months of 2020, within the University Credit Line, 13 new loans totaling 125 thousand euros. The volume of credit granted to the 346 operations in the portfolio amounted to 2,874 thousand euros.

- Under the protocol signed between Millennium bcp and the Mutual Guarantee Societies, in line with the *Programa Operacional Capital Humano* (Human Capital Operational Programme) and the Portuguese Government, through the Foundation for Science and Technology, the University Credit Line with Mutual Guarantee was maintained. This line intends to support access to higher education with the aim of increasing participation and educational qualification. During the first half of 2020, 76 operations were financed, totaling 728 thousand euros and the volume of credit granted to 1,474 operations in the portfolio totaled 7,372 thousand euros.

- In Portugal, within the scope of Entities that incorporate the social sector, Millennium bcp keeps available the Non-Profit Association Account, a current account with special conditions that does not require an opening minimum deposit and has no maintenance and overdraft fees. 108 accounts were opened in this period, adding up to 4,743 accounts in total on the Bank's portfolio.

- Millennium bcp joined the "2020 Efficient House", a programme launched by the Portuguese Government and co-funded by the European Investment Bank (EIB), with total funding to be made available by the Bank of 50 million euros (25 million euros from the EIB and 25 million euros from the Bank). This program, the purpose of which is to grant loans under favourable conditions to operations promoting the improvement of environmental performance of private residences, giving a special attention to energy and hydro efficiency , as well as to urban waste is available since June 2018 - 15 operations (consumer loans) were carried out, with a total funding of 113 thousand euros.

- In the 2nd quarter of the year, the Bank, in view of the domestic and international situation originated by COVID-19, and assuming the commitment of assisting the families affected by the impact and constraints associated with this pandemic, made available a set of measures in order to preserve the financial stability of its Customers and focused all its attention on putting into place public and private moratoriums (36.721 legal moratoriums and 60.530 APB Moratoriums).

- In the support to investments targeted at the creation of companies by unemployed individuals with subsidized financing conditions, within the scope of the protocol established with Instituto do Emprego e Formação Profissional (IEFP) and with the Mutual Guarantee Companies, the Bank financed, during the first six months of 2020, through the credit lines: i) Microinvest Line - 15 entrepreneurs in a total of 200 thousand euros; and ii) Invest+ Line - 13 entrepreneurs, reaching a total amount of 423 thousand euros.

- So as to ease the inclusion of institutions from the third sector in the financial system, a protocol was signed with Instituto de Emprego e Formação Profissional, Cooperativa António Sérgio para a Economia Social and the Mutual Guarantee Societies, defining a credit line – Social Investe – to support social economy. In the first six months of 2020, the Bank maintained 4 operations in the portfolio, with a total value of 75 thousand euros.

- To support Agriculture and Fishing, the bank remained available to grant funds, under the protocol established with IFAP (Instituto de Financiamento da Agricultura e Pescas), through the credit lines – PRODER/ PROMAR and Short Term IFAP -. Millennium bcp financed 128 operations totalling more than 9,000 million euros.

- Under the protocol established between Millennium bcp and Turismo de Portugal, the Bank maintained the credit line that enables companies to invest in projects aimed at the re-qualification of tourism undertakings and at the creation of new tourism undertakings, restaurants and leisure activities. 8 operations were financed, up to a total amount of 2,529 thousand euros.

- Under the protocols signed with the IAPMEI, PME Investimentos (Line Managing Entity) and the Mutual Guarantee Societies to support investment projects or increase the working capital, the Bank maintained the PME Crescimento Line active. 1,031 operations were financed, up to a total amount of 114,660 thousand euros.

- The Bank also made available the - Linha Capitalizar Mais -, a protocol established between Millennium bcp, the Instituição Financeira de Desenvolvimento (IFD) and the Mutual Guarantee Societies that created a Credit Line with mutual guarantee to finance projects to be implemented in mainland Portugal and in the Autonomous Region of the Azores to help reinforce the entrepreneurial capacity of the SME for the development of goods and services that are innovative in terms of processes, products, organization or marketing. Millennium bcp financed 100 operations totaling 57,084 million euros in credit.

- To support economic activities, devastated by the impact of the COVID-19 pandemic, Millennium bcp launched several credit lines with a mutual guarantee to finance the treasury needs of the companies and carried out 12.687 operations in a global amount of 2,013.003 million euros.
- The Contact Centre, a channel with great accessibility and close to Clients within the scope of their daily bank relation, enables Clients to access a wide range of bank services in extended working hours, 24/7, 365 days/year by phone. The foreign community residing in Portugal has available an automated and customized service in the English and Spanish languages. With the purpose of achieving an ongoing monitoring of the quality of the service provided, there is also a survey made at the end of the phone calls whose results enable the Bank to define improvements to introduce in the processes and direct the training actions to the issues that, at each moment, are critical.
- Concerning Safety, BCP continues to regularly disclose information to its Clients, alerting to transactions made in remote channels and self-banking, particularly: i) Safety Newsletter issued every three months and handling issues related with the safe utilization of internet and of the website millenniumbcp.pt; ii) the millenniumbcp.pt website has an area devoted to the safe use of internet and of the Bank's remote channels; and iii) APB Online Safety Forum - establishment of a collaboration with Associação Portuguesa de Bancos (Portuguese Banking Association) in the regular publication of information to increase Client's awareness regarding safety issues, particularly while using internet and mobile banking.

MICROCREDIT

Millennium bcp, materializing its social responsibility policy, strengthened its commitment to the microcredit activity.

Within an economic context that remains to be understood by the Bank as an opportunity to provide support to those who have an entrepreneurial spirit and a feasible business idea, encouraging them, through this solution, to create their own jobs, the strategic priorities of Microcredit have their foundations on the disclosure of the type of financing and in the promotion of entrepreneurial spirit in the different regions of Portugal, strengthening the leading and reference position of Millennium bcp in this specific area.

- In the first half year of 2020, within a scenario strongly marked by the pandemic - that conditioned the institutional activity of disclosure of microcredit and promotion of an entrepreneurial spirit - it was possible, even so, to carry out, in-person or via electronic means, 57 presentation meetings and 36 follow-up ones. The main participants in these meetings were the Municipalities, Entrepreneurial Associations and Social Development Local Contracts.
- The Bank also organized 3 sessions for the disclosure of microcredit. One session focused graduates from Escola Profissional Profensino in Penafiel (in-person) and the remaining two focused on unemployed individuals supported by the project Cidade das Profissões do Município do Porto (in-person and *webinar*).
- The team in charge of promoting microcredit also attended more 7 *webinars* organized by its institutional partners.

Millennium bcp Microcredit, created in 2005, is recognized as a full counselling service, with an ongoing follow-up of the Client throughout the duration of the loan agreement. Its social responsibility nature is revealed by a permanent focus on the Client's reality, circumstances and needs.

SHARING AND EDUCATING

- Millennium bcp joined the Declaration "Aproveitar a crise para lançar um novo paradigma de desenvolvimento sustentável" promoted by BCSD Portugal, stating its will to, in this turning point and economic recovery, contribute for the construction of a development model based on five main pillars: (i) Promotion of growth, (ii) Search for efficiency, (iii) Reinforcement of Resilience, (iv) Corporate Citizenship and (v) Promotion of sustainable and inclusive development.
- Regular support to institutions through the donation of IT equipment and office furniture that is no longer used but is in condition to be reused. In this context, the agreement established with Entrajuda , has been maintained. In the first six months of 2020, from amongst computer equipment and furniture, the Bank donated 389 goods to 16 institutions.
- Culturally speaking, we must point out the 12th edition of Festival ao Largo, which every year presents on stage, this time at Palácio Nacional da Ajuda, and only with Portuguese artists, a series of shows with the best of opera, ballet and symphonic music. The purpose of this action is to take art to increasingly inclusive audiences, thus contributing for the cultural enrichment of Portugal.
- Support to external solidarity initiatives, namely the project "Vela Sem Limites", an initiative from Clube Naval de Cascais which enables 60 disabled individuals to regularly practice sailing and many other to have their first sea experience.

- Pursuant to the termination of PNCB - Plataforma de Negociação Integrada de Crédito, the bank delivered IT equipment to Associação EPIS, which will deliver the same to schools and social institutions included in the initiative Jovens Especiais, aimed at the promotion professional inclusion of young people with special needs.
- In terms of financial management and financial literacy, Millennium bcp contributed to increase the level of financial literacy and the adoption of adequate and informed financial behaviors, helping Customers with their family budgets:
  - In its institutional website, the Bank continued to promote the instruments – Savings Centre, Finance Managers and the Kit for unexpected expenses - , which, despite being independent tools, have the same purpose: help Clients manage their personal budget. In the website area, M Vídeos, it is also possible to find tutorials and savings suggestions;
  - At the page - Millennium bcp - on Facebook, the Bank continued to regularly share contents related with financial planning;
  - Also, with the goal of stimulating saving habits, the ActivoBank launched a live streaming video App on its Facebook page, called "Conversas Activo" (also available in Youtube), on issues that contribute for an increased knowledge on issues related with the provision of financial services.
- The Bank also participated in the Work Group of Associação Portuguesa de Bancos (Portuguese Bank Association), together with several financial institutions and Instituto de Formação Bancária, whose mission is to develop and support initiatives for the promotion of the financial education of all citizens. From the activity developed in 2020, we must point out another edition of the European Money Week, a digital competition promoted by the European Banking Federation to test the financial literacy of Europe's young people, aged between 13 and 15 years old. In Portugal, APB ensured the participation of around 2.000 students from 48 schools throughout the country.
- Millennium bcp participates in an international paper on Financial Inclusion promoted by EFMA - European Financial Management Association (within a partnership established with Wavestone and Ecole des Ponts Business School), that was able to gather experiences and good practices from a group of world banks.

SOCIAL AID WITHIN A PANDEMIC CONTEXT

The first six months of 2020 will remain undoubtedly marked by the COVID-19 pandemic. In just a few months, the new coronavirus SARS-CoV-2 introduced radical changes in our way of living and in our way of work. In companies, the pandemic was a real stress test to management ability, particularly in what concerns Management of People, within a context featured by significant uncertainties.

Since the financial services are crucial for the normal functioning of societies, of companies and of people, Millennium bcp continued to function as usual even during the State of Emergency, in force from 19 March to 30 April. The Bank confirmed its capacity to adjust to unexpected challenges and, rapidly, adapted the way it operates. Even before the first confirmed case of COVID-19 in Portugal, Millennium bcp activated the Contingency Plan foreseen in the Business Continuity Plan, with two clear and prime objectives:

- Protect the health of people - Employees, Customers and of all contacting with Millennium bcp;
- and ensure the continuance of a service of quality in line with the Customer's expectations.

The swift definition and implementation of measures and the strong focus on the direct communication with the Employees, enabled Millennium bcp to protect People and Business and, despite the required physical distance, we remained close and stood by those who needed us, internally and externally.

Thus, Millennium bcp was a front-line player in the emergency response to the pandemic caused by COVID-19. The following initiatives stood out:

- Measures to support families and companies, totally amounting to 4,7 billion euros;
- Participation in the campaign "Unidos pela Sobrevivência" (United for Survival), for the purchase of clinical means to fight against COVID-19;
- Actions to support the National Health Service (SNS), like the construction of the Contingency Structure of Lisbon, reconversion of Hospital Curry Cabral and donation of 100 ventilators through APB;

- Contribution for the initiative from the EU at the international conference of donors to find a vaccine for Covid, within the Portuguese contribution.
- Fundação Millennium bcp support the Food Emergency Network of the Food Bank, increasing its its annual contribution;
- Clube Millennium bcp supports social institutions by donating individual protection equipment;
- Associação Dignitude – support to the project Abem: emergency Covid 19 - created to support the individuals that, due to the context generated by the pandemic COVID-19, present specific needs in terms of access to health care, aggregating, in a coordinated manner, access to medication and to health products and services;
- Payment in advance of invoices to Suppliers, particularly SME, from 30 days to 1 week.
- Millennium bcp was also part of the movement Portugal #EntraEmCena, that joins artists, public and private companies, in the support to Culture.

PARTNERSHIPS

- The Bank also remained close to universities, creating conditions for the establishment of academic internships. During the 1HY, 65 students had the opportunity to put into practice the acquired knowledge through a curricular internship.
- During the first six months of 2020, the Bank promoted 78 professional traineeships endeavoring to provide, through this contact with the professional life, an opportunity for the professional and personal enrichment of these young people which proves distinctive and able of enhancing their future employability.
- Within the scope of its Sustainability Policy, Millennium bcp established, within the scope of the campaign for the migration into e-statement, a partnership with AMI - Assistência Médica Internacional, project Ecoética "Vamos todos ser Dinis", with the objective of participating in the reforestation of the Leiria pine forest which was almost 80% destroyed by a forest fire in 2017.

FUNDAÇÃO MILLENNIUM BCP

Culture, Science and Social Solidarity are the three main components of the activities performed by Fundação Millennium bcp. By supporting projects in these three areas, and materializing the Social Responsibility policy of Millennium bcp, the Foundation aims at developing the society, in its several components, and promote the activities developed by the supported entities so that these are able to increase their innovation and sustainability potential.

In Culture, main intervention area of the Foundation, in the first six months of 2020 it provided support to projects oriented towards the development of national museums, the recovery of national architectonic and art heritage and the disclosure of modern art and of new artistic talents.

Conservation and Disclosure of the Bank's Art Assets:

- Continuance of the rehabilitation works of the Archeological Nucleus of Rua dos Correios (NARC), closed for that specific purpose on 1 June 2019; the architecture and design project that is currently being implemented has been developed by the art studio Brükner;
- Within the scope of the project "Shared Art", the Foundation inaugurated, on 26 June, the exhibit "Manuel Amado Pintura sem Alibi" which may be visited until 20 September at Fundação Arpad-Szenes Vieira da Silva, in Lisbon;
- Concerning the disclosure of the Bank's art heritage and its own cultural initiatives, the Foundation maintains a partnership with the General-Directorate of Cultural Heritage (DGPC) and with the Fine Arts College from the University of Lisbon. This partnership is focused on the promotion and disclosure of the art heritage and cultural activities of the Museu Nacional de Arte Contemporânea (MNAC) (Portuguese Museum of Modern Art). This partnership will enable the Foundation to carry out exhibits in a space from MNAC, and the museum will remain in charge of programming and curatorship.

In the first six months of 2020, the intervention made in the wing selected to house these exhibitions was completed.

Museum Activities:

- Museu Nacional de Arte Antiga (MNAA) (Portuguese Museum of Ancient Art) - support to the conservation and restoration of the Saint Vicent panels, in accordance with the Triennial Patronage Protocol to be in force from 2020 to 2022, signed by the Museum, Grupo de Amigos do Museu Nacional de Arte Antiga, the General-Directorate for the Cultural Heritage and Fundação Millennium bcp;
- Museu Nacional de Arte Contemporânea – Museu do Chiado (MNAC) - support to the museum activities;
- Museu Nacional de Arqueologia (Archeology National Museum) - Support for the making of the inventory and upload in the registry of the collection of items found in the archaeological excavations made in the NARC.

Restoration of Heritage:

- Palácio Nacional da Ajuda: support to the conservation and restoration works of the Throne Room;
- Museu Nacional dos Coches - support for the conservation and preservation of all the the vehicles exhibited in the museum;
- Church of Santa Clara - Church conservation and restoration works;
- Museum of Caramulo - co-funding of the restoration of the terrine in the shape of Budai Heshang that showed an advanced state of degradation in the upper part of the Buddha.

Other Cultural Initiatives:

- Casa de São Roque - support to the activities developed;
- A.I.R. 351 - (Art Residences) - project for welcoming international artists in Portugal (visual arts) for the establishment of art residences;
- Architecture Triennial - 6th edition 2022 - support granted fro the preparation of this 6th edition of this initiative, expected to take place in 2022;
- Comunidade Intermunicipal Tâmega e Sousa - Festival Mimo - support granted fo the carrying out of this initiative, initially planned to take place by the end of July 2020. The constraints due to the COVID-19 pandemic implied the postponement of the Festival;
- ACEGE - Associação Cristã de Empresários e Gestores:support to the activities of the community of Christian business leaders in promoting the dignity of people and the common good.
- Church of São Cristóvão (Mouraria-Lisboa) - Restoration of the triumphal arch – "Retrato de Cristo por São Lucas";
- A.I.C.A Awards (AICA/Millenniumbcp Awards - Visual Arts and Architecture). - support to the "Visual Arts and Architecture Awards AICA/MC/Millennium bcp", which are attributed every year in Portugal to a visual artist and to an architect;
- Plutão Camaleão Associação Cultural - 7th edition of Festival Tremor - support granted for the making of the Festival. Initially scheduled to take place from 31 March to April 4 2020, this event was postponed to 2021 due to the constraints provoked by the COVID-19 pandemic;
- Sociedade Martins Sarmento - support granted for the rehabilitation and upgrade of the Archaeological Museum and re-launching of the Educational Service;
- Universidade Nova de Lisboa – Instituto de Estudo Medievais - Livro Mosteiro de Celas - support granted for the launching of the book "Santos, Heróis e Monstros" on the cloisters of the abbey of the Monastery of Santa Maria de Celas;
- Book store Lello - support to an initiative aiming at the development of children literature;
- DSCH – Associação Musical - Festival e Academia Verão Clássico - 2020 Edition - support to the making of the festival and production of the Beethoven album by pelo DSCH - Schostakovich Ensemble;

- Tiago Nunes - V edition of the Coimbra Cycle of Concerts - support for the carrying out of the cycle of concerts. Initially scheduled to take place from 20 to 22 March, the constraints provoked by the COVID-19 pandemic led to the postponement of this initiative to a date to be disclosed in due time.

- Clube de Lisboa - 4th Conference " A Aceleração das Mudanças Globais" - approaching issues that bring the future to everyday life – Climate Changes, Energy Transitions, technological evolution, growth models, demographic trends and geopolitical challenges. Initially scheduled to take place on 14 and 15 May 2020, the constraints caused by the COVID-19 pandemic led to the postponement of this initiative to 30 September and 1 October;

- Escola Superior de Santarém - support to the course on Digital Literacy for the labour market through the development of an immersion room Escape Room with several learning activities within the scope of employability competences for young people with Development and Intellectual difficulties;

- Archaeology Museum - purchase of boxes to accommodate the artefacts from NARC;

- Associação Internacional de Música da Costa do Estoril - support for the making of the 46th edition of the Festival Estoril Lisboa, of Classical Music;

- Carpe Diem Art and Research - 5th Edition of the Award "Young Art Fundação Millennium bcp" for final-year students of visual arts; This initiative intends to disclose the most recent proposals made by artists that initiated their art careers; thus, it provides a more extended vision of the Portuguese artistic production;

- Associação Geração Inabalável - 10th Edition of the Dance International Competition - support for the making of the competition that intends to support the training of young dancers through monetary support and the attribution of scholarships to attend reputed dance schools;

- Associação Escolíadas - support to the project Escoliadas Júnior that provides children of the 1st cycle with the opportunity of, during the school year, developing activities linked with drama, figurative arts, body expression and music;

- Municipality of Palmela and Campo Arqueológico de Mértola - International Conferences- support to the organization of the international conferences «Terra, Pedras e Cacos do Garb Al-Andalus», with scientific coordination of Group CIGA (Cerâmica Islâmica do Garb Al-Andalus);

- OldRich Hlavacek - support to the edition of the book "9 contos lusófonos e 1 conto eslovaco";

- Brotéria - support for the opening, in January 2020, of the new Cultural Centre;

- Liga dos Amigos do Mosteiro dos Jerónimos - support for the publication of the book of minutes of meetings named "Diálogos com o Mosteiro dos Jerónimos".

In Science and Knowledge, the Foundation has been privileging scientific investigation, training and projects particularly on health issues and post-graduation programmes at Portuguese universities of reference which may contribute for the internationalization of schools, as well on a university education of excellence in areas connected with financial activities and arts.

Scientific Investigation Projects:

- Portuguese Olympic Committee - Protocol established for the triennial 2018-2020 with the goal of contributing for the development of investigation in Physical Education in Portugal including the annual attribution of 3 Awards and six Honourable Mentions to the best research projects on Physical Education;

- Fundação Rui Osório Castro -Award Rui Osório de Castro / Millennium bcp - Protocol established for the period from 2020 to 2022 aiming at, by means of an award, promoting the development of innovative scientific projects on paediatric oncology, able of encouraging and promote the improvement in health care provided to children with a cancer disease.

  In February 2020, the award of the 4th Edition was delivered to Patrícia Nunes Correia, from Instituto de Ciências da Saúde da Universidade Católica Portuguesa, for here research project "Perceber Para Prevenir a Mucosite Oral em Crianças com Doença Oncológica";

- Instituto de Biologia Molecular e Celular - support to the investigation on Alzheimer's disease;

- Casa da América Latina - Invited Professor at Instituto de Higiene e Medicina Tropical (IHMT), with the objective of developing research projects on malaria and the development of training programs in the area of tropical diseases for post-graduate students and health professionals from the Instituto de Higiene e Medicina Tropical da Universidade Nova de Lisboa;

- Universidade Católica Portuguesa - Health Sciences Institute: support to the Pedipedia project, development of an online paediatric encyclopaedia with the purpose of creating a pedagogical tool to support clinical practices and training in health care; Its recipients are health professionals, parents, caretakers, children and teenagers from Portuguese-speaking countries;

- Portuguese Centre of Geo-History and Pre-History - support to investigation on palaeobotany;

University:

- A scholarship program of Fundação Millennium bcp aimed at students from Portuguese-speaking African countries and from Timor (PALOP) The management of these scholarships was entrusted to Instituto Camões by means of a collaboration protocol;
- Partnership with Millennium bim for the attribution of scholarships in Universities of Mozambique to young people evidencing academic merit and lack economic means.
- IPRI – Instituto Português de Relações Internacionais - Universidade Nova de Lisboa - apoio às atividades deste instituto que se dedica aos estudos avançados em Ciência Política e Relações Internacionais;
- Universidade Católica Portuguesa – Faculdade de Ciências Humanas - attribution of scholarships to two students to enable their participation in the academic program The Lisbon Consortium (Art Scholarships);
- Fundação Casa de Mateus – Mini-school of innovation – Program developed through a partnership with the Institute of the Next, from Barcelona and with Universidade de Trás-os-Montes e Alto Douro and addressed to entrepreneurs and other active agents of the region. The Covid -19 pandemic originated the postponement of this initiative;
- Centro Astrofísica Universidade do Porto - AstroCamp 2020 - Summer Academic Program on astrophysics providing the students with an inspiring and high-quality training. This program is targeted at students of the 3 last years of pre-university education and is available for young people from 42 countries;
- Instituto Camões - Award for the Best Student of the Portuguese language in the United Kingdom - one student is chosen each year, in accordance with the merit of the work done during the school year he/she is attending, from the 1st year of primary education to university.

Basic Education:

- MoneyLab Financial Education Labs – road show the purpose of which is to fill gaps regarding misinformation that young people have on financial literacy, especially high-school students from private and public schools. The project contemplates 10 Portuguese districts: Aveiro, Braga, Castelo Branco, Coimbra, Évora, Leiria, Lisboa, Porto, Setúbal and Viseu;
- Municipality of Pedrogão Grande -support to “more Future”, a project focused on three aspects: Education and Citizenship, Road Safety and Sustainability. It is based on the approach of contents in schools (1st cycle) located in the municipalities of Castanheira de Pêra, Figueiró dos Vinhos and Pedrogão Grande;
- Fundação Dr. António Cupertino de Miranda - support to the 10th edition of the Financial Literacy project “No Poupar Está o Ganho”, (When you save, you gain) a project to increase the pre-school, basic and secondary student’s awareness on the importance of money, thus contributing for the acquisition of skills on this theme;

Concerning Social Solidarity, it tried to promote relevant projects in social innovation and structuring social programs able of contributing for local development, namely in the assistance to the most vulnerable parts of society.

The extension and depth of the impacts provoked by COVID-19, that led to a quite significant aggravation of the living conditions and isolation of the most fragile populations, gave rise to a special follow-up and support to the projects launched in order to mitigate the effects of this pandemic.

In what regards the Social Solidarity area, the Foundation supported different actions, among which:

- Program GOS – Gestão de Organizações Sociais - this program results from a partnership established between AESE / ENTREAJUDA / CNIS and is intended for the training in management of leaders of entities developing their activities in the social economy sector, exclusively non-profit; trying to provide a response to the training needs in this particular sector;
- Portuguese Food Bank – support to annual food collection campaigns and reinforcement of the Emergency Network created to cope with the needs emerging due to the COVID-19 pandemic;
- CERCICA - Cooperativa para a Educação e Reabilitação de Cidadãos Inadaptados de Cascais - sport to the launching of the “Line of Assistance for Families” , the purpose of which is to respond to the aggravation of social isolation of individuals with mental disabilities and respective families, due to the COVID-19 pandemic ;
- Caritas Arquidiocesana de Évora -support to the project for the re qualification of a space for the installation of the Residential Structure for old people, able of lodging 20 individuals;
- 55 MAIS - Project for the upgrade of inactive people aged 55 or more that, through a human and technological platform, connects the needs of citizens with the services provided by individuals aged 55+ years, in exchange of a fair amount;

- APSA – Associação Portuguesa Síndrome Asperger (Portuguese Association of the Asperger Syndrome) - support to the program “Employability”, for young people/adults with Asperger Syndrome (SA), over 18 years of age; its purpose is providing them with the skills for inclusion in the social and professional life;
- BUS Association - Social Utility Assets: support for the development of its activities which consist in the collection of useful goods, forwarding them to individuals/families in need.
- Universidade de Évora – Fund for Social Support to Students -a program that intends, through the granting of funding to students who are in financial difficulties, properly justified, to fight against lack of success at school and early school leaving and for the acquisition and development of transversal competences able of increasing employability;
- EAPN - Projects ACEDER – pursuant to the serious sanitary emergency caused by COVID-19, support was granted for the purchase of protection kits, hygiene and cleaning for the gypsy community;
- Associação Mais Proximidade Melhor Vida – support to the development of the activities plan;
- Lar Crianças Bom Samaritano - Child Psychiatric help for the children of this institutional home;
- APGES - Global Platform for the Syrian Students - a program for the granting of emergency scholarships to enable students coming from countries at war to pursue their education;
- Project cancer patient at Hospital Central de Maputo - the protocol established supports a project to improve health care for cancer patients in Mozambique.

ENVIRONMENTAL PERFORMANCE

The protection of environment, the preservation of natural resources and the rationalization of consumption are objectives which are part of the substance of the environmental policy of Millennium bcp.

It is within this context that the ongoing optimization, the tangible result of the improvement process that the bank is has undertaking throughout the last years, is based upon a strategy focused on the sustainability and adequate management of the available resources but also in the materialisation of energy efficiency policies, of which an example are some of the actions currently underway, planned or recently completed:

- Production of Solar Energy - the photovoltaic solar energy plant at Taguspark – installed at the end of 2017 – with a power output of around 1 MW, is now fully functioning, being a decisive alternative to the consumption of energy from the public grid.
- LED lighting – a plan to replace fluorescent lights with LED lights in parking areas at Taguspark is underway, which by enabling a 50% reduction of energy consumption for lighting in those areas will continue to optimisation of energy performance in these central buildings;
- Regarding Branches, whenever these are renovated/intervened, the Bank has always installed LED lighting, a step-by-step methodology that has meant a steady decrease of energy consumption in the commercial network;

In addition to these initiatives, the Bank pursues the following:

- Monitoring of consumption, as a form of defining a stricter energy policy according to specific consumption profiles and enable reaching the annual reduction goals;

- The Bank continued making regular communications on the corporate platforms, the internal campaign - Reduction in Consumptions / Environmental signposting -. This initiative, fundamentally encompassing discretionary consumption of energy, water and paper, aims to contribute to the optimization of the Bank's operating costs, to improve environmental performance - by increasing the adoption of practices by all that allow a more rational use of these resources -, but also to increase the Employees' identification with an organization that has a strong environmental commitment;
- The Bank continued to program - Green IT -, promoted by the IT Division, an initiative that gathers a number of actions targeted at the correct management of the resources made available, through the identification and development of projects able of generating environmental and technological benefits and contribute to decrease the Bank's ecological footprint and for the consolidation of an ecological and social awareness at the organization. Thus, we must highlight the initiatives made within the scope of the program Workplace Evolution - Office 365 & MS Teams intended to promote the digital development of the workplace, both in hardware and in the operating system, with the provision in the Could of the most modern collaboration and productivity tools;
- It was also within this framework of reference and to decrease the emission of Greenhouse gas emissions, that the sue of *webcasting* tools was consolidated. Although in an atypical period of time, characterized by the pandemic and the need to adjust to new circumstances, the significant growth recorded in the use of collaboration and productivity tools MS Teams and Skype - that recorded 117.669 virtual meetings, 1.580.320 sessions of instant messages, 771.991 audio sessions and 369.260 video sessions - is also a consequence of the ongoing implementation of a culture of sustainable consumption habits, able to reducing costs and waste;
- Within the scope of technological projects, we must point out the continuance of the "GO Paperless" project, a transformation that is focused on the dematerialisation of operations as a way to innovate and optimize processes by resorting to solutions of production and electronic signature of documents which enabled the Bank to, in the first six months of 2020, save 2,613,312 prints, corresponding to a 22.7% decrease of prints made in branches, if compared with the same period in 2019, providing a monthly average of less 217,776 prints;
- In the first half year of 2020, due to the restrictions associated with COVID-19, the Bank intensified the efforts to increase the Customer's digital interaction with the Bank through actions of collection/update of e-mail, subscription of the e-statement and activation/use of the digital channels, focusing particularly on Millennium App. As a result of these efforts, at the end of June 2020, the Bank was able to reach

the historical mark of having 75% of current accounts with e-statement (figures rise to 91% in case of holders of credit/debit cards).

- The performance of the digital overseer, Employees that, in each Branch, are responsible for making the entire team aware of the importance of fostering the use of digital solutions by Clients, contributed immensely for the results achieved.

Thus, Millennium bcp thus continues to contribute to cutting the use and circulation of paper, on one hand through regular communication/information actions on the advantages of documental dematerialisation and, on the other, through programmes of migration to - and of binding to - digital solutions, exemplified by the partnership established with AMI - Assistência Médica Internacional, project Ecoética "Vamos todos ser Dinis", with the purpose of participating in the reforestation of the Leiria pine forest..

In 2020, Millennium bcp also subscribed the "European Green Capital 2020 Commitment", promoted by the Municipality of Lisbon, that joins more than 200 significant entities of the city, companies, schools and institutions, in a commitment towards more climate actions and targeted at sustainability and able of fostering a collective dynamics to comply with the targets defined by the Paris Agreement and accelerate the achievement of carbon neutrality

Within this framework, Millennium bcp proposes to achieve, until 2030, the following initiatives:

#1 Energy - Install LED lighting in all buildings (until 12/2020);

#2 Energy - Install (more) equipment to produce photovoltaic solar energy in the buildings more exposed to the sun and with a sufficient area for that purpose (until 12/2030);

#3 Water - Implement solutions enabling re-use water (until 12/2021);

#4 Circular Economy - Eliminate the use of plastics used only once (until 06/2021);

Already in 2020, in Portugal, the Bank revised the Suppliers Sustainability Guidelines, which are now part of all the contracts for the purchase of goods and provision of services signed by Millennium bcp. This document includes aspects such as compliance with the law, environmental and labour good practices, but also human rights and the application of these principles in the contracting of third parties.

We must make a last reference to the carrying out of the first carbon neutral Staff General Meeting of BCP. This environmental initiative, held in February, will enable, within a project carried out by Sociedade Ponto Verde, compensate the GEG emissions originated by the event by means of the plantation of a forested area in Serra do Marvão.

Regulatory Information

Consolidated financial statements

BANCO COMERCIAL PORTUGUÊS

CONSOLIDATED INCOME STATEMENTS
FOR THE SIX MONTHS PERIODS ENDED 30 JUNE 2020 AND 2019

(Thousands of euros)

	30 June 2020	30 June 2019
Interest and similar income	961,206	952,855
Interest expense and similar charges	(202,130)	(212,782)
NET INTEREST INCOME	759,076	740,073
Dividends from equity instruments	3,488	675
Net fees and commissions income	345,180	342,184
Net gains / (losses) from financial operations at fair value through profit or loss	(54,404)	(1,371)
Net gains / (losses) from foreign exchange	75,092	30,318
Net gains / (losses) from hedge accounting operations	(3,438)	(4,192)
Net gains / (losses) from derecognition of assets and financial liabilities at amortised cost	(11,198)	(9,830)
Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive income	33,548	80,612
Net gains / (losses) from insurance activity	6,043	5,467
Other operating income / (losses)	(119,948)	(105,612)
TOTAL OPERATING INCOME	1,033,439	1,078,324
Staff costs	327,562	324,242
Other administrative costs	165,055	166,982
Amortisations and depreciations	69,178	56,957
TOTAL OPERATING EXPENSES	561,795	548,181
NET OPERATING INCOME BEFORE PROVISIONS AND IMPAIRMENTS	471,644	530,143
Impairment for financial assets at amortised cost	(242,547)	(200,026)
Impairment for financial assets at fair value		
through other comprehensive income	(10,569)	(139)
Impairment for other assets	(23,080)	(41,001)
Other provisions	(75,160)	(1,958)
NET OPERATING INCOME	120,288	287,019
Share of profit of associates under the equity method	42,897	21,191
Gains / (losses) arising from sales of subsidiaries and other assets	(5,519)	24,706
NET INCOME BEFORE INCOME TAXES	157,666	332,916
Income taxes		
Current	(56,164)	(47,437)
Deferred	(2,712)	(73,651)
NET INCOME AFTER INCOME TAXES FROM CONTINUING OPERATIONS	98,790	211,828
Income arising from discontinued or discontinuing operations	-	13,413
NET INCOME AFTER INCOME TAXES	98,790	225,241
Net income for the period attributable to:		
Bank's Shareholders	75,958	169,779
Non-controlling interests	22,832	55,462
NET INCOME FOR THE PERIOD	98,790	225,241
Earnings per share (in Euros)		
Basic	0.008	0.022
Diluted	0.008	0.022

BANCO COMERCIAL PORTUGUÊS

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2020 AND 2019 AND 31 DECEMBER 2019

(Thousands of euros)

	30 June 2020	31 December 2019	30 June 2019
ASSETS			
Cash and deposits at Central Banks	4,302,644	5,166,551	3,586,081
Loans and advances to credit institutions repayable on demand	350,218	320,857	313,410
Financial assets at amortised cost			
Loans and advances to credit institutions	1,085,970	892,995	971,191
Loans and advances to customers	51,248,306	49,847,829	49,564,362
Debt securities	5,742,472	3,185,876	3,378,140
Financial assets at fair value through profit or loss			
Financial assets held for trading	2,335,697	878,334	855,686
Financial assets not held for trading mandatorily at fair value through profit or loss	1,305,443	1,405,513	1,417,907
Financial assets designated at fair value through profit or loss	-	31,496	31,544
Financial assets at fair value through other comprehensive income	13,285,390	13,216,701	13,385,951
Hedging derivatives	133,590	45,141	207,312
Investments in associated companies	429,589	400,391	421,964
Non-current assets held for sale	1,201,651	1,279,841	1,582,654
Investment property	13,165	13,291	9,712
Other tangible assets	671,477	729,442	712,384
Goodwill and intangible assets	238,140	242,630	214,696
Current tax assets	21,043	26,738	52,478
Deferred tax assets	2,661,955	2,720,648	2,798,682
Other assets	1,529,676	1,239,134	1,369,084
TOTAL ASSETS	86,556,426	81,643,408	80,873,238
LIABILITIES			
Financial liabilities at amortised cost			
Resources from credit institutions	9,055,226	6,366,958	7,231,450
Resources from customers	62,475,176	59,127,005	56,877,433
Non subordinated debt securities issued	1,475,762	1,594,724	1,771,787
Subordinated debt	1,440,353	1,577,706	1,302,023
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	411,227	343,933	332,002
Financial liabilities at fair value through profit or loss	2,287,682	3,201,309	3,514,497
Hedging derivatives	265,447	229,923	278,927
Provisions	345,911	345,312	314,422
Current tax liabilities	5,656	21,990	9,171
Deferred tax liabilities	6,593	11,069	10,579
Other liabilities	1,337,709	1,442,225	1,665,825
TOTAL LIABILITIES	79,106,742	74,262,154	73,308,116
EQUITY			
Share capital	4,725,000	4,725,000	4,725,000
Share premium	16,471	16,471	16,471
Other equity instruments	400,000	400,000	402,922
Legal and statutory reserves	254,464	240,535	240,535
Treasury shares	(70)	(102)	(88)
Reserves and retained earnings	760,842	435,823	793,684
Net income for the period attributable to Bank's Shareholders	75,958	302,003	169,779
TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS	6,232,665	6,119,730	6,348,303
Non-controlling interests	1,217,019	1,261,524	1,216,819
TOTAL EQUITY	7,449,684	7,381,254	7,565,122
TOTAL LIABILITIES AND EQUITY	86,556,426	81,643,408	80,873,238

Alternative performance measures

The BCP Group prepares financial information in accordance with International Financial Reporting Standards (IFRS) endorsed by European Union. As a complement to that information, the BCP Group uses a set of alternative performance measures that allow monitoring the evolution of its activity over the time. Following the guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA) on October 2015 (ESMA/2015/1415), the BCP Group presents some indicators related to the assessment of profitability and efficiency and the quality of the credit portfolio, among others, which are intended to facilitate comprehension of the evolution of the economic and financial position of the Group. The information presented in this context has not been audited and does not, under any circumstance, replace the financial information prepared in accordance with IFRS. It should also be noted that the definitions and concepts used by the BCP Group for the calculation of these indicators may differ from those used by other entities in the determination of other similar measures and may therefore not be directly comparable. In accordance with the abovementioned guidelines, alternative performance measures, which are detailed below, are presented together with additional information that reconciles the accounting figures presented in the consolidated financial statements prepared in accordance with IFRS and financial information reflecting the management criteria adopted by the BCP Group. These indicators and their components are also described in more detail in the glossary.

1) Loans to customer (net) / Balance sheet customer funds

Relevance of the indicator: the loans-to-deposits ratio is an indicator of liquidity that allows the evaluation of the Group's retail funding structure.

Euro million

		30 Jun. 20	30 Jun. 19
Loans to customers (net) (1)		53,724	52,035
Balance sheet customer funds (2)		65,009	60,698
	(1) / (2)	**82.6%**	85.7%

2) Return on average assets (ROA)

Relevance of the indicator: allows measurement of the capacity of the Group to generate results with the volume of available assets.

Euro million

		6M20	6M19
Net income (1)		76	170
Non-controlling interests (2)		23	55
Average total assets (3)		83,319	78,000
	[(1) + (2), annualised] / (3)	**0.2%**	0.6%

3) Return on average equity (ROE)

Relevance of the indicator: allows assessment of the capacity of the Group to remunerate its Shareholders, assessing the level of profitability generated by the funds invested by the Shareholders in the Group.

Euro million

		6M20	6M19
Net income (1)		76	170
Average equity (2)		5,775	5,973
	[(1), annualised] / (2)	**2.6%**	5.7%

4) Cost to income

Relevance of the indicator: it allows for the monitoring of the level of efficiency of the Group (excluding specific items), evaluating the volume of operating costs to generate net operating revenues.

Euro million

		6M20	6M19
Operating costs (1)		562	547
of which: specific items (2)		21	27
Net operating revenues (3)*		1,071	1,123
	[(1) - (2)] / (3)	**50.5%**	**46.3%**

* Excludes the specific items, related to costs with the acquisition, merger and integration of Euro Bank S.A., recognized in the Polish subsidiary, of an immaterial amount in the first half of 2020 and of 2019.

5) Cost of risk, net of recoveries (expressed in basis points, annualised)

Relevance of the indicator: allows assessment of the quality of the loan portfolio by evaluating the ratio between impairment charges (net of reversals and recoveries of credit and interest) recognised in the period and the stock of loans to customers at the end of that period.

Euro million

		6M20	6M19
Loans to customers at amortised cost, before impairment (1)		55,640	54,366
Loan impairment charges (net of recoveries) (2)		237	200
	[(2), annualised] / (1)	**85**	74

6) Non-performing exposures (NPE) / Loans to customers (gross)

Relevance of the indicator: allows the assessment of the level of credit risk to which the Group is exposed based on the proportion of the NPE loan portfolio in the loans-to-customers portfolio (gross).

Euro million

		30 Jun. 20	30 Jun. 19
Non-Performing Exposures (1)		3,933	4,970
Loans to customers (gross) (2)		55,998	54,699
	(1) / (2)	**7.0%**	9.1%

7) Coverage of non-performing exposures (NPE) by balance sheet impairment

Relevance of the indicator: it allows the assessment of the level of coverage of the NPE portfolio by balance sheet impairment.

Euro million

		30 Jun. 20	30 Jun. 19
Non-Performing Exposures (1)		3,933	4,970
Loans impairments (balance sheet) (2)		2,274	2,664
	(2) / (1)	**57.8%**	53.6%

Glossary

Assets placed with customers – amounts held by customers in the context of the placement of third-party products that contribute to the recognition of commissions.

Balance sheet customer funds – deposits and other resources from customers and debt securities placed with customers.

Business Volumes - corresponds to the sum of total customer funds and loans to customers (gross).

Commercial gap – loans to customers (gross) minus on-balance sheet customer funds.

Core income - net interest income plus net fees and commissions income.

Core net income - net interest income plus net fees and commissions income deducted from operating costs.

Cost of risk, net (expressed in basis points) - ratio of loans impairment (P&L) accounted in the period to loans to customers at amortised cost and debt instruments at amortised cost related to credit operations before impairment at the end of the period.

Cost to core income - operating costs divided by core income.

Cost to income – operating costs divided by net operating revenues.

Coverage of non-performing exposures by impairments – loans impairments (balance sheet) divided by the stock of NPE.

Coverage of non-performing loans by impairments – loans impairments (balance sheet) divided by the stock of NPL.

Coverage of overdue loans by impairments - loans impairments (balance sheet) divided by overdue loans.

Coverage of overdue loans by more than 90 days by impairments - loans impairments (balance sheet) divided by overdue loans by more than 90 days.

Debt instruments – non-subordinated debt instruments at amortised cost and financial liabilities measured at fair value through profit or loss (debt securities and certificates).

Debt securities placed with customers - debt securities issued by the Bank and placed with customers.

Deposits and other resources from customers – resources from customers at amortised cost and customer deposits at fair value through profit or loss.

Dividends from equity instruments - dividends received from investments classified as financial assets at fair value through other comprehensive income and from financial assets held for trading.

Equity accounted earnings - results appropriated by the Group related to the consolidation of entities where, despite having some influence, the Group does not control the financial and operational policies.

Insurance products – includes unit linked saving products and retirement saving plans ("PPR", "PPE" and "PPR/E").

Loans impairment (balance sheet) – balance sheet impairment related to loans to customers at amortised cost, balance sheet impairment associated with debt instruments at amortised cost related to credit operations and fair value adjustments related to loans to customers at fair value through profit or loss.

Loans impairment (P&L) – impairment (net of reversals and net of recoveries - principal and accrual) of financial assets at amortised cost for loans to customers and for debt instruments related to credit operations.

Loans to customers (gross) – loans to customers at amortised cost before impairment, debt instruments at amortised cost associated to credit operations before impairment and loans to customers at fair value through profit or loss before fair value adjustments.

Loans to customers (net) - loans to customers at amortised cost net of impairment, debt instruments at amortised cost associated to credit operations net of impairment and balance sheet amount of loans to customers at fair value through profit or loss.

Loan to Deposits ratio (LTD) – loans to customers (net) divided by deposits and other resources from customers.

Loan to value ratio (LTV) – mortgage amount divided by the appraised value of property.

Net commissions - net fees and commissions income.

Net interest margin (NIM) - net interest income for the period as a percentage of average interest earning assets.

Net operating revenues - net interest income, dividends from equity instruments, net commissions, net trading income, other net operating income and equity accounted earnings.

Net trading income – results from financial operations at fair value through profit or loss, results from foreign exchange, results from hedge accounting operations, results from derecognition of financial assets and financial liabilities measured at amortised cost and results from derecognition of financial assets measured at fair value through other comprehensive income.

Non-performing exposures (NPE) – non-performing loans and advances to customers (loans to customers at amortised cost and loans to customers at fair value through profit or loss) more than 90 days past-due or unlikely to be paid without collateral realisation, if they recognised as defaulted or impaired.

Non-performing loans (NPL) – overdue loans (loans to customers at amortised cost and loans to customers at fair value through profit or loss) more than 90 days past due including the non-overdue remaining principal of loans, i.e. portion in arrears, plus non-overdue remaining principal.

Off-balance sheet customer funds – assets under management, assets placed with customers and insurance products (savings and investment) subscribed by customers.

Operating costs - staff costs, other administrative costs and depreciation.

Other impairment and provisions – impairment (net of reversals) for loans and advances of credit institutions classified at amortised cost, impairment for financial assets (classified at fair value through other comprehensive income and at amortised cost not associated with credit operations), impairment for other assets, namely assets received as payment in kind, investments in associated companies and goodwill of subsidiaries and other provisions.

Other net income – dividends from equity instruments, net commissions, net trading income, other net operating income and equity accounted earnings.

Other net operating income – net gains from insurance activity, other operating income/(loss) and gains/(losses) arising from sales of subsidiaries and other assets.

Overdue loans – total outstanding amount of past due loans to customers (loans to customers at amortised cost, debt instruments at amortised cost associated to credit operations and loans to customers at fair value through profit or loss), including principal and interests.

Overdue loans by more than 90 days – total outstanding amount of past due loans to customers by more than 90 days (loans to customers at amortised cost, debt instruments at amortised cost associated to credit operations and loans to customers at fair value through profit or loss), including principal and interests.

Resources from credit institutions – resources and other financing from Central Banks and resources from other credit institutions.

Return on average assets (Instruction from the Bank of Portugal no. 16/2004) – net income (before tax) divided by the average total assets (weighted average of the average of monthly net assets in the period).

Return on average assets (ROA) – net income (before minority interests) divided by the average total assets (weighted average of the average of monthly net assets in the period).

Return on equity (Instruction from the Bank of Portugal no. 16/2004) – net income (before tax) divided by the average attributable equity + non-controlling interests (weighted average of the average of monthly equity in the period).

Return on equity (ROE) – net income (after minority interests) divided by the average attributable equity, deducted from preference shares and other capital instruments (weighted average of the average of monthly equity in the period).

Securities portfolio - debt instruments at amortised cost not associated with credit operations (net of impairment), financial assets at fair value through profit or loss (excluding the ones related to loans to customers and trading derivatives), financial assets at fair value through other comprehensive income and, until 2018, assets with repurchase agreement.

Spread - increase (in percentage points) to the index used by the Bank in loans granting or fund raising.

Total customer funds - balance sheet customer funds and off-balance sheet customer fund.

Accounts and Notes to the Consolidated Accounts

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE SIX MONTHS PERIODS ENDED 30 JUNE 2020 AND 2019

(Thousands of euros)

	Notes	30 June 2020	30 June 2019
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Net gains / (losses) from insurance activity		6,043	5,467
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Net income for the period attributable to:			
Bank's Shareholders		75,958	169,779
Non-controlling interests	44	22,832	55,462
NET INCOME FOR THE PERIOD		98,790	225,241
Earnings per share (in Euros)			
Basic	17	0.008	0.022
Diluted	17	0.008	0.022

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE THREE MONTHS PERIOD BETWEEN 1 APRIL AND 30 JUNE 2020 AND 2019

(Thousands of euros)

	Second quarter 2020	Second quarter 2019
Interest income	460,779	480,860
Interest expense	(87,172)	(103,496)
NET INTEREST INCOME	373,607	377,364
Dividends from equity instruments	3,432	629
Net fees and commissions income	165,353	175,574
Net gains / (losses) from financial operations at fair value through profit or loss	(48,425)	(10,030)
Net gains / (losses) from foreign exchange	10,072	12,932
Net gains / (losses) from hedge accounting operations	273	2,930
Net gains / (losses) from derecognition of financial assets and liabilities at amortised cost	3,169	(4,066)
Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive income	13,120	33,463
Net gains / (losses) from insurance activity	2,836	2,728
Other operating income / (losses)	(81,475)	(76,075)
TOTAL OPERATING INCOME	441,962	515,449
Staff costs	162,891	172,015
Other administrative costs	78,151	86,505
Amortizations and depreciations	34,393	30,128
TOTAL OPERATING EXPENSES	275,435	288,648
OPERATING NET INCOME BEFORE PROVISIONS AND IMPAIRMENTS	166,527	226,801
Impairment for financial assets at amortised cost	(155,655)	(113,118)
Impairment for financial assets at fair value through other comprehensive income	(11,304)	347
Impairment for other assets	(11,711)	(20,432)
Other provisions	29,137	(5,982)
NET OPERATING INCOME	16,994	87,616
Share of profit of associates under the equity method	32,104	2,563
Gains / (losses) from sales of subsidiaries and other assets	(1,056)	8,540
NET INCOME BEFORE INCOME TAXES	48,042	98,719
Income taxes		
Current	(29,200)	(16,277)
Deferred	35,962	(39,362)
INCOME AFTER INCOME TAXES FROM CONTINUING OPERATIONS	54,804	43,080
Income arising from discontinued or discontinuing operations	-	(41)
NET INCOME AFTER INCOME TAXES	54,804	43,039
Net income for the period attributable to:		
Bank's Shareholders	40,659	15,936
Non-controlling interests	14,145	27,103
NET INCOME FOR THE PERIOD	54,804	43,039

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE SIX MONTHS PERIODS ENDED 30 JUNE 2020 AND 2019

(Thousands of euros)

	30 June 2020		
		Attributable to	
	Continuing operations	Bank's Shareholders	Non-controlling interests
NET INCOME FOR THE PERIOD	98,790	75,958	22,832
ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT (NOTE 43)			
Debt instruments at fair value through other comprehensive income			
Gains / (losses) for the period	96,180	64,034	32,146
Reclassification of (gains) / losses to profit or loss	(33,548)	(27,912)	(5,636)
Cash flows hedging			
Gains / (losses) for the period	111,283	112,134	(851)
Other comprehensive income from investments in associates and others	6,768	6,789	(21)
Exchange differences arising on consolidation	(138,651)	(74,706)	(63,945)
IAS 29 application			
Effect on equity of Banco Millennium Atlântico, S.A.	(1,228)	(1,228)	-
Fiscal impact	(48,225)	(43,370)	(4,855)
	(7,421)	35,741	(43,162)
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT			
Equity instruments at fair value through other comprehensive income			
Gains / (losses) for the perod (note 43)	(4,816)	(4,673)	(143)
Changes in own credit risk of financial liabilities at fair value through profit or loss (note 43)	988	988	-
Actuarial gains / (losses) for the period			
BCP Group Pensions Fund (note 50)	19,506	19,506	-
Pension Fund - other associated companies	(1,609)	(1,609)	-
Fiscal impact	1,593	1,566	27
	15,662	15,778	(116)
Other comprehensive income / (loss) for the period	8,241	51,519	(43,278)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	107,031	127,477	(20,446)

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

(Thousands of euros)

	30 June 2019				
				Attributable to	
	Continuing operations	Discontinued operations	Total	Bank's Shareholders	Non-controlling interests
NET INCOME FOR THE PERIOD	211,828	13,413	225,241	169,779	55,462
ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT (NOTE 43)					
Debt instruments at fair value through other comprehensive income					
Gains / (losses) for the period	202,527	-	202,527	203,785	(1,258)
Reclassification of (gains) / losses to profit or loss	(80,612)	-	(80,612)	(75,224)	(5,388)
Cash flows hedging					
Gains / (losses) for the period	163,285	-	163,285	158,872	4,413
Other comprehensive income from investments in associates and others	11,847	-	11,847	11,781	66
Exchange differences arising on consolidation	4,489	-	4,489	(6,697)	11,186
IAS 29 application					
Effect on equity of Banco Millennium Atlântico, S.A (note 43)	(2,759)	-	(2,759)	(2,759)	-
Fiscal impact	(90,711)	-	(90,711)	(91,135)	424
	208,066	-	208,066	198,623	9,443
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT					
Equity instruments at fair value through other comprehensive income					
Gains / (losses) for the period (note 43)	(8,904)	-	(8,904)	(9,242)	338
Changes in own credit risk of financial liabilities at fair value through profit or loss (note 43)	(391)	-	(391)	(391)	-
Actuarial gains / (losses) for the period					
BCP Group Pensions Fund (note 50)	(157,627)	-	(157,627)	(157,627)	-
Pension Fund - other associated companies	(3,207)	-	(3,207)	(3,227)	20
Fiscal impact	11,702	-	11,702	11,770	(68)
	(158,427)	-	(158,427)	(158,717)	290
Other comprehensive income / (loss) for the period	49,639	-	49,639	39,906	9,733
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	261,467	13,413	274,880	209,685	65,195

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE THREE MONTHS PERIOD BETWEEN 1 APRIL AND 30 JUNE 2020 AND 2019

(Thousands of euros)

	Second quarter 2020		
		Attributable to	
	Continuing operations	Bank's Shareholders	Non-controlling interests
NET INCOME FOR THE PERIOD	54,804	40,659	14,145
ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT			
Debt instruments at fair value through other comprehensive income			
Gains / (losses) for the period	185,716	159,970	25,746
Reclassification of (gains) / losses to profit or loss	(13,120)	(9,106)	(4,014)
Cash flows hedging			
Gains / (losses) for the period	36,075	39,260	(3,185)
Other comprehensive income from investments in associates and others	2,214	2,232	(18)
Exchange differences arising on consolidation	5,624	(10,706)	16,330
IAS 29 application			
Effect on equity of Banco Millennium Atlântico, S.A (note 43)	(575)	(575)	-
Fiscal impact	(60,697)	(57,184)	(3,513)
	155,237	123,891	31,346
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT			
Equity instruments at fair value through other comprehensive income			
Gains / (losses) for the period	(3,543)	(3,628)	85
Changes in own credit risk of financial liabilities at fair value through profit or loss	(366)	(366)	-
Actuarial gains / (losses) for the period			
BCP Group Pensions Fund	19,506	19,506	-
Pension Fund - other associated companies	(138)	(138)	-
Fiscal impact	2,723	2,739	(16)
	18,182	18,113	69
Other comprehensive income / (loss) for the period	173,419	142,004	31,415
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	228,223	182,663	45,560

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

(Thousands of euros)

	Second quarter 2019				
				Attributable to	
	Continuing operations	Discontinued operations	Total	Bank's Shareholders	Non-controlling interests
NET INCOME / (LOSS) FOR THE PERIOD	43,080	(41)	43,039	15,936	27,103
ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT					
Debt instruments at fair value through other comprehensive income					
Gains / (losses) for the period	103,244	-	103,244	97,922	5,322
Reclassification of (gains) / losses to profit or loss	(33,463)	-	(33,463)	(30,925)	(2,538)
Cash flows hedging					
Gains / (losses) for the period	99,955	-	99,955	100,726	(771)
Other comprehensive income from investments in associates and others	6,828	-	6,828	6,796	32
Exchange differences arising on consolidation	13,075	-	13,075	(1,486)	14,561
IAS 29 application					
Effect on equity of Banco Millennium Atlântico, S.A (note 43)	(6,395)	-	(6,395)	(6,395)	-
Fiscal impact	(52,711)	-	(52,711)	(52,328)	(383)
	130,533	-	130,533	114,310	16,223
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT					
Equity instruments at fair value through other comprehensive income					
Gains / (losses) for the period	(9,288)	-	(9,288)	(9,288)	-
Changes in own credit risk of financial liabilities at fair value through profit or loss	188	-	188	188	-
Actuarial gains / (losses) for the period					
BCP Group Pensions Fund	(157,627)	-	(157,627)	(157,627)	-
Pension Fund - other associated companies	(1,502)	-	(1,502)	(1,522)	20
Fiscal impact	11,851	-	11,851	11,855	(4)
	(156,378)	-	(156,378)	(156,394)	16
Other comprehensive income / (loss) for the period	(25,845)	-	(25,845)	(42,084)	16,239
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	17,235	(41)	17,194	(26,148)	43,342

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2020 AND 31 DECEMBER 2019

(Thousands of euros)

	Notes	30 June 2020	31 December 2019
ASSETS			
Cash and deposits at Central Banks	18	4,302,644	5,166,551
Loans and advances to credit institutions repayable on demand	19	350,218	320,857
Financial assets at amortised cost			
Loans and advances to credit institutions	20	1,085,970	892,995
Loans and advances to customers	21	51,248,306	49,847,829
Debt securities	22	5,742,472	3,185,876
Financial assets at fair value through profit or loss			
Financial assets held for trading	23	2,335,697	878,334
Financial assets not held for trading mandatorily at fair value through profit or loss	23	1,305,443	1,405,513
Financial assets designated at fair value through profit or loss	23	-	31,496
Financial assets at fair value through other comprehensive income	23	13,285,390	13,216,701
Hedging derivatives	24	133,590	45,141
Investments in associated companies	25	429,589	400,391
Non-current assets held for sale	26	1,201,651	1,279,841
Investment property	27	13,165	13,291
Other tangible assets	28	671,477	729,442
Goodwill and intangible assets	29	238,140	242,630
Current tax assets		21,043	26,738
Deferred tax assets	30	2,661,955	2,720,648
Other assets	31	1,529,676	1,239,134
TOTAL ASSETS		86,556,426	81,643,408
LIABILITIES			
Financial liabilities at amortised cost			
Resources from credit institutions	32	9,055,226	6,366,958
Resources from customers	33	62,475,176	59,127,005
Non subordinated debt securities issued	34	1,475,762	1,594,724
Subordinated debt	35	1,440,353	1,577,706
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	36	411,227	343,933
Financial liabilities at fair value through profit or loss	37	2,287,682	3,201,309
Hedging derivatives	24	265,447	229,923
Provisions	38	345,911	345,312
Current tax liabilities		5,656	21,990
Deferred tax liabilities	30	6,593	11,069
Other liabilities	39	1,337,709	1,442,225
TOTAL LIABILITIES		79,106,742	74,262,154
EQUITY			
Share capital	40	4,725,000	4,725,000
Share premium	40	16,471	16,471
Other equity instruments	40	400,000	400,000
Legal and statutory reserves	41	254,464	240,535
Treasury shares	42	(70)	(102)
Reserves and retained earnings	43	760,842	435,823
Net income for the period attributable to Bank's Shareholders		75,958	302,003
TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS		6,232,665	6,119,730
Non-controlling interests	44	1,217,019	1,261,524
TOTAL EQUITY		7,449,684	7,381,254
TOTAL LIABILITIES AND EQUITY		86,556,426	81,643,408

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS PERIODS ENDED 30 JUNE 2020 AND 2019

(Thousands of euros)

	30 June 2020	30 June 2019
CASH FLOWS ARISING FROM OPERATING ACTIVITIES		
Interests received	830,758	803,113
Commissions received	436,517	434,312
Fees received from services rendered	33,430	58,366
Interests paid	(128,831)	(198,379)
Commissions paid	(83,653)	(87,850)
Recoveries on loans previously written off	12,889	12,209
Net earned insurance premiums	9,666	10,321
Claims incurred of insurance activity	(3,059)	(3,339)
Payments (cash) to suppliers and employees (*)	(662,978)	(636,206)
Income taxes (paid) / received	(52,436)	(47,405)
	392,303	345,142
Decrease / (increase) in operating assets:		
Receivables from / (Loans and advances to) credit institutions	(83,013)	(80,933)
Deposits held with purpose of monetary control	(111,526)	-
Loans and advances to customers receivable / (granted)	(1,567,738)	(1,421,971)
Short term trading securities	(1,493,006)	129,207
Increase / (decrease) in operating liabilities:		
Loans and advances to credit institutions repayable on demand	(104,782)	36,504
Deposits from credit institutions with agreed maturity date	2,740,032	(1,442,694)
Loans and advances to customers repayable on demand	4,301,581	2,323,273
Deposits from customers with agreed maturity date	(1,703,581)	(496,627)
	2,370,270	(608,099)
CASH FLOWS ARISING FROM INVESTING ACTIVITIES		
Dividends received	5,932	10,595
Interest income from financial assets at fair value through other comprehensive income and at amortised cost	101,989	148,699
Sale of financial assets at fair value through other comprehensive income and at amortised cost	13,322,425	13,299,793
Acquisition of financial assets at fair value through other comprehensive income and at amortised cost	(29,462,793)	(28,829,723)
Maturity of financial assets at fair value through other comprehensive income and at amortised cost	13,217,569	16,620,939
Acquisition of tangible and intangible assets	(23,143)	(37,151)
Sale of tangible and intangible assets	4,470	11,731
Decrease / (increase) in other sundry assets	232,330	(599,932)
	(2,601,221)	624,951
CASH FLOWS ARISING FROM FINANCING ACTIVITIES		
Acquisition of investments in subsidiaries which does not results loss control	-	75,373
Issuance of subordinated debt	-	197,377
Reimbursement of subordinated debt	(139,092)	(9)
Issuance of debt securities	115	414,698
Reimbursement of debt securities	(169,357)	(117,092)
Issuance of commercial paper and other securities	43,837	152,741
Reimbursement of commercial paper and other securities	(149,458)	(78,428)
Issue of Perpetual Subordinated Bonds (Additional Tier 1)	-	396,420
Dividends paid to shareholders of the Bank	-	(30,228)
Dividends paid to non-controlling interests	(22,974)	(15,502)
Interest paid of the issue of Perpetual Subordinated Bonds (Additional Tier 1)	(18,500)	(9,250)
Increase / (decrease) in other sundry liabilities and non-controlling interests (**)	(9,515)	(188,496)
	(464,944)	797,604
Exchange differences effect on cash and equivalents	(138,651)	4,489
Net changes in cash and equivalents	(834,546)	818,945
Cash (note 18)	636,048	566,202
Deposits at Central Banks (note 18)	4,530,503	2,187,637
Loans and advances to credit institutions repayable on demand (note 19)	320,857	326,707
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	5,487,408	3,080,546
Cash (note 18)	516,883	536,807
Deposits at Central Banks (note 18)	3,785,761	3,049,274
Loans and advances to credit institutions repayable on demand (note 19)	350,218	313,410
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	4,652,862	3,899,491

(*) In the first semester of 2020, this balance includes the amount of Euros 1,254,000 (30 June 2019: Euros 804,000) related to short-term lease contracts and the amount of Euros 1,216,000 (30 de June 2019: Euros 1,018,000) related to lease contrats of low value assets.

(**) In the first semester of 2020, this balance includes the amount of Euros 30,935,000 (30 June 2019: Euros 25.733.000) corresponding to payments of lease liabilities' shares of capital.

CHIEF ACCOUNTANT THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS PERIODS ENDED 30 JUNE 2020 AND 2019

(Thousands of euros)

	Share capital	Share premium	Preference shares	Other equity instruments	Legal and statutory reserves	Treasury shares	Reserves and retained earnings	Net income for the period attributable to Bank's Shareholders	Equity attributable to Bank's Shareholders	Non--controlling interests (note 44)	Total equity
BALANCE AS AT 31 DECEMBER 2018	4,725,000	16,471	-	2,922	264,608	(74)	470,481	301,065	5,780,473	1,183,433	6,963,906
Net income for the period	-	-	-	-	-	-	-	169,779	169,779	55,462	225,241
Other comprehensive income	-	-	-	-	-	-	39,906	-	39,906	9,733	49,639
TOTAL COMPREHENSIVE INCOME	-	-	-	-	-	-	39,906	169,779	209,685	65,195	274,880
Results application:											
Statutory reserve (note 41)	-	-	-	-	(30,000)	-	30,000	-	-	-	-
Legal reserve	-	-	-	-	5,927	-	(5,927)	-	-	-	-
Transfers for reserves and retained earnings	-	-	-	-	-	-	301,065	(301,065)	-	-	-
Dividends paid	-	-	-	-	-	-	(30,228)	-	(30,228)	-	(30,228)
Issue of Perpetual Subordinated Bonds (Additional Tier 1) (note 40)	-	-	-	400,000	-	-	-	-	400,000	-	400,000
Interest of Perpetual Subordinated Bonds (Additional Tier 1) (note 40)	-	-	-	-	-	-	(9,250)	-	(9,250)	-	(9,250)
Taxes on Interest of Perpetual Subordinated Bonds (Additional Tier 1)	-	-	-	-	-	-	1,828	-	1,828	-	1,828
Costs with the Issue of Perpetual Subordinated Bonds (Additional Tier 1)	-	-	-	-	-	-	(3,580)	-	(3,580)	-	(3,580)
Sale of subsidiaries	-	-	-	-	-	-	-	-	-	(16,296)	(16,296)
Dividends (a)	-	-	-	-	-	-	-	-	-	(15,502)	(15,502)
Treasury shares	-	-	-	-	-	(14)	-	-	(14)	-	(14)
Other reserves	-	-	-	-	-	-	(611)	-	(611)	(11)	(622)
BALANCE AS AT 30 JUNE 2019	4,725,000	16,471	-	402,922	240,535	(88)	793,684	169,779	6,348,303	1,216,819	7,565,122
Net income for the period	-	-	-	-	-	-	-	132,224	132,224	43,935	176,159
Other comprehensive income	-	-	-	-	-	-	(332,932)	-	(332,932)	1,494	(331,438)
TOTAL COMPREHENSIVE INCOME	-	-	-	-	-	-	(332,932)	132,224	(200,708)	45,429	(155,279)
Results application:											
Reimbursement of Perpetual Subordinated Debt Securities	-	-	-	(2,922)	-	-	-	-	(2,922)	-	(2,922)
Reversal of Deferred Tax Assets Related to Expenses with the Capital Increase	-	-	-	-	-	-	(3,652)	-	(3,652)	-	(3,652)
Interest of Perpetual Subordinated Bonds (Additional Tier 1)	-	-	-	-	-	-	(18,500)	-	(18,500)	-	(18,500)
Taxes on Interest of Perpetual Subordinated Bonds (Additional Tier 1)	-	-	-	-	-	-	(1,809)	-	(1,809)	-	(1,809)
Costs with the Issue of Perpetual Subordinated Bonds (Additional Tier 1)	-	-	-	-	-	-	(95)	-	(95)	-	(95)
Taxes on Costs with the Issue of Perpetual Subordinated Bonds (Additional Tier 1)	-	-	-	-	-	-	2	-	2	-	2
Dividends from other equity instruments	-	-	-	-	-	-	(148)	-	(148)	-	(148)
Sale of subsidiaries	-	-	-	-	-	-	-	-	-	(403)	(403)
Treasury shares	-	-	-	-	-	(14)	-	-	(14)	-	(14)
Other reserves	-	-	-	-	-	-	(727)	-	(727)	(321)	(1,048)
BALANCE AS AT 31 DECEMBER 2019	4,725,000	16,471	-	400,000	240,535	(102)	435,823	302,003	6,119,730	1,261,524	7,381,254
Net income for the period	-	-	-	-	-	-	-	75,958	75,958	22,832	98,790
Other comprehensive income	-	-	-	-	-	-	51,519	-	51,519	(43,278)	8,241
TOTAL COMPREHENSIVE INCOME	-	-	-	-	-	-	51,519	75,958	127,477	(20,446)	107,031
Results application (note 48):											
Legal reserve (note 41)	-	-	-	-	13,929	-	(13,929)	-	-	-	-
Transfers for reserves and retained earnings	-	-	-	-	-	-	302,003	(302,003)	-	-	-
Interest of Perpetual Subordinated Bonds (Additional Tier 1) (note 40)	-	-	-	-	-	-	(18,500)	-	(18,500)	-	(18,500)
Taxes on Interest of Perpetual Subordinated Bonds (Additional Tier 1)	-	-	-	-	-	-	3,885	-	3,885	-	3,885
Aquisition of subsidiaries	-	-	-	-	-	-	-	-	-	(1,080)	(1,080)
Dividends (a)	-	-	-	-	-	-	-	-	-	(22,974)	(22,974)
Treasury shares (note 42)	-	-	-	-	-	32	-	-	32	-	32
Other reserves (note 43)	-	-	-	-	-	-	41	-	41	(5)	36
BALANCE AS AT 30 JUNE 2020	4,725,000	16,471	-	400,000	254,464	(70)	760,842	75,958	6,232,665	1,217,019	7,449,684

(a) Dividends of BIM - Banco Internacional de Moçambique, S.A. and SIM - Seguradora Internacional de Moçambique, S.A.R.L.

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

1. Accounting policies

A. Basis of presentation

Banco Comercial Português, S.A. Sociedade Aberta (the 'Bank') is a private capital bank, established in Portugal in 1985. It started operating on 5 May 1986, and these interim condensed consolidated financial statements reflect the results of the operations of the Bank and all its subsidiaries (together referred to as the 'Group') and the Group's interest in associates, for the six-month period ended on 30 June 2020 and 2019.

In accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, and Bank of Portugal Notice no. 5/2015 (which revoked Bank of Portugal Notice no. 1/2005), the Group's consolidated financial statements are required to be prepared, since 2005, in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB), as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor bodies. The interim condensed consolidated financial statements and the accompanying notes were approved on 14 July 2020 by the Bank's Executive Committee and are presented in thousands of Euros, rounded to the nearest thousand.

All the references in this document related to any normative always report to the respective current version.

The interim condensed consolidated financial statements for the six-month period ended on 30 June 2020 were prepared in terms of recognition and measurement in accordance with the IAS 34 - Interim Financial Reporting adopted by the EU and, therefore, they do not include all the information required in accordance with IFRS adopted by the EU. Consequently, the adequate comprehension of the interim condensed consolidated financial statements requires that they should be read with the consolidated financial statements with reference to 31 December 2019.

These interim condensed consolidated financial statements are a translation of financial statements originally issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.

A1. Comparative information

The Group has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1 January 2020. The accounting policies were applied consistently to all entities of the Group and are consistent with those used in the preparation of the financial statements of the previous period.

The Group's financial statements were prepared under the going concern assumption and under the historical cost convention, as modified by the application of fair value for derivative financial instruments, financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income. Financial assets and liabilities that are covered under hedge accounting are stated at fair value in respect of the risk that is being hedged, if applicable. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount or fair value less costs to sell. The liability for defined benefit obligations is recognised as the present value of the past liabilities with pensions net of the value of the fund's assets.

The preparation of the financial statements in accordance with IFRS requires the Executive Committee to make judgments, estimations and assumptions that affect the application of the accounting policies and reported amounts of assets, liabilities, income and expenses. The estimations and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances and form the basis for making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimations. The issues involving a higher degree of judgment or complexity or for which assumptions and estimations are considered to be significant are presented in note 1.Z.

B. Basis of consolidation

As from 1 January 2010, the Group began to apply IFRS 3 (revised) for the accounting of business combinations. The changes in the accounting policies resulting from the application of IFRS 3 (revised) are applied prospectively.

The interim condensed consolidated financial statements now presented reflect the assets, liabilities, income and expenses of the Bank and its subsidiaries (the Group), and the results attributable to the Group financial investments in associates.

B1. Investments in subsidiaries

Subsidiaries are entities controlled by the Group (including structure entities and investment funds). The Group controls an entity when it holds the power to direct the relevant activities of the entity, and when it is exposed, or has rights, to variable returns from its involvement with the entity and is able to take possession of these results through the power it holds over the relevant activities of that entity (*de facto* control). The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Accumulated losses are attributed to non-controlling interests in the respective proportion, implying that the Group can recognise negative non-controlling interests.

On a step acquisition process resulting in the acquisition of control, the revaluation of any participation previously acquired is recorded against the profit and loss account when goodwill is calculated. On a partial disposal resulting in loss of control over a subsidiary, any participation retained is revaluated at market value on the sale date and the gain or loss resulting from this revaluation is booked against the income statement.

B2. Investments in associates

Investments in associated companies are registered by the equity method from the date that the Group acquires significant influence until the date it ceases to exist. Associates are those entities in which the Group has significant influence but not control over the financial and operating policy decisions of the investee. It is assumed that the Group has significant influence when it holds, directly or indirectly, more than 20% or of the voting rights of the investee. If the Group holds, directly or indirectly, less than 20% of the voting rights of the investee, it is presumed that the Group does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence by the Group is usually evidenced in one or more of the following ways:

- representation on the Board of Directors or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the Group and the investee;
- interchange of the management team;
- provision of essential technical information.

The consolidated financial statements include the part that is attributable to the Group of the total reserves and results of associated companies accounted on an equity basis. When the Group's share of losses exceeds its interest in the associate, the carrying amount is reduced to zero and recognition of further losses is discontinued, with exception of the part in which the Group incurs in a legal obligation to assume these losses on behalf of an associate.

B3. Goodwill

Business combinations are accounted under the purchase method. The acquisition cost corresponds to the fair value, determined at the acquisition date, of the assets given and liabilities incurred or assumed. Costs directly attributable to the acquisition of a subsidiary are recorded directly in the income statement.

Positive goodwill arising from acquisitions is recognised as an asset carried at acquisition cost and is not subject to amortisation. Goodwill arising from the acquisition of subsidiaries and associates is defined as the difference between the cost of acquisition and the total or corresponding share of the fair value of the net assets and contingent liabilities acquired, depending on the option taken.

Negative goodwill arising from an acquisition is recognised directly in the income statement of the year in which the business combination occurs.

Goodwill is not adjusted due to changes in the initial estimation of the contingent purchase price, being the difference recorded in the income statement or in equity, when applicable.

According to IFRS 3 – Business combinations, if the initial accounting of a business combination is not concluded until the end of the first financial reporting period in which the combination occurs, it is recorded at the respective provisional values. These provisional values can be adjusted over the measurement period, which can't exceed a year since the acquisition date. Over this period, the Group should retrospectively adjust the amounts recognised previously on the acquisition date, to reflect newly obtained information about facts and circumstances that existed at the acquisition date and that, if they were known by then, would have impacted the measurement of the amounts recognised at that date.

During this period, the Group should also recognise additional assets and liabilities in case of obtaining new information about facts and circumstances that existed at the acquisition date and that, if they were known by then, would have resulted in the recognition of that assets and liabilities at that time.

The recoverable amount of the goodwill registered in the Group's asset is assessed annually in the preparation of the accounts with reference to the end of the year or whenever there are indications of eventual loss of value. Impairment losses are recognised in the income statement. The recoverable amount is determined based on the highest between the assets value in use and the market value deducted of selling costs, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

B4. Purchases and dilution of non-controlling interests

The acquisition of non-controlling interests that does not impact the control position of a subsidiary is accounted as a transaction with shareholders and, therefore, is not recognised additional goodwill resulting from this transaction. The difference between the acquisition cost and the fair value of non-controlling interests acquired is recognised directly in reserves. On this basis, the gains and losses resulting from the sale of controlling interests, that does not impact the control position of a subsidiary, are always recognised against reserves.

B5. Loss of control

The gains and losses resulting from the dilution or sale of a financial position in a subsidiary, with loss of control, are recognised by the Group in the income statement.

B6. Investments in foreign subsidiaries and associates

The financial statements of foreign subsidiaries and associates of the Group are prepared in their functional currency, defined as the currency of the primary economic environment in which they operate or the currency in which the subsidiaries obtain their income or finance their activity. In the consolidation process, assets and liabilities, including goodwill, of foreign subsidiaries are converted into Euros at the official exchange rate at the balance sheet date.

Regarding the investments in foreign operations that are consolidated under the full consolidation or equity methods, exchange differences, between the conversion to Euros of the equity at the beginning of the year and its value in Euros at the exchange rate ruling at the balance sheet date in which the consolidated accounts are reported, are recognised against "Reserves - exchange differences". The changes in fair value resulting from instruments that are designated and qualified as hedging instruments related to foreign operations are recorded in equity under "Reserves and retained earnings". Whenever the hedge is not fully effective, the ineffective portion is accounted against profit and loss of the year.

The income and expenses of these subsidiaries are converted to Euros at an approximate rate of the rates ruling at the dates of the transactions, and it is used a monthly average considering the initial and final exchange rates of each month. Exchange differences from the conversion to Euros of the profits and losses for the reporting period, arising from the difference between the exchange rate used in the income statement and the exchange rate prevailing at the balance sheet date, are recognised in "Reserves and retained earnings - exchange differences resulting from the consolidation of Group's companies". The exchange rates used by the Group are detailed in note 53.

On disposal of investments in foreign subsidiaries for which there is loss of control, exchange differences related to the investment in the foreign operation and to the associated hedge transaction previously recognised in reserves are transferred to profit and loss, as part of the gains or loss arising from the disposal.

The Group applies IAS 29 – Financial reporting in hyperinflationary economies in financial statements of entities that present accounts in functional currency of an economy that has hyperinflation.

In applying this policy, non-monetary assets and liabilities are adjusted based on the price index from the date of acquisition or the date of the last revaluation until 31 December 2019. The restated values of assets are reduced by the amount that exceeds their recoverable amount, in accordance with the applicable IFRS.

Equity components are also updated considering the price index from the beginning of the period or date of the contribution, if it is earlier.

When the classification as a hyperinflationary economy is applied to associated companies, its effects are included in the Group's financial statements by applying the equity method of accounting on the financial statements restated in accordance with the requirements of IAS 29. The effects of the application of IAS 29 with impact on capital items are recognised against the item "Reserves and retained earnings".

In accordance with the requirements provided in IAS 29, Angola was considered until 31 December 2018 as a hyperinflationary economy. This classification is no longer applicable since 1 January 2019.

B7. Transactions eliminated on consolidation

The balances and transactions between Group's companies, as well as any unrealised gains and losses arising from these transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised gains and losses arising from transactions with associates and jointly controlled entities are eliminated in the proportion of the Group's investment in these entities.

C. Financial instruments (IFRS 9)

C1. Financial assets

C1.1. Classification, initial recognition and subsequent measurement

At the initial recognition, financial assets are classified into one of the following categories:

i) “Financial assets at amortised cost”;
ii) “Financial assets at fair value through other comprehensive income”; or,
iii) “Financial assets at fair value through profit or loss”.

The classification is made taking into consideration the following aspects:

- the Group's business model for the management of the financial asset; and,
- the characteristics of the contractual cash flows of the financial asset.

Business Model Evaluation

With reference to 1 January 2018, the Group carried out an evaluation of the business model in which the financial instruments are held at portfolio level, since this approach reflects how assets are managed and how that information is made available to management bodies. The information considered in this evaluation included:

- the policies and purposes established for the portfolio and the practical operability of these policies, including how the management strategy focuses on receiving contractual interest, maintaining a certain interest rate profile, adjusting the duration of financial assets to the duration of liabilities that finance these assets or on the realization of cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management bodies;
- the evaluation of the risks that affect the performance of the business model (and of the financial assets held under this business model) and the way these risks are managed;
- the remuneration of business managers, i.e., in what way the compensation depends on the fair value of the assets under management or on contractual cash flows received; and,
- the frequency, volume and sales periodicity in previous periods, the reasons for these sales and the expectations about future sales. However, sales information should not be considered individually, but as part of an overall assessment of how the Group establishes financial asset management objectives and how cash flows are obtained.

Financial assets held for trading and financial assets managed and evaluated at fair value by option are measured at fair value through profit or loss because they are not held either for the collection of contractual cash flows (HTC), nor for the collection of cash flows and sale of these financial assets (HTC and Sell).

Evaluation if the contractual cash flows correspond to Solely Payments of Principal and Interest (SPPI)

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as the counterparty for the time value of money, for the credit risk associated with the amount owed over a given period of time and for other risks and costs associated with the activity (e.g., liquidity risk and administrative costs), as well as for a profit margin.

In the evaluation of the financial instruments in which contractual cash flows refer exclusively to the receipt of principal and interest, the Group considered the original contractual terms of the instrument. This evaluation included the analysis of the existence of situations in which the contractual terms can modify the periodicity and the amount of the cash flows so that they do not fulfil the SPPI condition. In the evaluation process, the Group considered:

- contingent events that may change the periodicity and the amount of the cash flows;
- characteristics that result in leverage;
- terms of prepayment and extension of maturity;
- terms that may limit the right of the Group to claim cash flows in relation to specific assets (e.g., contracts with terms that prevent access to assets in case of default – non-recourse asset); and,
- characteristics that may change the time value of money.

In addition, an advance payment is consistent with the SPPI criterion if:

- the financial asset is acquired or originated with a premium or discount in relation to the contractual nominal value;
- the prepayment represents substantially the nominal amount of the contract plus accrued contractual interest, but not paid (may include reasonable compensation for prepayment); and,
- the prepaid fair value is insignificant at initial recognition.

C1.1.1. Financial assets at amortised cost

Classification

A financial asset is classified under the category "Financial assets at amortised cost" if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect their contractual cash flows; and,
- its contractual cash flows occur on specific dates and are solely payments of principal and interest on the principal amount outstanding (SPPI).

The "Financial assets at amortised cost" category includes loans and advances to credit institutions, loans and advances to customers and debt instruments managed based on a business model whose purpose is to receive their contractual cash flows (government bonds, bonds issued by companies and commercial paper).

Initial recognition and subsequent measurement

Loans and advances to credit institutions and loans and advances to customers are recognised at the date the funds are made available to the counterparty (settlement date). Debt instruments are recognised on the trade date, that is, on the date the Group accepts to acquire them.

Financial assets at amortised cost are initially recognised at fair value plus transaction costs and are subsequently measured at amortised cost. In addition, they are subject, at their initial recognition, to the measurement of impairment losses for expected credit losses (note C1.5), which are recognised in "'Impairment of financial assets measured at amortised cost".

Interest of financial assets at amortised cost is recognised under "Interest and similar income", based on the effective interest rate method and in accordance with the criteria described in note C3.

Gains or losses generated at the time of derecognition are registered in "Gains/(losses) with derecognition of financial assets and liabilities at amortised cost".

C1.1.2. Financial assets at fair value through other comprehensive income

Classification

A financial asset is classified under the category of "Financial assets at fair value through other comprehensive income" if both of the following conditions are met:

- the financial asset is held within a business model whose objective is both to collect its contractual cash flows and to sell this financial asset; and,
- its contractual cash flows occur on specific dates and are solely payments of principal and interest on the principal amount outstanding (SPPI).

In addition, at the initial recognition of an equity instrument that is not held for trading, nor a contingent retribution recognised by an acquirer in a business combination to which IFRS 3 applies, the Group may irrevocably choose to classify it in the category of "Financial assets at fair value through other comprehensive income" (FVOCI). This option is exercised on a case-by-case basis and is only available for financial instruments that comply with the definition of equity instruments provided in IAS 32 and cannot be used for financial instruments whose classification as an equity instrument under the scope of the issuer is made under the exceptions provided in paragraphs 16A to 16D of IAS 32.

Initial recognition and subsequent measurement

Debt instruments at fair value through other comprehensive income are initially recognised at fair value plus transaction costs and are subsequently measured at fair value. Changes in the fair value of these financial assets are recognised against other comprehensive income and, at the time of their disposal, the respective gains or losses accumulated in other comprehensive income are reclassified to a specific income statement item designated "Gains or losses on derecognition of financial assets at fair value through other comprehensive income".

Debt instruments at fair value through other comprehensive income are also subject, from their initial recognition, to the measurement of impairment losses for expected credit losses (note C1.5). Impairment losses are recognised in the income statement under "Impairment for financial assets at fair value through other comprehensive income", against "Other comprehensive income", and do not reduce the carrying amount of the financial asset in the balance sheet.

Interest, premiums or discounts on financial assets at fair value through other comprehensive income are recognised in "Interest and similar income", based on the effective interest rate method and in accordance with the criteria described in note C3.

Equity instruments at fair value through other comprehensive income are initially recognised at fair value plus transaction costs and are subsequently measured at fair value. The changes in the fair value of these financial assets are recognised against "Other comprehensive income". Dividends are recognised in the income statement when the right to receive them is attributed.

Impairment is not recognised for equity instruments at fair value through other comprehensive income, and the respective accumulated gains or losses recognised in "Fair value changes" are transferred to "Retained earnings" at the time of their derecognition.

C1.1.3. Financial assets at fair value through profit or loss

Classification

A financial asset is classified in the category "Financial assets at fair value through profit and loss" if the business model defined by the Group for its management or the characteristics of its contractual cash flows do not meet the conditions described above to be measured at amortised cost or at fair value through other comprehensive income (FVOCI).

In addition, the Group may irrevocably designate a financial asset at fair value through profit or loss that meets the criteria to be measured at amortised cost or at FVOCI at the time of its initial recognition if this eliminates or significantly reduces an inconsistency in measurement or recognition (accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising their gains and losses in different bases.

The Group classified "Financial assets at fair value through profit and loss" in the following items:

a) "Financial assets held for trading"

These financial assets are acquired with the purpose of short-term selling; at the initial recognition, they are part of a portfolio of identified financial instruments and for which there is evidence of profit-taking in the short-term; or they can be defined as derivatives (except for hedging derivatives).

b) "Financial assets not held for trading mandatorily at fair value through profit or loss"

This item classifies debt instruments whose contractual cash flows do not correspond only to repayments of principal and interest on the principal amount outstanding (SPPI).

c) "Financial assets designated at fair value through profit or loss"

This item includes the financial assets that the Group has chosen to designate at fair value through profit or loss to eliminate accounting mismatch.

Initial recognition and subsequent measurement

Considering that the transactions carried out by the Group in the normal course of its business are in market conditions, financial assets at fair value through profit or loss are initially recognised at their fair value, with the costs or income associated with the transactions recognised in profit and loss at the initial moment. Subsequent changes in the fair value of these assets are recognised in profit and loss.

The accrual of interest and of the premium/discount (when applicable) is recognised in "Net interest income", based on the effective interest rate of each transaction, as well as the accrual of interest from derivatives associated with financial instruments classified in this category. Dividends are recognised in profit and loss when the right to receive them is attributed.

Trading derivatives with a positive fair value are included in the item "Financial assets held for trading", while trading derivatives with negative fair value are included in "Financial liabilities held for trading".

C1.2. Reclassification between categories of financial assets

Financial assets should be reclassified into other categories only if the business model used in their management has changed. In this case, all financial assets affected must be reclassified.

The reclassification must be applied prospectively from the date of reclassification and any gains, losses (including the ones related to impairment) or interest previously recognised should not be restated.

It is not allowed the reclassification of investments in equity instruments measured at fair value through other comprehensive income, nor of financial instruments designated at fair value through profit or loss.

C1.3. Modification and derecognition of financial assets

General principles

i) The Group shall derecognise a financial asset when, and only when:

- the contractual rights to the cash flows from the financial asset expire; or,
- it transfers the financial asset as set out in notes ii) and iii) below and the transfer qualifies for derecognition in accordance with note iv).

ii) The Group transfers a financial asset if, and only if, it either:

- transfers the contractual rights to receive the cash flows of the financial asset; or,
- retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions presented in note iii).

iii) When the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay these cash flows to one or more entities (the 'eventual recipients'), the Group shall treat the transaction as a transfer of a financial asset if all of the following three conditions are met:

- the Group does not have any obligation to pay amounts to the eventual recipients, unless it collects equivalent amounts from the original asset. Short-term advances with the right of full recovery of the amount lent, plus accrued interest at market rates, do not violate this condition;
- the Group is contractually prohibited from selling or pledging the original asset other than as a security to the eventual recipients due its obligation to pay them cash flows; and,
- the Group has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, it is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in IAS 7 – Statement of Cash Flows) during the short settlement period from the collection date until the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

iv) When the Group transfers a financial asset (see note ii) above), it shall evaluate the extent to which it retains the risks and benefits arising from owning the financial asset. In this case:

- if the Group transfers substantially all the risks and benefits arising from owning the financial asset, it shall derecognise the financial asset and recognise separately any rights and obligations created or retained in the transfer, as assets or liabilities;
- if the Group retains substantially all the risks and benefits arising from owning the financial asset, it shall continue to recognise the financial asset;
- if the Group neither transfers nor retains substantially all the risks and benefits arising from owning the financial asset, it shall determine whether it retained control of the financial asset. In this case:

a) if the Group did not retain control, it shall derecognise the financial asset and recognise separately, as assets or liabilities, any rights and obligations created or retained in the transfer;
b) if the Group retained control, it shall continue to recognise the financial asset to the extent of its continued involvement in the financial asset.

v) The transfer of risks and benefits (see prior note) is evaluated by comparing the Group's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset.

vi) The question of whether the Group retained or not control (see note iv) above) over the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and can exercise that ability unilaterally without needing to impose additional restrictions on the transfer, the entity did not retain control. In all other cases, the entity retained control.

Derecognition criteria

In the context of the general principles listed in the previous section, and considering that contract modification processes may lead, in some circumstances, to the derecognition of the original financial assets and recognition of new ones (subject to POCI identification), the purpose of this section is to set the criteria and circumstances that may lead to the derecognition of a financial asset.

The Group considers that a modification in the terms and conditions of a credit exposure will result in derecognition of the transaction and in recognition of a new transaction when the modification translates into at least one of the following conditions:

- creation of a new exposure that results from a debt consolidation, without any of the derecognised instruments having a nominal amount higher than 90% of the nominal amount of the new instrument;
- double extension of residual maturity, provided that the extension is not shorter than 3 years compared to the residual maturity in the moment of modification;
- increase of on-balance exposure by more than 10% compared to the nominal amount (refers to the last approved amount on the operation subject to modification);
- change in qualitative features, namely:

a) change of currency, unless the exchange rate between the old and the new currency is pegged or managed within limits restricted by law or relevant monetary authorities;
b) exclusion or addition of a substantial equity conversion feature to a debt instrument, unless it is not reasonably possible that it will be exercised over its term;
c) transfer of the instrument's credit risk to another borrower, or a significant change in the structure of borrowers within the instrument.

Loans written-off

The Group writes off a loan when it does not have reasonable expectations of recovering a financial asset in its entirety or partially. This registration occurs after all the recovery actions developed by the Group prove to be fruitless. Loans written-off are recognised in off-balance sheet accounts.

C1.4. Purchased or originated credit-impaired assets

Purchased or originated credit-impaired (POCI) assets are assets that present objective evidence of credit impairment in the moment of their initial recognition. An asset is credit-impaired if one or more events have occurred with a detrimental impact on the estimated future cash flows of the asset.

The two events that lead to the origin of a POCI exposure are presented as follows:

- financial assets arising from a recovery process, where there have been changes to the terms and conditions of the original agreement, which presented objective evidence of impairment that resulted in its derecognition (note C1.3) and recognition of a new contract that reflects the credit losses incurred;
- financial assets acquired with a significant discount, where the existence of a significant discount reflects credit losses incurred at the time of their initial recognition.

At initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime expected credit losses (ECL) are incorporated into the calculation of the effective interest rate (EIR). Consequently, at initial recognition, the gross book value of POCI (initial balance) is equal to the net book value before being recognised as POCI (difference between the initial balance and the total discounted cash flows).

C1.5. Impairment losses

C1.5.1. Financial instruments subject to impairment losses recognition

The Group recognises impairment losses for expected credit losses on financial instruments recognised in the following accounting items:

C1.5.1.1. Financial assets at amortised cost

Impairment losses on financial assets at amortised cost reduce the balance sheet value of these financial assets against the item "Impairment for financial assets at amortised cost" (in the income statement).

C1.5.1.2. Debt instruments at fair value through other comprehensive income

Impairment losses for debt instruments at fair value through other comprehensive income are recognised in the income statement under "Impairment for financial assets at fair value through other comprehensive income", against other comprehensive income (they do not reduce the balance sheet amount of these financial assets).

C1.5.1.3. Credit commitments, documentary credits and financial guarantees

Impairment losses associated with credit commitments, documentary credits and financial guarantees are recognised in liabilities, under the balance "Provisions for guarantees and other commitments", against "Other provisions" (in the income statement).

C1.5.2. Classification of financial instruments by stages

	Changes in credit risk since the initial recognition		
	Stage 1	Stage 2	Stage 3
Classification criterion	Initial recognition	Significant increase in credit risk since initial recognition	Impaired
Impairment losses	12-month expected credit losses	Lifetime expected credit losses	

The Group determines the expected credit losses of each operation as a result of the deterioration of credit risk since its initial recognition. For this purpose, operations are classified into one of the following three stages:

- Stage 1: the operations in which there is no significant increase in credit risk since its initial recognition are classified in this stage. Impairment losses associated with operations classified in this stage correspond to expected credit losses resulting from a default event that may occur within 12 months after the reporting date (12-month expected credit losses);
- Stage 2: the operations in which there is a significant increase in credit risk since its initial recognition (note C1.5.3) but are not impaired (note C1.5.4) are classified in this stage. Impairment losses associated with operations classified in this stage correspond to the expected credit losses resulting from default events that may occur over the expected residual life of the operations (lifetime expected credit losses);
- Stage 3: impaired operations are classified in this stage. Impairment losses associated with operations classified at this stage correspond to lifetime expected credit losses.

C1.5.3. Significant increase in credit risk (SICR)

Significant increase in credit risk (SICR) is determined according to a set of mostly quantitative, but also qualitative criteria. These criteria are mainly based on the risk grades of customers, according to the Bank's Rating Master Scale, and on its evolution, in order to detect significant increases in Probability of Default (PD), complemented by other information regarding the customers' behavior towards the financial system.

C1.5.4. Definition of financial assets in default and impaired

Until 31 December 2019, customers who met at least one of the following criteria were considered to be in default:

a) Customers that are in default or with a limit exceeded for more than 90 days above the materiality applicable;
b) Customers subjected to individual analysis of impairment, for which the amount of impairment represents more than 20% of total exposure;
c) Customers submitted to the individual analysis of impairment and for which impairment value exceeds Euros 5 million;
d) Clients declared insolvent;
e) Customers that are subject to judicial recovery, excluding guarantors;
f) Customers with restructured operations caused by financial difficulties, for which it was registered, at the time of restructuring, an economic loss over Euros 5 million or 20% of total exposure;
g) Customers with restructured operations caused by financial difficulties, due for more than 45 days above the customer applicable materiality considering all its credit operations;
h) Customers that register a recurrence of restructured operations due to financial difficulties within a 24 months period since default resulting from a previous restructuring. If the previous restructuring did not result in default, the 24 months period count begins at the date of the previous restructuring;
i) Customers for which a part or the entirety of their exposure was sold with a loss greater than 20% or Euros 5 million (excluding sales that result from a decision regarding balance sheet management and not from a disposal of problematic loans);
j) Customers for which takes place a new sale with loss, regardless of the amount, within a period of 24 months since the trigger resulting from the previous sale;
k) Guarantors of operations overdue for more than 90 days above the defined materiality, as long as the respective guarantee has been activated;
l) Cross default at the BCP Group level;
m) Customers with restructured operations at a lower interest rate than the refinancing rate of the European Central Bank (unproductive credit).

Until 31 December 2019, it was considered as having objective signs of impairment (i.e., impaired):

i) Customers in default, i.e., marked as grade 15 on the Bank's Rating Master Scale;
ii) Customers that, when submitted to a questionnaire for analysis of financial difficulties evidence, are considered with objective signs of impairment;
iii) Customers whose contracts' values, that are due for more than 90 days, represent more than 20% of their total exposure in the balance sheet;
iv) The Non-Retail customers with one or more contracts overdue for more than 90 days and whose total overdue amount exceeds Euros 500;
v) The Retail customers contracts overdue for more than 90 days and in which the overdue amount exceeds Euros 200;
vi) Contracts restructured due to financial difficulties that are overdue for more than 30 days and in which the overdue amount exceeds Euros 200.

As of 1 January 2020, all customers who meet at least one of the following conditions are marked as default and, consequently, in NPE:

a) Delay over 90 days of material payment:

- Amounts of principal, interest or fees not paid on the due date that, cumulatively, represent:
  i) more than Euros 100 (retail) or more than Euros 500 (non-retail); and,
  ii) more than 1% of the total debt (direct liabilities).

After these two conditions are met, the counting of days of delay begins: if more than 90 consecutive days in which the customer is in this situation have been counted, it is classified as default (or GR15).

The existence of a material payment delay gives rise to the default setting (GR15) of all holders of the operation (or operations).

b) Signs of low probability of payment:

i) Credit restructuring due to financial difficulties with loss of value;
ii) Delay after restructuring due to financial difficulties;
iii) Recurrence of restructuring due to financial difficulties;
iv) Credit with signs of impairment (or stage 3 of IFRS 9);
v) Insolvency or equivalent proceedings;
vi) Litigation;
vii) Guarantees of operations in default;
viii) Credit sales with losses;
ix) Credit fraud;
x) Unpaid credit status;
xi) Breach of covenants in a credit agreement;
xii) Spread of default in an economic group;
xiii) *Cross default* in BCP Group.

C1.5.5. Estimates of expected credit losses - Individual analysis

1. Customers who are in one of the following conditions are subject to individual analysis:

Customers in default	Customers in litigation or insolvency, since the total exposure of the group members in these situations exceeds Euros 1 million
	Customers integrated into groups with an exposure over Euros 5 million, since they have a risk grade15
Groups or customers who are not in default	Other customers belonging to groups in the above conditions
	Groups or customers with an exposure over Euros 5 million, since a group member has a risk grade 14
	Groups or customers with an exposure over Euros 5 million, since a member of the group has a restructured loan and a risk grade 13
	Groups or customers with an exposure over Euros 10 million, since at least one member of the group is in stage 2
	Groups or customers not included in the preceding paragraphs, whose exposure exceeds Euros 25 million

2. Regardless of the criteria described in the previous point, the individual analysis is only performed for customers with a credit exposure over Euros 500,000, not being considered customers with exposure below this limit for the purpose of determining the exposure referred in the previous point.

3. Other customers that do not meet the criteria defined in 1 will also be subject to individual analysis, if under the following conditions:

- have impairment as a result of the latest individual analysis;
- according to recent information, show a significant deterioration in risk levels; or,
- are a Special Purpose Vehicle (SPV).

4. The individual analysis includes the following procedures:

- for customers that are not in default, the analysis of financial difficulties indicators to determine whether the customer has objective signs of impairment, or whether it should be classified in stage 2 given the occurrence of a significant increase in credit risk, considering for this purpose a set of predetermined signs;
- for customers in default or for which the previous analysis has allowed to conclude that the customer has objective signs of impairment, determination of the loss.

5. The individual analysis is the responsibility of the departments in charge of customers' management and of the Credit Department, the latter in respect to the customers managed by the Commercial Networks.

The assessment of existence of impairment losses in individual terms is determined through an analysis of the total credit exposure on a case-by-case basis. For each loan considered individually significant, the Group assessed, at each balance sheet date, the existence of objective evidence of impairment. In the assessment of impairment losses in individual terms, the following factors were considered:

- total exposure of each customer towards the Group and the existence of overdue loans;
- viability of the customer's business and its capacity to generate enough cash flows to service debt obligations in the future;
- the existence, nature and estimated value of the collaterals associated to each loan;
- significant deterioration of the customer's rating;
- the customer's available assets in liquidation or insolvency situations;
- the existence of preferential creditors;
- the amount and expected recovery term.

6. Each of the units referred to in the previous point is responsible for assigning an expectation and a recovery period to exposures relating to customers subject to individual analysis, which must be transmitted to the Risk Office as part of the regular process of collecting information, accompanied by detailed justification of the proposed impairment.

7. The expected recovery shall be represented by a recovery rate of the total outstanding exposure, which may be a weighted rate considering the different recovery prospects for each part of the customer's liabilities.

8. The recovery estimation referred to in the previous point should be influenced by future prospects (forward-looking), contemplating not only a more expected scenario but also alternative scenarios (an unbiased and probability-weighted amount). The application and weighting of the scenarios should be carried out both in a global perspective and in an individualized perspective, the latter when cases that, due to their specificity, have a high degree of uncertainty regarding the expected recovery estimation are identified.

9. The macroeconomic adjustment set out in point 8 should be analysed annually and weighted according to the type of recovery strategy associated with the exposure under analysis:

- for Going Concern strategies (i.e., the estimation is based on the cash flows of the business), the possibility of applying the 2 additional macroeconomic scenarios (optimistic and pessimistic) should be analysed in a global way, to ascertain if there is the risk of a skewed view of the expected losses from the consideration of only one scenario;
- for Gone Concern strategies (i.e., the recovery estimation is based on the realization of the collateral), the impact of the macroeconomic scenario on collaterals should be analysed, for example, to what extent the projected real estate index allows anticipate significant changes to the current valuation values.

10. It is the responsibility of the units referred to in point 5 to consider in their projection macroeconomic expectations that may influence the recoverability of the debt.

11. For the purposes of the preceding paragraphs, the Studies, Planning and ALM Department shall disclose the macroeconomic data that allow the estimations to be made.

12. The decision to consider global impacts related to the going and gone concern scenarios should be made by the Risk Committee, as proposed by the Risk Office.

13. For specific cases with a high degree of uncertainty, the allocation of alternative scenarios should be considered casuistically. Examples of recovery situations with a degree of uncertainty include:

- recovery of collateral in geographies in which the Bank has no relevant recovery experience;
- recovery of debt related to geographies in which there is a strong political instability;
- recovery of non-real estate collateral for which there is no evidence of market liquidity;
- recovery of related collateral or government guarantees in a currency other than the country's own;
- recovery of debt related to debtors for whom there is a strong negative public exposure.

14. The Risk Office is responsible for reviewing the information collected and for clarifying all identified inconsistencies, which is the final decision on the customer's impairment.

15. Customers that have objective signs of impairment, but an individual impairment amount is equal to zero, are included in the collective analysis, assuming a PD 12 months equivalent to the risk grade of the customer.

16. The individual impairment analysis must be carried out at least annually. In case of significant signs of deterioration or improvement in the customer's economic and financial situation are detected, as well as the macroeconomic conditions affecting the customer's ability to accomplish debt, it is the responsibility of the Risk Office to promote the review anticipated impairment of this customer.

C1.5.6. Estimates of expected credit losses - Collective analysis

Transactions that are not subject to an individual impairment analysis are grouped considering their risk characteristics and subject to a collective impairment analysis. The Group's credit portfolio is divided by internal risk grades and according to the following segments:

a) Segments with a reduced history of defaults, designated 'low default': Large corporate exposures, Project finance, Institutions (banks/financial institutions) and Sovereigns;
b) Segments not 'low default': - Retail: Mortgages; Overdrafts; Credit cards; Small and medium enterprises - Retail ('SME Retail'); and Others - Corporate: Small and medium enterprises - Corporate ('Large SME'); and Real Estate.

The Group performs statistical tests in order to prove the homogeneity of the segments mentioned above, with a minimum period of one year.

Expected credit losses are estimates of credit losses that are determined as follows:

- financial assets with no signs of impairment at the reporting date: the present value of the difference between the contractual cash flows and the cash flows that the Group expects to receive;
- financial assets with impairment at the reporting date: the difference between the gross book value and the present value of the estimated cash flows;
- unused credit commitments: the present value of the difference between the resulting contractual cash flows if the commitment is made and the cash flows that the Group expects to receive;
- financial guarantees: the current value of the expected repayments less the amounts that the Group expects to recover.

The main inputs used to measure ECLs on a collective basis should include the following variables:

- Probability of Default – PD;
- Loss Given Default – LGD; and,
- Exposure at Default – EAD.

These parameters are obtained through internal statistical models and other relevant historical data, considering the already existing regulatory models adapted to the requirements of IFRS 9.

PDs are estimated based on a certain historical period and will be calculated based on statistical models. These models are based on internal data including both quantitative and qualitative factors. If there is a change in the risk of the counterparty or exposure, the estimate of the associated PD will also vary. The PDs will be calculated considering the contractual maturities of exposures.

The risk grades are a highly relevant input for determining the PD associated with each exposure.

Group collects performance and default indicators about their credit risk exposures with analysis by types of customers and products.

LGD is the magnitude of the loss that is expected to occur if exposure goes into default. The Group estimates the LGD parameters based on the historical recovery rates after entry into counterparty defaults. The LGD models consider the associated collaterals, the counterparty activity sector, the default time, as well as the recovery costs. In the case of contracts secured by real estate, it is expected that the LTV (loan-to-value) ratios are a parameter of high relevance in the determination of LGD.

The EAD represents the expected exposure if the exposure and/or customer defaults. The Group obtains the EAD values from the counterparty's current exposure and potential changes to its current value as a result of the contractual conditions, including amortisations and prepayments. For commitments and financial guarantees, the value of the EAD will consider both the amount of credit used and the expectation of future potential value that may be used in accordance with the agreement.

As described above, with the exception of financial assets that consider a 12-month PD as they do not present a significant increase in credit risk, the Group will calculate the ECL value considering the risk of default during the maximum contractual maturity period of the contract, even if, for the purpose of risk management, it is considered to be a longer period. The maximum contractual period shall be considered as the period up to the date on which the Group has the right to require payment or end the commitment or guarantee.

The Group adopted as a residual term criterion for renewable operations, when in stage 2, a term of 5 years. This term was determined based on the behavioural models of this type of products applied by the Bank in the liquidity risk and interest rate (ALM) analysis. According to these models, the maximum period of repayment of these operations is the 5 years considered conservatively in the scope of the calculation of credit impairment.

The Group uses models to forecast the evolution of the most relevant parameters to the expected credit losses, namely probability of default, which incorporate forward-looking information. This incorporation of forward-looking information is carried out in the relevant elements considered for the calculation of expected credit losses (ECL).

The PD point-in-time (PDpit) considered for the determination of the probability of performing exposures at the reference date becoming defaulted exposures considers the expected values (in each scenario considered in the ECL calculation) for a set of macroeconomic variables. These relationships were developed specifically based on the Bank's historical information on the behaviour of this parameter (PDpit) in different economic scenarios and are different by customer segment and risk grade.

C2. Financial liabilities

C2.1. Classification, initial recognition and subsequent measurement

At initial recognition, financial liabilities are classified in one of the following categories:

- "Financial liabilities at amortised cost";
- "Financial liabilities at fair value through profit or loss".

C2.1.1. Financial liabilities at fair value through profit or loss

Classification

Financial liabilities classified under "Financial liabilities at fair value through profit or loss" include:

a) "Financial liabilities held for trading"

In this balance are classified the issued liabilities with the purpose of repurchasing in the near term, the ones that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or is a derivative (except for a derivative classified as hedging instrument).

b) "Financial liabilities designated at fair value through profit or loss"

The Group may irrevocably assign a financial liability at fair value through profit or loss at the time of its initial recognition if at least one of the following conditions is met:

- the financial liability is managed, evaluated and reported internally at its fair value; or,
- the designation eliminates or significantly reduces the accounting mismatch of transactions.

Initial recognition and subsequent measurement

Considering that the transactions carried out by the Group in the normal course of its business are made in market conditions, financial liabilities at fair value through profit or loss are initially recognised at fair value with the costs or income associated with the transactions recognised in profit or loss at the initial moment.

Subsequent changes in the fair value of these financial liabilities are recognised as follows:

- the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income;
- the remaining amount of change in the fair value of the liability shall be presented in profit or loss.

The accrual of interest and the premium/discount (when applicable) is recognised in "Interest expense and similar charges" based on the effective interest rate of each transaction.

C2.1.2. Financial guarantees

If they are not designated at fair value through profit or loss at the time of initial recognition, the financial guarantee contracts are subsequently measured at the highest of the following amounts:

- the provision for losses determined according to the criteria described in note C1.5;
- the amount initially recognised deducted, when appropriate, from the accumulated amount of income recognised according to IFRS 15 - Revenue from contracts with customers.

Financial guarantee contracts that are not designated at fair value through profit or loss are presented under "Provisions".

C2.1.3. Financial liabilities at amortised cost

Classification

Financial liabilities that were not classified at fair value through profit or loss, or correspond to financial guarantee contracts, are measured at amortised cost.

The category "Financial assets at amortised cost" includes resources from credit institutions and from customers, as well as subordinated and non-subordinated debt securities.

Initial recognition and subsequent measurement

Financial liabilities at amortised cost are initially recognised at fair value plus transaction costs and are subsequently measured at amortised cost. Interest on financial liabilities at amortised cost are recognised in "Interest expense and similar charges", based on the effective interest rate method.

C2.2. Reclassification between categories of financial liabilities

Reclassifications of financial liabilities are not allowed.

C2.3. Derecognition of financial liabilities

The Group derecognises financial liabilities when these are cancelled or extinct.

C3. Interest recognition

Income and expense related to interest from financial instruments measured at amortised cost are recognised in "Interest and similar income" and "Interest expense and similar charges" (net interest income) through the effective interest rate method. Interest related to financial assets at fair value through other comprehensive income is also recognised in net interest income.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, for a shorter period), to the net carrying amount of the financial asset or financial liability.

For calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument (e.g., early payment options) but without considering future impairment losses. The calculation includes all fees paid or received considered as included in the effective interest rate, transaction costs and all other premiums or discounts directly related to the transaction, except for assets and liabilities at fair value through profit and loss.

Interest income recognised in income associated with contracts classified in stage 1 or 2 are determined by applying the effective interest rate for each contract on its gross book value. The gross balance of a contract is its amortised cost, before deducting the respective impairment. For financial assets included in stage 3, interest is recognised in the income statement based on its net book value (less impairment). The interest recognition is always made in a prospective way, i.e., for financial assets entering stage 3, interest is recognised at the amortised cost (net of impairment) in subsequent periods.

For purchased or originated credit-impaired assets (POCI), the effective interest rate reflects the expected credit losses in determining the expected future cash flows receivable from the financial asset.

C4. Hedge accounting

As allowed by IFRS 9, the Group opted to continue to apply the hedge accounting requirements in accordance with IAS 39.

The Group designates derivatives and other financial instruments to hedge its exposure to interest rate and foreign exchange risk, resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative hedging instruments are stated at fair value and gains and losses on revaluation are recognised in accordance with the hedge accounting model adopted by the Group. A hedge relationship exists when:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is valuable in a continuous basis and highly effective throughout the reporting period; and,
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge foreign exchange variations arising from monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated to the derivative is recognised through profit and loss, as well as changes in currency risk of the monetary items.

C4.1. Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments are recognised in profit and loss, together with changes in the fair value attributable to the hedged risk of the asset or liability or group of assets and liabilities. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative gains and losses due to variations of hedged risk linked to the hedge item recognised until the discontinuance of the hedge accounting are amortised through profit and loss over the residual term of the hedged item.

C4.2. Cash flow hedge

In a hedge relationship, the effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity - cash flow hedge reserves in the effective part of the hedge relations. Any gain or loss relating to the ineffective portion of the hedge is immediately recognised in profit and loss when occurred.

Amounts accumulated in equity are reclassified to profit and loss in the periods in which the hedged item will affect profit or loss.

In case of hedging variability of cash flows, when the hedge instrument expires or is disposed or when the hedging relationship no longer meets the criteria for hedge accounting, or when the hedge relation is revoked, the hedge relationship is discontinued on a prospective basis. Therefore, the fair value changes of the derivative accumulated in equity until the date of the discontinued hedge accounting can be:

- deferred over the residual period of the hedged instrument; or,
- recognised immediately in results, if the hedged instrument is extinguished.

In the case of a discontinued hedge of a forecast transaction, the change in fair value of the derivative recognised in equity at that time remains in equity until the forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit and loss.

C4.3. Hedge effectiveness

For a hedge relationship to be classified as such according to IAS 39, effectiveness must be demonstrated. As such, the Group performs prospective tests at the beginning date of the initial hedge, if applicable, and retrospective tests in order to demonstrate at each reporting period the effectiveness of the hedging relationships, demonstrating that the variations in fair value of the hedging instrument are hedged by the fair value variations of the hedged item in the portion assigned to the risk covered. Any ineffectiveness is recognised immediately in profit and loss when incurred.

C4.4. Hedge of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any exchange gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is immediately recognised in profit and loss. Gains and losses accumulated in equity related to the investment in a foreign operation and to the associated hedge operation are recognised in equity and transferred to profit and loss, on the disposal of the foreign operation as part of the gain or loss from the disposal.

C5. Embedded Derivatives

An embedded derivative is a component of a hybrid agreement, which also includes a non-derived host instrument.

If the main instrument included in the hybrid contract is considered a financial asset, the classification and measurement of the entire hybrid contract is carried out in accordance with the criteria described in note C1.1.3.

Derivatives embedded in contracts that are not considered financial assets are treated separately whenever the economic risks and benefits of the derivative are not related to those of the main instrument, since the hybrid instrument is not initially recognised at fair value through profit or loss. Embedded derivatives are recorded at fair value with subsequent fair value changes recorded in profit or loss for the period and presented in the trading derivatives portfolio.

D. Securitization operations

D1. Traditional securitizations

As at 30 June 2020, the Group has three residential mortgage credit securitization operations (Magellan Mortgages no.1, no.3 and no.4), which portfolios were derecognised from the Bank's individual balance sheet, as the residual portions of the referred operations were sold to institutional investors and, consequently, their risks and benefits were substantially transferred.

By purchasing a part of the most subordinated residual portion, the Group maintained the control of the assets and liabilities of Magellan Mortgage no.3, being this Special Purpose Entity (SPE) consolidated in the Group's financial statements, in accordance with the accounting policy referred in note 1.B.

The three operations are traditional securitizations, where each mortgage loan portfolio was sold to a portuguese Loan Titularization Fund, which has financed this purchase through the sale of titularization units to a SPE with office in Ireland. At the same time, this SPE issued and sold in capital markets a group of different portions of bonds.

As at 31 December 2018, the Group had three residential mortgage credit securitization operations (Magellan Mortgages no.1, no.2, no.3 and no.4), having occurred in October 2019 the liquidation of the operation Magellan Mortgages no.2 and the consequent incorporation of its credits in BCP and BII.

D2. Synthetic securitizations

Currently, the Group has two synthetic securitization operations.

Caravela SME no.3, which started on 28 June 2013, has a medium and long-term loans portfolio of current accounts and authorized overdrafts granted by BCP, mainly to small and medium companies.

Caravela SME no.4 is a similar operation, initiated on 5 June 2014, which portfolio contains car, real estate and equipment leasing granted between the Bank and a group of clients that belong to the same segment (small and medium companies).

In both operations, the Bank hired a Credit Default Swap (CDS) with a Special Purpose Vehicle (SPV), buying, this way, the protection for the total portfolio referred. Both cases, the synthetic securitizations, the same CDS, the risk of the respective portfolios were divided in 3 classes: senior, mezzanine and equity. The mezzanine and part of the equity (20%) were placed in the market through an SPV, and the subscription by investors, the Credit Linked Notes (CLNs). The Group retained the senior risk and part of the equity remaining (80%). The product of the CLNs issue was invested by the SPV in a deposit which total collateral the responsibilities in the presence of the Group, in accordance of the CDS.

E. Equity instruments

A financial instrument is an equity instrument only if: i) the instrument includes no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; and, ii) the instrument will or may be settled in the issuer's own equity instruments, it is either a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments or a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

An equity instrument, independently from its legal form, evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instruments' issuance are recognised in equity as a deduction to the amount issued. Amounts paid or received related to sales or acquisitions of equity instruments are recognised in equity, net of transaction costs.

Preference shares issued by the Group are considered as an equity instrument when redemption of the shares is solely at the discretion of the Group and dividends are paid at the discretion of the Group.

Income from equity instruments (dividends) are recognised when the obligation to pay is established and are deducted to equity.

F. Securities borrowing and repurchase agreement transactions

F1. Securities borrowing

Securities lent under securities lending arrangements continue to be recognised in the balance sheet and are measured in accordance with the applicable accounting policy. Cash collateral received in respect of securities lent is recognised as a financial liability. Securities borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense (net interest income).

F2. Repurchase agreements

The Group performs acquisition/sale of securities under reselling/repurchase agreements of securities substantially equivalent in a future date at a predetermined price ('repos'/'reverse repos'). The securities related to reselling agreements in a future date are not recognised in the balance sheet. The amounts paid are recognised in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralised by the related securities. Securities sold through repurchase agreements continue to be recognised in the balance sheet and are revaluated in accordance with the applicable accounting policy. The amounts received from the proceeds of these securities are considered as deposits from customers and deposits from credit institutions. The difference between the acquisition/sale and reselling/repurchase conditions is recognised on an accrual basis over the period of the transaction and is included in interest income or expenses.

G. Non-current assets held for sale and Discontinued or discontinuing operations

Non-current assets, groups of non-current assets held for sale (groups of assets together with related liabilities that include at least a non-current asset) and discontinued operations are classified as held for sale when it is intention to sell the referred assets and liabilities and when the referred assets or group of assets are available for immediate sale, subject to the terms of sale usually applicable to these types of assets, and its sale is highly probable, in accordance with IFRS 5. For the sale to be considered highly probable, the Group must be committed to a plan to sell the asset (or disposal group) and must have been initiated an active program to locate a buyer and complete the plan. In addition, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. Furthermore, it should be expected the sale to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9 of IFRS 5, and that the Group remains committed to the asset sales plan and the delay is caused by events or circumstances beyond its control.

The Group also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to its subsequent disposal, which are available for immediate sale and its sale is highly probable. Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and fair value less costs to sell.

Discontinued operations and the subsidiaries acquired exclusively with the purpose to sell in the short-term are consolidated until the moment of their sale.

G1. Non-operating real estate (INAE)

The Group also classifies non-current assets held for sale the non-operating real estate (INAE), which include properties acquired by the Group as a result of the resolution of customer credit processes, as well as own properties that are no longer used by the Group's services.

Properties held by real estate companies and real estate investment funds, which are part of the Group's consolidation perimeter, whose capital or units acquired by the Group as a result of the recovery loans are treated as INAE.

At the time of acquisition, real estate classified as INAE is recognised at the lower of the value of the loans existing on the date on which the recovery occurs, or the judicial decision is formalised, and the fair value of the property, net of estimated costs for sale. Subsequent measurement of INAE is made at the lower of their book value and the corresponding fair value, net of the estimated costs for their sale and are not subject to amortisation. Impairment losses are recorded in the results of the period in which they arise.

The fair value is determined based on the market value, which is determined based on the expected sales price obtained through periodic evaluations made by expert external evaluators accredited to the Comissão do Mercado de Valores Mobiliários (CMVM).

The principles used to determine the net fair value of selling costs of a property apply, whenever possible, to real estate similar to INAE held by Real Estate Companies and Real Estate Investment Funds for the purpose of consolidating Group accounts.

Whenever the net fair value of the selling costs calculated for an INAE is less than the amount by which the same is recognised in the Group's balance sheet, an impairment loss is recorded in the amount of the decrease in value ascertained. Impairment losses are recorded against income for the year.

If the net fair value of the selling costs of an INAE, after recognition of impairment, indicates a gain, the Group may reflect that gain up to the maximum of the impairment that has been recorded on that property.

H. Lease transactions (IFRS 16)

As described in note 1.A, the Group adopted IFRS 16 – Lease transactions on 1 January 2019, replacing IAS 17 – Lease transactions, which was in force until 31 December 2018. The Group did not adopt earlier any of the requirements of IFRS 16 in prior periods.

This standard establishes the new requirements regarding the scope, classification/recognition and measurement of leases:

- from the lessor's perspective, leases will continue to be classified as finance leases or operating leases;
- from the lessee's perspective, the standard defines a single model of accounting for lease contracts, which results in the recognition of a right-of-use asset and a lease liability for all leases, except for those which the lease term ends within 12 months or for those which the underlying asset is of low-value and, in these cases, the lessee may opt for the exemption from recognition under IFRS 16, and shall recognise the lease payments associated with these leases as an expense.

The Group chose not to apply this standard to short-term lease contracts, i.e. contracts with a term shorter than or equal to one year, and to lease contracts in which the underlying asset's value is below Euros 5,000. Additionally, this standard was not applied to leases of intangible assets.

Lease definition

The new lease definition focusses on the control of the identified asset, establishing that a contract constitutes or contains a lease if it carries the right to control the use of an identified asset, i.e., the right to obtain substantially all the economic benefits of using it, and the right to choose how to use the identified asset over a period in exchange of a payment.

Impacts from the lessee's perspective

The Group recognise for all leases, except for those with a term under 12 months or for leases of low-value assets:

- a right-of-use asset initially measured at cost must consider the Net Present Value (NPV) of the lease liability plus the value of payments made (fixed and/or variable), deducted from any lease incentives received, penalties for terminating the lease (if reasonably certain), as well as any cost estimates to be supported by the lessee with the dismantling and removal of the underlying asset and/or with the recovery of its location. Subsequently, it will be measured according to the cost model (subject to depreciations/amortisations and impairment tests);
- a lease liability initially recorded at the present value of the remaining lease payments (NPV), which includes:
  - fixed payments deducted from any lease incentives receivable;
  - variable lease payments that depend on a rate or an index, initially measured considering the rate or index as at the commencement date;
  - amounts expected to be paid by the lessee under residual values guarantees;
  - the exercise price of a purchase option, if the lessee is reasonably certain to exercise that option;
  - payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to end the lease.

Since it is not possible to easily determine the implicit interest rate in the lease (paragraph 26 of IFRS 16), lease payments are discounted according to the lessee's incremental borrowing rate, which embodies the risk-free rate curve (swap curve) plus the Group's spread of risk, applied over the weighted average term of each lease contract. For contracts with term, that date is considered as the end of lease date, while for contracts without term, or with renewable terms, it is assessed the date in which the contract is enforceable, as well as eventual economic penalties associated with the lease contract. In the evaluation of enforceability, it is considered the particular clauses of the contracts, as well as the current law on Urban Leases.

Subsequently, lease payments are measured as follows:

- by increasing their carrying amount to reflect interest;
- by reducing their carrying amount to reflect lease payments;
- carrying amount shall be remeasured to reflect any leases' revaluations or changes, as well as to reflect the review of in-substance fixed payments and the review of the lease term.

The Group remeasures the lease liability (and makes a corresponding adjustment to the right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using the revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used;
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using the revised discount rate.

The Group did not make any adjustment during the periods presented.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If the lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The implementation of this standard implies changes in the Group's financial statements, namely:

- in the consolidated income statement:
  (i) recording in "Interest Income" the interest expenses related to lease liabilities;
  (ii) recording in "Other administrative costs" the amounts related to short-term lease contracts and to lease contracts of low-value assets; and,
  (iii) recording in "Amortisations and depreciations" the depreciation expenses related to right-to-use assets.
- in the consolidated balance sheet:
  (i) recording in "Financial assets at amortised cost – Loans and advances to customers" the recognition of financial assets related to sublease operations measured accordingly to IFRS 9;
  (ii) recording in "Other tangible assets" the recognition of right-to-use assets; and,
  (iii) recording in "Other liabilities" the amount of recognised lease liabilities.
- in the consolidated statement of cash flows, the balance "Cash flows arising from operating activities – Payments (cash) to suppliers and employees" includes amounts related to short-term lease contracts and to lease contracts of low-value assets, and the balance "Cash flows arising from financing activities - Decrease in other sundry liabilities and non-controlling interests" includes amounts related to payments of lease liabilities' capital portions, as detailed in the interim condensed consolidated statement of cash flows.

Impact from the lessor's perspective

In accordance with IFRS 16, lessors will continue to classify leases as finance or operational leases, which does not imply significant changes to what is defined in IAS 17.

Subleases

A sublease implies that the lessee establishes a lease contract with a third party, which acts as an intermediary, and the lease contract with the original lessor is kept in force.

IFRS 16 – Leases requires that the lessor evaluates subleases regarding right-to-use and not regarding the underlying asset.

The sublease's lessor, simultaneously lessee regarding the original lease, shall recognise an asset in the financial statement – a right-to-use related to the initial lease (if the lease is classified as operating) or a financial asset, measured according to IFRS 9, related to the sublease (if the lease is classified as financing).

If the initial lease is a short-term lease, the sublease shall be classified as an operating lease.

I. Lease transactions (IAS 17)

Until 31 December 2018, and in accordance with IAS 17, the lease transactions were classified as financial whenever their terms transferred substantially all the risks and rewards associated with the ownership of the property to the lessee. The remaining leases were classified as operational. The classification of the leases was done according to the substance and not the form of the contract.

I1. Finance lease transactions

At the lessee's perspective, finance lease transactions were recorded at the beginning as an asset and liability at fair value of the leased asset, which was equivalent to the present value of the future lease payments. Lease rentals are a combination of the financial charge and the amortisation of the capital outstanding. The financial charge is allocated to the periods during the lease term to produce a constant periodic rate of interest on the remaining liability balance for each period.

At the lessor's perspective, assets held under finance leases were recorded in the balance sheet as a receivable at an amount equal to the net investment in the lease. Lease rentals were a combination of the financial income and amortisation of the capital outstanding. Recognition of the financial result reflected a constant periodical return rate over the remaining net investment of the lessor.

Assets received arising from the resolution of leasing contracts and complying with the definition of assets held for sale classified in this category, were measured in accordance with the accounting policy defined in note 1.G.

I2. Operational leases

At the lessee's perspective, the Group had various operating leases for properties and vehicles. The payments under these leases were recognised in Other administrative costs during the life of the contract, and neither the asset nor the liability associated with the contract was evidenced in its balance sheet.

J. Recognition of income from services and commissions

Income from services and commissions is recognised according to the following criteria:

- in the moment it is received, as services are being provided, it is recognised in the income statement of the period to which it corresponds;
- when it results from a service, it is recognised as income when the referred service is concluded.

Income from services and commissions, that is an integral part of the effective interest rate of a financial instrument, is recognised in net interest income.

K. Net gains/(losses) from financial operations at fair value through profit or loss, Net gains/(losses) from foreign exchange, Net gains/(losses) from hedge accounting, Net gains/(losses) from derecognition of assets and liabilities at amortised cost and Net gains/(losses) from derecognition of financial assets at fair value through other comprehensive income

These balances include gains and losses arising from financial assets and liabilities at fair value through profit and loss, i.e., fair value changes and interest on trading derivatives and embedded derivatives, as well as the corresponding dividends received. This balance also includes the gains and losses arising from the sale of financial assets at fair value through other comprehensive income and financial assets and financial liabilities at amortised cost. The changes in fair value of hedging derivatives and hedged items, when fair value hedge is applicable, are also recognised in this balance, as well as the net gains or losses from foreign exchange.

L. Fiduciary activities

Assets held in the scope of fiduciary activities are not recognised in the Group's consolidated financial statements. Fees and commissions arising from this activity are recognised in the income statement in the period in which they occur.

M. Other tangible assets

Other tangible assets are stated at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognised as a separate asset only when it is probable that future economic benefits will result for the Group. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred, under the principle of accrual-based accounting.

Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Buildings	50
Expenditure on freehold and leasehold buildings	10
Equipment	4 to 12
Other tangible assets	3

Whenever there is an indication that a fixed tangible asset might be impaired, its recoverable amount is estimated and an impairment loss shall be recognised if the net value of the asset exceeds its recoverable amount. The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use calculated based on the present value of future cash flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life. The impairment losses of the fixed tangible assets are recognised in the income statement of the period.

N. Investment property

Real estate properties owned by the Group are recognised as 'Investment properties', considering that the main objective of these buildings is their capital appreciation on a long-term basis and not their sale in a short-term period, nor their maintenance for own use.

These investments are initially recognised at their acquisition cost, including transaction costs, and subsequently revaluated at their fair value. The fair value of the investment property should reflect the market conditions at the balance sheet date. Changes in fair value are recognised in the income statement, as "Other operating income/(losses)" (note 6).

The experts responsible for the valuation of the assets are properly certified for that purpose, being registered in CMVM.

O. Intangible assets

O1. Research and development expenditure

The Group does not capitalise any research and development costs. All expenses are recognised as costs in the period in which they occur.

O2. Software

The Group recognises as intangible assets the costs associated to software acquired from external entities, and depreciates them on a straight-line basis by an estimated lifetime of three years. The Group does not capitalise internal costs arising from software development.

P. Cash and cash equivalents

For the purposes of the cash flow statement, the item "Cash and cash equivalents" comprises balances with less than three months maturity from the balance sheet date, where are included the items "Cash and deposits at Central Banks" and "Loans and advances to credit institutions".

Q. Offsetting

Financial assets and liabilities are offset and recognised at their net book value when: i) the Group has a legal right to offset the amounts recognised and transactions can be settled at their net value; and, ii) the Group intends to settle on a net basis or realize the asset and settle the liability simultaneously. Considering the current operations of the Group, no compensation of material amount is made. In case of reclassification of comparative amounts, the provisions of IAS 1.41 are disclosed: i) the nature of the reclassification; ii) the amount of each item (or class of items) reclassified; and, iii) the reason for the reclassification.

R. Foreign currency transactions

Transactions in foreign currencies are converted into the respective functional currency of the operation at the foreign exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted into the respective functional currency of the operation at the foreign exchange rate on the reporting date. Foreign exchange differences arising from conversion are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are converted into the respective functional currency of the operation at the foreign exchange rate on the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are converted into the respective functional currency of the operation at the foreign exchange rate on the date that the fair value was determined against profit and loss, except for financial assets at fair value through other comprehensive income, for which the difference is recognised against equity.

S. Employee benefits

S1. Defined benefit plans

The Group has the responsibility to pay to their employees' retirement pensions and widow and orphan benefits and permanent disability pensions, in accordance with the terms of the two collective labour agreements approved. These benefits are estimated in the pension's plans 'Plano ACT' and 'Plano ACTQ' of the Pension Plan of BCP Group.

Until 2011, along with the benefits provided in two planes above, the Group had assumed the responsibility, if certain conditions were verified in each year, of assigning complementary benefits to the Group's employees hired before 21 September 2006 (Complementary Plan). The Group at the end of 2012 decided to extinguish (cut) the benefit of old age Complementary Plan. As at 14 December 2012, the Instituto de Seguros de Portugal (ISP - Portuguese Insurance Institute) formally approved this change to the benefit plan of the Group with effect from 1 January 2012. The cut of the plan was made, having been assigned to the employees, individual rights acquired. On that date, the Group also proceeded to the settlement of the related liability.

From 1 January 2011, Bank's employees were integrated in the General Social Security Scheme which now covers their maternity, paternity, adoption and pension benefits. However, the banks remain liable for benefits as concern illness, disability and life insurance (Decree-Law no. 1-A/2011, of 3 January).

The contributory rate is 26.6% divided between 23.6% supported by the employer and 3% supported by the employees, replacing the Banking Social Healthcare System which was extinguished by the decree law referred above. As a consequence of this amendment the capability to receive pensions by the actual employees are covered by the General Social Security Scheme regime, considering the service period between 1 January 2011 and the retirement age. The banks support the remaining difference for the total pension assured in the Collective Labour Agreement (ACT).

This integration has led to a decrease in the present value of the total benefits reported to the retirement age to be borne by the Pension Fund, and this effect is to be recorded in accordance with the Projected Unit Credit during the average lifetime of the pension until the normal retirement age is reached. The calculation of the liability for pensions carried out periodically by the actuary considers this effect and is calculated considering the actuarial assumptions in force, ensuring that the liabilities calculated with reference to 31 December 2010, not considering the effect of the integration of bank employees into the General Social Security Scheme are fully covered and deducted from the amount of the effect recognised until the date. The component of this effect for the year is recognised under the heading "Current service costs".

Following the approval by the Government of the Decree-Law no. 127/2011, which was published on 31 December, was established an agreement between the Government, the Portuguese Banking Association and the Banking Labour Unions in order to transfer, to the Social Security, the liabilities related to pensions currently being paid to pensioners and retirees, as at 31 December 2011.

This agreement established that the responsibilities to be transferred related to the pensions in payment as at 31 December 2011 at fixed amounts (discount rate 0%) in the component established in the IRCT - Instrument of Collective Regulation of Work of the retirees and pensioners. The responsibilities related to the increase in pensions as well as any other complements namely, contributions to the Health System (SAMS), death benefit and death before retirement benefit continued to be under the responsibility of the Financial Institutions.

At the end of December 2016, a revision of the ACT was reached between the BCP Group and two federations of the unions that represented the Group's employees, which introduced changes in the Social Security chapter and consequently in the pension plan financed by the BCP Group Pension Fund. The new ACT has already been published by the Ministry of Labour in Bulletin of Labour and Employment on 15 February 2017 and their effects were recorded in the financial statements of 31 December 2016, for employees associated with these two unions.

The negotiation with" Sindicato dos Bancários do Norte (SBN)", which was also involved in the negotiations of the new ACT, was concluded in April 2017 with the publication of the Bulletin of Labour and Employment, with the effects of this new ACT recorded in the financial statements as at 31December 2017, for employees associates of SBN.

The most relevant changes occurred in the ACT were the change in the retirement age (presumed disability), that changed from 65 years to 66 years and two months in 2016 and the subsequent update of an additional month in each year, which cannot, in any case, be higher than the one in force at any moment in the General Regime of Social Security, the change in the formula for determining the employer's contribution to the SAMS and, lastly, it was introduced a new benefit called the End of Career Premium, that replaces the Seniority Premium.

These changes described above were framed by the Group as a change to the pension plan under the terms of IAS 19, as such had an impact on the present value of the liabilities with services rendered and were recognised in the income statement for the year under "Staff costs".

In 2017, after the authorization of the "Autoridade de Supervisão de Seguros e Fundos de Pensões" (ASF - Portuguese Insurance and Pension Funds Supervision Authority), the BCP Group's pension fund agreement was amended. The main purpose of the process was to incorporate into the pension fund the changes introduced in the Group's ACT in terms of retirement benefits, as well as to transfer to the pension fund the responsibilities that were directly chargeable to the company's (extra-fund liabilities). The pension fund has a part exclusively affected to the financing of these liabilities, which in the scope of the fund are called Additional Complement. The End of Career Premium also became the responsibility of the pension fund under the basic pension plan.

The Group's net obligation in respect of pension plans (defined benefit pensions plan) is calculated on a half year basis at 31 December and 30 June of each year, and whenever there are significant market fluctuations or significant specific events, such as changes in the plan, curtailments or settlements since the last estimation. The responsibilities with past service are calculated using the Projected Unit Credit method and actuarial assumptions considered adequate.

Pension liabilities are calculated by the responsible actuary, who is certified by the ASF.

The Group's net obligation in respect of defined benefit pension plans and other benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates of high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The net obligations are determined after the deduction of the fair value of the Pension Plan's assets.

The income/cost of interests with the pension plan is calculated, by the Group, multiplying the net asset/liability with retirement pension (liabilities less the fair value of the plan's assets) by the discount rate used in the determination of the retirement pension liabilities, mentioned before. On this basis, the income/cost net of interests includes the interest costs associated with retirement pension liabilities and the expected return of the plan's assets, both measured based on the discount rate used to calculate the liabilities.

Gains and losses from the re-measurement, namely (i) actuarial gains and losses resulting from differences between actuarial assumptions used and the amounts actually observed (experience gains and losses) and changes in actuarial assumptions and (ii) gains and losses arising from the difference between the expected return of the plan's assets and the amounts obtained, are recognised against equity under "Other comprehensive income".

The Group recognises in its income statement a net total amount that comprises (i) the current service cost, (ii) the income/cost net of interest with the pension plan, (iii) the effect of early retirement, (iv) past service costs and, (v) the effects of any settlement or curtailment occurred during the period. The net income/cost with the pension plan is recognised as interest and similar income or interest expense and similar costs depending on their nature. The costs of early retirements correspond to the increase in liabilities due to the employee's retirement before reaching the age of retirement.

Employee benefits, other than pension plans, namely post-retirement health care benefits and benefits for the spouse and descendants for death before retirement are also included in the benefit plan calculation.

The contributions to the funds are made annually by each company of the Group, according to a specific contributions plan that ensures the solvency of the fund. In the end of each year, according to Bank of Portugal Notice no. 12/2001, the minimum level required for the responsibilities funding must be 100% regarding pension payments and 95% regarding past services of active employees.

S2. Revision of the salary tables for employees in service and pensions in payment

The Bank established, in September 2019, an agreement with the trade unions regarding the review of salary tables and other pecuniary clauses for 2018 and 2019, with reference to 1 January 2018 and 1 January 2019, respectively. This agreement established, for 2018, the increase in the base salary of 0.75% until level 6 and of 0,50% for the levels from 7 until 20 (similar increase for 2019), as well as the increase in other pecuniary clauses, such as lunch allowance, diuturnities, among others.

At the end of 2019, the Bank started a negotiation process for the full revision of the Collective Labour Agreements' Clauses, with work continuing to take place during the first months of 2020, until they were interrupted in March, due to the constraints imposed by the pandemic. In June, negotiations with the Unions resumed, following the proposals received in the meantime from the Unions regarding the 2020 update of the Salary Tables and other clauses of pecuniary expression of the Collective Labour Agreements under negotiation, which led to the Bank formally presenting to the Unions, on 3 July, a counter-offer to update them by 0.3%, in line with the variation registered in 2019 in the Consumer Price Index, according to official information from the National Statistical Institute.

Following the negotiation meetings held meanwhile with the unions, the Bank agreed, on 30 July 2020, with SNQTB – Sindicato Nacional dos Quadros e Técnicos Bancários, SIB – Sindicato Independente da Banca and SBN – Sindicato Bancários do Norte, meanwhile renamed to SBN – Sindicato dos Trabalhadores do Sector Financeiro de Portugal, the update of the Bank's Salary Tables and Contributions for SAMS in 2020 by 0.30%, and the increase in other clauses of pecuniary expression, such as lunch allowance, diuturnities, among others. The agreed updates will take effect on 1 January 2020, except for remunerations related to subsistence and travel allowances, which will be updated after the operationalization of the agreed updates.

Regarding the remaining unions subscribing to the Group's Collective Labour Agreements, i.e., SBSI – Sindicato Bancários Sul e Ilhas, meanwhile renamed to Mais Sindicato do Sector Financeiro and SBC – Sindicato Bancários do Centro, the above-mentioned updates have not been agreed yet, being predicted the continuing of the negotiation process during the month of September, with the objective of the updates being applied to all the Bank's Employees in the salary processing of September 2020, regardless of their union affiliation. In September, negotiations will also be resumed with all the unions subscribing to the Group's Collective Labour Agreements, for the conclusion of the full review of the respective Clauses.

S3. Defined contribution plan

For the defined contribution plans, the responsibilities related to the benefits attributed to the Group's employees are recognised as expenses when incurred.

As at 30 June 2020, the Group has two defined contribution plans. One plan covers employees who were hired before 1 July 2009. For this plan, called non-contributory, Group's contributions will be made annually and equal to 1% of the annual remuneration paid to employees in the previous year. Contributions shall only be made if the following requirements are met: (i) the Bank's ROE equals or exceeds the rate of government bonds of 10 years plus 5 percentage points, and (ii) distributable profits or reserves exist in the accounts of Banco Comercial Português.

The other plan covers employees who have been hired after 1 July 2009. For this plan, designated contributory, monthly contributions will be made equal to 1.5% of the monthly remuneration received by employees in the current month, either by themselves or by the Group and employees. This contribution has a mandatory character and is defined in the Collective Labour Agreement of the BCP Group and does not have a performance criterion.

S4. Variable remuneration paid to employees

The remuneration policy for employees includes an annual variable remuneration system for employees not covered by commercial incentive systems, for which an assessment of the performance of each employee is carried out on an annual basis, based on quantitative and qualitative criteria. As a result of this assessment and of the annual fixed remuneration of reference for the role performed, and provided that the Bank's minimum level of performance, as measured by a set of quantitative indicators, is met, the amount of the variable remuneration to be attributed to each employee is determined.

The Executive Committee is responsible, under the terms defined in the remuneration policy, for setting the respective allocation criteria for each employee, whenever it is attributed. The variable remuneration attributed to employees is recorded against the income statement in the period to which it relates.

S5. Share-based compensation plan

As at 30 June 2020, a variable compensation plan with shares is in force for the members of the Executive Committee and for the employees considered key management members, resulting from the remuneration policies for the members of the management and supervisory bodies and for the key management members, approved by the Nomination and Remuneration Committee and, in the case of members of the Executive Committee, by the Remuneration and Welfare Board, for 2018 and for the following years, with the changes that may be approved in each financial year.

As defined in the referred remuneration policy, an annual variable remuneration system is foreseen, for which an assessment of the performance of each member of the Executive Committee is carried out on an annual basis based on quantitative and qualitative criteria. According to this assessment and the annual fixed remuneration, and provided that the Bank's minimum level of performance as measured by a set of quantitative indicators is met, the amount of the variable remuneration to be attributed to each member of the Executive Committee is determined, which is proposed for the Remuneration and Welfare Board’s approval by the Nomination and Remuneration Committee. The payment of the amount of the variable remuneration attributed is subject to a deferral period for 50% of its value, being the amounts paid in 2019 and following years, relating to the deferred portion, paid 50% in cash and 50% in BCP shares. The number of BCP shares attributed and to be attributed results from their valuation at a quotation value defined in accordance with the approved remuneration policy on the date of the respective payment.

For employees considered key management members, and in accordance with accounting policy S4, the payment of the value of the variable remuneration attributed, approved by the Nomination and Remuneration Committee as proposed by the Executive Committee, is subject to a deferral period for 50% of its value, being the amounts paid in 2019 made 100% in cash and in the following years, regarding the deferred part, paid 100% in BCP shares. The number of BCP shares to be attributed results from their valuation at a price defined in accordance with the approved remuneration policy.

Employees considered key management members are not covered by commercial incentive systems.

As foreseen in the approved remuneration policy and in the applicable legislation, the amounts of variable remuneration attributed to the members of the Executive Committee and to the employees considered key management members are subject to reduction and reversal mechanisms, to be applied in case of verification of extremely significant events, duly identified, in which the covered people have had a direct participation.

For the members of the Executive Committee, a long-term variable remuneration system is also foreseen, for which these members may receive variable remuneration fully paid in BCP shares after the end of the assessment period, from 1 January 2018 until 31 December 2021, provided that a certain level of performance is achieved in a set of long-term objectives.

The total variable remuneration to be attributed, each year, to each member of the Executive Committee and to the employees considered key management members, regarding the proportion between its amount and the annual fixed remuneration, is limited to the limits provided in the respective remuneration policy.

T. Income taxes

The Group is subject to income tax in several jurisdictions. The Bank is subject, in individual terms, to the regime established by the Corporate Income Tax Code (CIRC), the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014 of 26 August, to which it adhered, and individual legislation. Additionally, deferred taxes relating to tax losses and to temporary differences between the accounting net income and the net income accepted by the Tax Authorities for Income Taxes calculation are accounted for, whenever there is a reasonable probability that these taxes will be paid or recovered in the future.

Income tax registered in net income for the year comprises current and deferred tax effects. Income tax is recognised in the income statement, except when related to items recognised directly in equity, which implies its recognition in equity. Deferred taxes arising from the revaluation of financial assets at fair value through other comprehensive income and cash flow hedging derivatives are recognised in shareholders’ equity and are recognised after in the income statement at the moment the profit and loss that originated the deferred taxes are recognised.

Current tax is the value that determines the taxable income for the year, using tax rates enacted or substantively enacted by authorities at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with the liability method based on the balance sheet, considering temporary differences, between the carrying amounts of assets and liabilities and the amounts used for taxation purposes using the tax rates approved or substantially approved at balance sheet date and that is expected to be applied when the temporary difference is reversed.

Deferred tax liabilities are recognised for all taxable temporary differences except for non-deductible goodwill for tax purposes, differences arising from initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future.

The item “Deferred tax assets” includes amounts associated with credit impairments not accepted for tax purposes whose credits have been written-off, according to the expectation that the use of such impairments will be deductible for the purposes of determining taxable income for the tax periods in which the legal conditions required for their tax deductibility are met.

Deferred tax assets are recognised when it is probable that there will be future taxable profits that absorb the deductible temporary differences for tax purposes (including reportable tax losses).

The Group, as established in IAS 12, paragraph 74, compensates the deferred tax assets and liabilities if, and only if: (i) it has a legally enforceable right to offset current tax assets and current tax liabilities; and, (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes released by the same Tax Authority on either the same taxable entity, or different taxable entities that intend to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously, in each future period in which deferred tax liabilities or assets are expected to be settled or recovered.

The Group complies with the guidelines of IFRIC 23 – Uncertainty over Income Tax Treatments on the determination of taxable profit, tax bases, tax losses to be reported, tax credits to be used and tax rates in scenarios of uncertainty regarding the income tax treatment, not having occurred material impact on the Bank’s financial statements resulting from its application.

In 2016, the Bank adhered to the Special Tax Regime for Groups of Companies (RETGS) for the purposes of IRC taxation, with BCP being the dominant entity. In the first half of 2020 and in the financial year of 2019, the RETGS application was maintained.

U. Segmental reporting

The Group adopted IFRS 8 – Operating Segments for the purpose of disclosing financial information by operating and geographic segments. A business segment is a Group's component: (i) which develops business activities that can obtain revenues or expenses; (ii) whose operating results are regularly reviewed by the management with the aim of taking decisions about allocating resources to the segment and assess its performance; and, (iii) for which separate financial information is available.

The Group controls its activity through the following major operating segments:

Portugal activity:

- Retail Banking, also including ActivoBank;
- Companies, Corporate and Investment Banking;
- Private Banking;
- Other.

“Other (Portugal activity)” includes all activity not allocated to other business lines, namely centralized management of financial holdings, corporate activities and insurance activity.

Foreign activity:

- Poland;
- Mozambique;
- Other.

“Other (foreign activity)” includes the activity developed by subsidiaries in Switzerland and Cayman Islands and also the contribution of the participation in an associate in Angola.

V. Provisions, Contingent liabilities and Contingent assets

V1. Provisions

Provisions are recognised when i) the Group has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain responsibilities); ii) it is probable that a payment will be required to settle; and, iii) a reliable estimation can be made of the amount of the obligation.

The measurement of provisions considers the principles set in IAS 37 regarding the best estimate of the expected cost, the most likely result of current actions and considering the risks and uncertainties inherent to the process result. On the cases that the discount effect is material, provision corresponds to the actual value of the expected future payments, discounted at a rate that considers the associated risk of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are not probable.

Provisions are derecognised through their use in the obligations for which they were initially created, or in the case that these obligations cease to exist.

V2. Contingent assets

Contingent assets are not recognised in the financial statements and are disclosed when a future economic inflow of resources is probable.

V3. Contingent liabilities

Contingent liabilities are not recognised in the financial statements, being framed under IAS 37 whenever the possibility of an outflow of resources regarding economic benefits is not remote. The Group registers a contingent liability when:

i) it is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the Group; or,
ii) it is a present obligation that arises from past events but is not recognised because:
  a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or,
  b) the amount of the obligation cannot be measured with sufficient reliability.

The contingent liabilities identified are subject to disclosure, unless the possibility of an outflow of resources incorporating economic benefits is remote.

W. Earnings per share

Basic earnings per share are calculated by dividing net income attributable to shareholders of the Group by the weighted average number of ordinary shares outstanding, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to consider conversion of all dilutive potential ordinary shares. Potential or contingent share issues are treated as dilutive when their conversion to shares would decrease net earnings per share. If the earnings per share are changed as a result of an issue with premium or discount or other event that changed the potential number of ordinary shares or as a result of changes in the accounting policies, the earnings per share for all presented periods should be adjusted retrospectively.

X. Insurance contracts

X1. Classification

The Group issues contracts that contain insurance risk, financial risk or a combination of both insurance and financial risk. A contract, under which the Group accepts significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract.

A contract issued by the Group without significant insurance risk, but on which financial risk is transferred with discretionary participating features is classified as an investment contract recognised and measured in accordance with the accounting policies applicable to insurance contracts. A contract issued by the Group that transfers only financial risk, without discretionary participating features, is accounted for as a financial instrument.

X2. Recognition and measurement

Premiums of life insurance and investment contracts with discretionary participating features, which are considered as long-term contracts are recognised as income when due from the policyholders. The benefits and other costs are recognised concurrently with the recognition of income over the life of the contracts. This specialization is achieved through the establishment of provisions/liabilities of insurance contracts and investment contracts with discretionary participating features.

The responsibilities correspond to the present value of future benefits payable, net of administrative expenses directly associated with the contracts, less the theoretical premiums that would be required to comply with the established benefits and related expenses. The liabilities are determined based on assumptions of mortality, costs of management or investment at the valuation date.

For contracts where the payment period is significantly shorter than the period of benefit, premiums are deferred and recognised as income in proportion to the duration period of risk coverage. Regarding short-term contracts, including contracts of non-life insurance, premiums are recorded at the time of issue. The award is recognised as income acquired in a *pro-rata* basis during the term of the contract. The provision for unearned premiums represents the amount of issued premiums on risks not occurred.

X3. Premiums

Issued gross premiums are recognised for as income in the period to which they respect independently from the moment of payment or receivable, in accordance with the accrual accounting principle. Reinsurance premiums ceded are accounted for as expense in the period to which they respect in the same way as gross premiums written.

X4. Provision for unearned premiums from direct insurance and reinsurance premiums ceded

The provision for unearned gross premiums is based on the evaluation of the premiums written before the end of the year but for which the risk period continues after the year end. This provision is calculated using the *pro-rata temporis* method applied to each contract in force.

X5. Liability adequacy test

At each reporting date, the Group evaluates the adequacy of liabilities arising from insurance contracts and investment contracts with discretionary participating features. The evaluation of the adequacy of responsibilities is made based on the projection of future cash flows associated with each contract, discounted at market interest rate without risk. This evaluation is done product by product or aggregate of products when the risks are similar or managed jointly. Any deficiency, if exists, is recorded in the Group's results as determined.

Y. Insurance or reinsurance intermediation services

Banco Comercial Português and Banco ActivoBank are entities authorized by Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF) for the practice of insurance intermediation in the category of Linked Insurance Broker, in accordance with Article 8, paragraph a), subparagraph i) of Decree-Law no. 144/2006, of 31 July, carrying out insurance intermediation activities in life and non-life segments.

Within the scope of insurance intermediation services, these banks perform the sale of insurance contracts. As compensation for insurance intermediation services, they receive commissions for arranging insurance contracts and investment contracts, which are defined in agreements/protocols established with the Insurance Companies.

Commissions received for insurance intermediation are recognised in accordance with the accrual accounting principle, so the commissions whose receipt occurs at a different time from the period to which they refer are recognised as an amount receivable under the item "Other assets".

Z. Accounting estimates and judgments in applying accounting policies

IFRS set forth a range of accounting treatments that require the Executive Committee to apply judgments and to make estimations when deciding which treatment is the most appropriate. These estimates were made considering the best information available at the date of preparation of the condensed interim financial statements, considering the context of uncertainly that results from the impact of Covid -19 in the current economic scope (note 58) . The most significant of these accounting estimates and judgments used when applying accounting principles are discussed in this section in order to improve understanding of how they affect the Group's reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by the Executive Committee, the Group's reported results would differ if a different treatment was chosen. The Executive Committee believes that the choices made are appropriate and that the financial statements present the Group's financial position and results fairly in all material relevant aspects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimations would be more appropriate.

Z1. Entities included in the consolidation perimeter

For the purposes of determining entities to include in the consolidation perimeter, the Group assesses whether it is exposed to, or has rights to, the variable returns from its involvement with the entity and if it is able to take possession of these results through the power it holds (*de facto* control). The decision if an entity needs to be consolidated by the Group requires the use of judgment, estimations and assumptions to determine at what extent the Group is exposed to the variable returns and its ability to use its power to affect these returns. Different estimations and assumptions could lead the Group to a different scope of consolidation perimeter with a direct impact in consolidated income.

Z2. Goodwill impairment

The recoverable amount of the goodwill recorded in the Group's assets is assessed annually in the preparation of accounts with reference to the end of the year or whenever there are indications of eventual loss of value. For this purpose, the carrying amount of the business units of the Group for which goodwill has been recognised is compared with the respective recoverable amount. A goodwill impairment loss is recognised when the carrying amount of the business unit exceeds the respective recoverable amount.

In the absence of an available market value, the recoverable amount is determined using cash flows predictions, applying a discount rate that includes a risk premium appropriated to the business unit being tested. Determining the cash flows to discount and the discount rate, involves judgment.

Z3. Income taxes

Interpretations and estimations were required to determine the total amount of income taxes in each of the jurisdictions where the Group operates. There are many transactions and calculations for which the tax determination is uncertain during the ordinary course of business. Different interpretations and estimations could result in a different level of income taxes, current and deferred, recognised in the year.

This aspect assumes greater relevance for the purposes of the analysis of the recoverability of deferred taxes, in which the Group considers projections of future taxable income based on a set of assumptions, including the estimate of income before tax, adjustments to taxable income, evolution of tax legislation and its interpretation. Thus, the recoverability of deferred tax assets depends on the implementation of the Bank's Executive Committee strategy, namely the ability to generate the estimated taxable income, the evolution of tax law and its interpretation.

Regarding activity in Portugal, the regulatory decrees no. 5/2016, of 18 November, no. 11/2017, of 28 December, and no. 13/2018, of 28 December, established the maximum limits for impairment losses and other value adjustments for specific credit risk deductible for the purposes of calculating taxable income under IRC in 2016, 2017 and 2018, respectively. These regulatory decrees establish that Bank of Portugal Notice no. 3/95 (Notice that was relevant for determining credit provisions in the financial statements presented in NCA) must be considered for the purposes of determining the maximum limits of impairment losses accepted for tax purposes in 2016, 2017 and 2018, respectively,

Law no. 98/2019, of 4 September, establishes the tax regime of credit impairment and of provisions for guarantees for the tax periods beginning on or after 1 January 2019, predicting the approximation between accounting and tax rules for purposes of deductibility of expenses related to the increase of credit impairments. Until the end of 2023, the rules prevailing until 2018 will continue to be applied, except if the option of applying the new regime is exercised earlier.

Regardless of the option mentioned above, the application of the new regime will be mandatory in the financial years of 2022 and/or 2023 in the following circumstances:

- in the financial year of 2022, if, as of 1 January 2022, the Bank distributes dividends related to that financial year or acquires its own shares, without having occurred a reduction in deferred tax assets covered by the Special Regime of at least 10% compared to the amount recognised on 31 December 2018;
- in the financial year of 2023, if, as of 1 January 2023, the Bank distributes dividends related to that financial year or acquires its own shares, without having occurred a reduction in deferred tax assets covered by the Special Regime of at least 20% compared to the amount recognised on 31 December 2018.

In the calculation of 2019's taxable income and in the estimation of taxable income, it was considered the maintenance of the tax rules in force until 2018, since the option of applying the new regime was not exercised.

Meanwhile, Law no. 27-A/2020, of 24 July, was published, within the scope of the Supplementary Budget for 2020, which foresees that:

- tax losses for the financial years of 2020 and 2021 have a reporting period of 12 years;
- the counting of the period for the use of tax losses in effect on 1 January 2020 is suspended during the tax periods of 2020 and 2021, hence the effective period for reporting tax losses is 14 years for tax losses occurred in 2014, 2015 and 2016 and 7 years for tax losses occurred in 2017, 2018 and 2019.

In the projections of future taxable income, namely for the analysis of the recoverability of deferred tax assets carried out with reference to 31 December 2019, it was considered the approximation between accounting and tax rules as foreseen by Law no. 98/2019, of 4 September, resulting from not exercising earlier its application over the adaptation period of 5 years provided by the referred law, as well as the changes regarding the use of tax losses foreseen in the referred Law no. 27-A/2020, of 24 July.

In 2018, the Group adopted IFRS 9 - Financial Instruments. Since it was not created a transitional regime that established the tax treatment to be applied to the transition adjustments to IFRS 9, the treatment given resulted from the interpretation of the application of IRC Code's general rules.

The taxable income or tax loss determined by the Bank or its subsidiaries that reside in Portugal can be corrected by the Portuguese Tax Authority in the period of four years, except if any deduction was made or if tax credit was used, in which the limitation period corresponds to the same of exercising of that right. The Bank recorded provisions or deferred tax liabilities in the amount that finds appropriate to face the tax amendments or the tax losses of which was object, as well as the contingencies regarding exercises not yet revised by the Tax Authority.

Z4. Non-current assets held for sale (real estate) valuation

The valuation of these assets, and consequently the impairment losses, is supported by valuations carried out by independent experts, which incorporate several assumptions, namely on the evolution of the real estate market, better use of the real estate, and when applicable, expectations regarding the development of real estate projects, and also considers the Bank's intentions regarding the commercialization of these assets. The assumptions used in the valuations of these assets have an impact on their valuation and consequently on the determination of impairment.

Z5. Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimations, including the use of actuarial projections, estimated returns on investment, and other factors, such as discount rate, pensions and salary growth rates, mortality tables, that could impact the cost and liability of the pension plan.

As defined by IAS 19, the discount rate used to update the responsibilities of the Bank's pension fund is based on an analysis performed over the market yields regarding a bond issues universe – that the Group considers to have high quality (low risk), different maturities (appropriate to the period of liquidation of the fund's liabilities) and denominated in Euros - related to a diverse and representative range of issuers.

Z6. Financial instruments – IFRS 9

Z6.1. Classification and measurement

The classification and measurement of financial assets depends on the results of the SPPI test (analysis of the characteristics of the contractual cash flows to determine if they correspond only to payments of principal and interest on the outstanding capital) and the test of the business model.

The Group determines the business model at a level that reflects how financial asset groups are managed together to achieve a specific business objective. This evaluation requires judgment, since the following aspects, among others, must be considered: the way in which the performance of assets is evaluated; the risks that affect the performance of the assets and the way these risks are managed; and how asset managers are rewarded.

The Group monitors the financial assets measured at amortised cost and at fair value through other comprehensive income that are derecognised prior to their maturity to understand the underlying reasons for their disposal and to determine whether they are consistent with the purpose of the business model defined for these assets. This monitoring is part of a process of continuous evaluation by the Group of the business model of the financial assets that remain in the portfolio, to determine if it is adequate and, if it is not, if there was a change in the business model and, consequently, a prospective classification change of these financial assets.

Z6.2. Impairment losses on financial assets at amortised cost and debt instruments at fair value through other comprehensive income

The determination of impairment losses on financial instruments involves judgments and estimations regarding, among others, the following:

Significant increase in credit risk:

Impairment losses correspond to the expected losses on a 12-month for the assets in stage 1 and the expected losses considering the probability of a default event occurring at some point up to the maturity date of the instrument financial assets for assets in stages 2 and 3. An asset is classified in stage 2 whenever there is a significant increase in its credit risk since its initial recognition. In assessing the existence of a significant increase in credit risk, the Group considers qualitative and quantitative information, reasonable and sustainable.

Definition of groups of assets with common credit risk characteristics:

When expected credit losses are measured on a collective basis, the financial instruments are grouped based on common risk characteristics. The Group monitors the adequacy of credit risk characteristics on a regular basis to assess whether it maintains its similarity. This procedure is necessary to ensure that, in the event of a change in the credit risk characteristics, the asset segmentation is reviewed. This review may result in the creation of new portfolios or in transferring assets to existing portfolios that better reflect their credit risk characteristics.

Definition of the number and relative weight of prospective information for each type of product/market and determination of relevant prospective information:

In estimating expected credit losses, the Group uses reasonable and sustainable forecasting information that is based on assumptions about the future evolution of different economic drivers and how each of the drivers impacts the remaining drivers.

Probability of default:

The probability of default represents a determining factor in the measurement of expected credit losses. The probability of default corresponds to an estimation of the probability of default in a given period, which is calculated based on historical data, assumptions and expectations about future conditions.

Loss given default:

It corresponds to a loss estimation in a default scenario. It is based on the difference between the contractual cash flows and those that the Bank expects to receive, through the cash flows generated by the customers' business or credit collaterals. The estimation of loss given default is based on, among other aspects, the different recovery scenarios, historical information, the costs involved in the recovery process and the estimation of the valuation of collaterals associated with credit operations.

Z6.3. Fair value of derivative financial instruments

Fair values are based on listed market prices if available, otherwise fair value is determined either by dealer price quotations (either for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which considers the market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgments in estimating their fair values. Consequently, the use of a different model or of different assumptions or judgments in applying a particular model could result in different results from the ones reported.

Z7. Provisions for risk associated with mortgage loans indexed to the swiss franc

The Bank creates provisions for legal contingencies related to mortgage loans indexed to the Swiss franc granted by Bank Millennium, S.A.

The assumptions used by the Bank are essentially based on historical observations and will have to be updated in subsequent periods, which may have a relevant impact on the provision's estimation. The methodology developed by the Bank is based on the following parameters: (i) the number of current (including class actions) and potential future court cases that will appear within a specified time horizon; (ii) the amount of the Bank's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account); and, (iii) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector in Poland and legal opinions obtained.

The evolution of responsibilities with legal contingencies related to mortgage loans indexed to the swiss franc and the amount of the Bank's actual losses depend, namely, on the number of ongoing and potential lawsuits, as well as on the final court decisions about each case.

AA. Subsequent events

The Group analyses events occurred after the balance sheet date, i.e., favourable and/or unfavourable events that occur between the balance sheet date and the date the financial statements were authorized for issue. In this context, two types of events can be identified:

i) those that provide evidence of conditions that existed at the balance sheet date (events after the balance sheet date that give rise to adjustments); and,
ii) those that are indicative of the conditions that arose after the balance sheet date (events after the balance sheet date that do not give rise to adjustments).

Events occurred after the date of the financial statements that are not considered as adjustable events, if significant, are disclosed in the notes to the consolidated financial statements.

2. Net interest income

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Interest and similar income		
Interest on loans and advances to credit institutions repayable on demand	539	265
Interest on financial assets at amortised cost		
Loans and advances to credit institutions	18,053	19,827
Loans and advances to customers	758,374	704,823
Debt securities	64,233	77,404
Interest on financial assets at fair value through profit or loss		
Financial assets held for trading	2,270	5,557
Financial assets not held for trading mandatorily at fair value through profit or loss	9,828	12,506
Financial assets designated at fair value through profit or loss	569	569
Interest on financial assets at fair value through other comprehensive income	68,760	78,745
Interest on hedging derivatives	36,871	49,987
Interest on other assets	1,709	3,172
	961,206	952,855
Interest expense and similar charges		
Interest on financial liabilities at amortised cost		
Resources from credit institutions	(1,471)	(9,587)
Resources from customers	(133,901)	(143,236)
Non subordinated debt securities issued	(8,898)	(7,998)
Subordinated debt	(36,694)	(28,100)
Interest on financial liabilities at fair value through profit or loss		
Financial liabilities held for trading		
Derivatives associated to financial instruments at fair value through profit or loss	(739)	(1,378)
Financial liabilities at fair value through profit or loss		
Resources from customers	(1,272)	(2,821)
Non subordinated debt securities issued	(2,146)	(997)
Interest on hedging derivatives	(12,833)	(14,893)
Interest on leasing	(3,059)	(2,992)
Interest on other liabilities	(1,117)	(780)
	(202,130)	(212,782)
	759,076	740,073

The balance Interest on financial assets at amortised cost - Loans and advances to customers includes the amount of Euros 17,457,000 (30 June 2019: Euros 20,635,000) related to commissions and other gains accounted for under the effective interest method, as referred in the accounting policy described in note 1 C3.

The balances Interest on non-subordinated debt securities issued and Interest on subordinated debt include the amount of Euros 2,103,000 and Euros 3,898,000, respectively (30 June 2019: Euros 2,955,000 and Euros 6,284,000, respectively) related to commissions and other costs accounted for under the effective interest method, as referred in the accounting policy described in note 1 C3.

The balance Interest on financial assets at amortised cost - Loans and advances to customers includes the amount of Euros 34,953,000 (30 June 2019: Euros 36,775,000) related to interests income arising from customers classified in stage 3. The balances Interest on financial assets at amortised cost - Loans and advances to customers and Debt securities include the amounts of Euros 18,729,000 (30 June 2019: Euros 17,611,000), as referred in note 21 and Euros 27,000 (30 June 2019: Euros 81,000), as referred in note 22, related to the adjustment on interest on loans to customers classified in stage 3, under the scope of application of IFRS 9.

The balance Interest on leasing refers to the interest cost related to the leasing liabilities recognised under IFRS 16, as referred in accounting policy described 1 H and note 56.

3. Dividends from equity instruments

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Dividends from financial assets held for trading	-	1
Dividends from financial assets through other comprehensive income	3,488	674
	3,488	675

The balances Dividends from financial assets through other comprehensive income include dividends and income from investment fund units received during the period.

4. Net fees and commissions income

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Fees and commissions received		
Banking services provided	210,101	212,555
Management and maintenance of accounts	62,076	56,891
Bancassurance	61,869	57,995
Securities operations	41,935	37,954
Guarantees granted	24,697	26,933
Commitments to third parties	2,266	2,114
Insurance activity commissions	406	522
Fiduciary and trust activities	331	335
Other commissions	18,225	20,807
	421,906	416,106
Fees and commissions paid		
Banking services provided by third parties	(60,065)	(58,905)
Securities operations	(6,292)	(4,763)
Guarantees received	(2,970)	(2,270)
Insurance activity commissions	(498)	(556)
Other commissions	(6,901)	(7,428)
	(76,726)	(73,922)
	345,180	342,184

5. Net gains / (losses) on financial operations

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Net gains / (losses) from financial operations at fair value through profit or loss		
Net gains / (losses) from financial assets held for trading	(53,276)	112,152
Net gains / (losses) from financial assets not held for trading mandatorily at fair value through profit or loss	(74,091)	474
Net gains / (losses) from financial assets and liabilities designated at fair value through profit or loss	72,963	(113,997)
	(54,404)	(1,371)
Net gains / (losses) from foreign exchange	75,092	30,318
Net gains / (losses) from hedge accounting	(3,438)	(4,192)
Net gains / (losses) from derecognition of financial assets and liabilities at amortised cost	(11,198)	(9,830)
Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive income	33,548	80,612
	39,600	95,537

The balances Net gains / (losses) from financial operations at fair value through profit or loss is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Net gains /(losses) from financial assets held for trading		
Gains		
Debt securities portfolio	5,492	2,921
Equity instruments	14	283
Derivative financial instruments	200,173	261,396
Other operations	876	428
	206,555	265,028
Losses		
Debt securities portfolio	(3,871)	(2,906)
Equity instruments	(182)	(1,222)
Derivative financial instruments	(255,365)	(148,499)
Other operations	(413)	(249)
	(259,831)	(152,876)
	(53,276)	112,152
Net gains /(losses) from financial assets not held for trading mandatorily at fair value through profit or loss		
Gains		
Loans and advances to customers	13,193	12,519
Debt securities portfolio	2,899	21,159
	16,092	33,678
Losses		
Loans and advances to customers	(19,163)	(13,710)
Debt securities portfolio	(71,020)	(19,494)
	(90,183)	(33,204)
	(74,091)	474

(continues)

(continuation)

(Thousands of euros)

	30 June 2020	30 June 2019
Net gains /(losses) from financial assets and liabilities designated at fair value through profit or loss		
Gains		
Resources from customers	418	-
Debt securities issued		
Certificates and structured securities issued	77,147	17,317
Other debt securities issued	1,751	823
	79,316	18,140
Losses		
Debt securities portfolio	(874)	(941)
Resources from customers	(169)	(3,175)
Debt securities issued		
Certificates and structured securities issued	(5,278)	(118,317)
Other debt securities issued	(32)	(9,704)
	(6,353)	(132,137)
	72,963	(113,997)

The balances Net gains / (losses) from foreign exchange, Net gains / (losses) from hedge accounting and Net gains / (losses) from derecognition of financial assets and liabilities at amortised cost, are presented as follows:

(Thousands of euros)

	30 June 2020	30 June 2019
Net gains / (losses) from foreign exchange		
Gains	1,089,262	442,720
Losses	(1,014,170)	(412,402)
	75,092	30,318
Net gains / (losses) from hedge accounting		
Gains		
Hedging derivatives	26,598	23,026
Hedged items	45,127	92,474
	71,725	115,500
Losses		
Hedging derivatives	(67,531)	(110,641)
Hedged items	(7,632)	(9,051)
	(75,163)	(119,692)
	(3,438)	(4,192)
Net gains / (losses) from derecognition of financial assets and liabilities at amortised cost		
Gains		
Credit sales	5,383	1,408
Debt securities issued	902	366
Others	181	1,612
	6,466	3,386
Losses		
Credit sales	(16,213)	(12,175)
Debt securities issued	(1,020)	(532)
Others	(431)	(509)
	(17,664)	(13,216)
	(11,198)	(9,830)

The balance Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive income is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive income		
Gains		
Debt securities portfolio	68,253	86,894
Losses		
Debt securities portfolio	(34,705)	(6,282)
	33,548	80,612

The balance Net gains / (losses) arising from financial assets at fair value through other comprehensive income - Gains - Debt securities portfolio includes the amount of Euros 50,753,000 (30 June 2019: Euros 56,012,000) related to gains resulting from the sale of Portuguese Treasury bonds.

In 30 June 2020, the balance Net gains / (losses) from hedge accounting includes a net gain of Euros 4,003,000 (30 June 2019: Euros 10,248,000) as a result of the sale of financial assets at fair value through other comprehensive income subject to hedge accounting, which are offset in the balance Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive income.

6. Other operating income / (losses)

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Operating income		
Gains on leasing operations	2,028	1,719
Income from services provided	11,896	12,642
Rents	1,884	2,363
Sales of cheques and others	4,724	5,401
Other operating income	10,017	12,311
	30,549	34,436
Operating costs		
Donations and contributions	(2,513)	(2,200)
Contribution over the banking sector	(29,571)	(31,818)
Contributions for Resolution Funds	(28,301)	(33,079)
Contribution for the Single Resolution Fund	(19,394)	(18,747)
Contributions to Deposit Guarantee Fund	(12,564)	(5,488)
Tax for the Polish banking sector	(31,906)	(25,688)
Taxes	(8,396)	(9,648)
Losses on financial leasing operations	(42)	(47)
Other operating costs	(17,810)	(13,333)
	(150,497)	(140,048)
	(119,948)	(105,612)

The balance Contribution over the Portuguese banking sector is estimated according to the terms of the Decree-Law no. 55-A/2010. The determination of the amount payable is based on: (i) the annual average liabilities deducted by core capital (Tier 1) and supplementary capital (Tier 2) and deposits covered by the Deposit Guarantee Fund, and (ii) notional amount of derivatives.

The balance Resolution Fund Contributions includes the periodic contributions that must be paid to the Portuguese Fund, as stipulated in Decree-Law No 24/2013. The periodic contributions are determined by a base rate, established by the Bank of Portugal through regulatory instruments, to be applied in each year and which may be adjusted to the credit institution's risk profile based on the objective incidence of those contributions. The period contributions affect the liabilities of the credit institutions members of the Fund, as per the article 10 of the referred Decree-Law, deducted from the liability elements that are part of the core capital and supplementary and from the deposits covered by the Deposit Guarantee Fund.

The balance Resolution Funds Contributions also includes the mandatory contributions made by Bank Millennium, S.A to the Bank Guarantee Fund in Poland. The current principles of financing the deposit guarantee system and resolution in Poland, as defined in the Act of 10 June 2016 on the Bank Guarantee Fund, deposit guarantee system and forced restructuring, and are effective from 2017.

The method of calculating contributions regarding the resolution fund of banks in Poland was defined in the Delegated Regulation of the European Commission No. 2015/63 (amended by regulation 2016/1434), which applies directly to all European Union countries. The contribution for a given year from each entity is calculated by BFG in accordance with this regulation and the entity is notified by 1 May, each year.

The balance Contribution to the Single Resolution Fund ('SRF') corresponds to the Bank's annual ex-ante contribution to support the application of resolution measures at EU level. The SRF has been established by Regulation (EU) No 806/2014 (the "SRM Regulation"). The SRF is financed from ex-ante contributions paid annually at individual level by all credit institutions within the Banking Union. Contributions to the SRF consider the annual target level as well as the size and the risk profile of institutions.

In calculating the ex-ante contributions, the SRF applies the methodology as set out in the Commission Delegated Regulation (EU) No 2015/63 and European Parliament and of the Council Regulation (EU) No 806/2014. The annual contribution to the Fund is based on the institution's liabilities excluding own funds and covered deposits considering adjustments due to derivatives and intra group liabilities and on a risk factor adjustment that depends on the risk profile of the institution.

In accordance with Article 67(4) of SRM Regulation and in accordance with the Intergovernmental Agreement on the transfer and mutualisation of contributions to the SRF, the ex-ante contributions are collected by national resolution authorities and transferred to the SRF by 30 June of each year.

The Group delivered in 2020 the amount of Euros 19,394,000 (30 June 2019: Euros 18,747,000) to the Single Resolution Fund. The total value of the contribution attributable to the Group amounted to Euros 22,808,000 (30 June 2019: Euros 21,918,000) and the Group opted to constitute an irrevocable commitment, through the constitution of a bailment for this purpose, in the amount of Euros 3,414,000 (30 June 2019: Euros 3,171,000), not having this component been recognised as a cost, as defined by the Single Resolution Council in accordance with the methodology set out in Delegated Regulation (EU) No 2015/63 of the Commission of 21 October 2014 and with the conditions laid down in the Implementing Regulation (EU) 2015/81 of the Council of 19 December 2014. As at 30 June 2020, the total amount of irrevocable commitments constituted is Euros 17,276,000 (30 June 2019: Euros 13,300,000), registered in Other assets - Deposit account applications (note 31).

7. Staff costs

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Remunerations	259,903	254,712
Mandatory social security charges		
Post-employment benefits (note 50)		
Service cost	(7,666)	(7,619)
Net interest cost / (income) in the liability coverage balance	3,238	2,765
Cost with early retirement programs	2,922	5,656
Amount transferred to the Fund resulting from acquired rights unassigned related to the Complementary Plan	(140)	(664)
	(1,646)	138
Other mandatory social security charges	56,851	55,524
	55,205	55,662
Voluntary social security charges	5,610	6,561
Other staff costs	6,844	7,307
	327,562	324,242

As at 30 June 2020, the balance Remuneration includes the amount of Euros 5,281,000 (30 June 2019: Euros 12,587,000) related to the distribution of profits to Bank's employees, as described in note 47.

As at 30 June 2019, the balance Other staff costs includes severance payments in the amount of Euros 420,000, of which the highest amounts to Euros 400,000.

8. Other administrative costs

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Water, electricity and fuel	7,792	8,556
Credit cards and mortgage	1,662	914
Communications	13,633	11,981
Maintenance and related services	8,862	8,723
Legal expenses	1,505	2,564
Travel, hotel and representation costs	2,714	4,959
Advisory services	6,289	12,604
Training costs	830	1,263
Information technology services	23,406	22,283
Consumables	2,161	2,290
Outsourcing and independent labour	37,201	36,392
Advertising	11,407	12,003
Rents and leases	13,156	11,449
Insurance	1,872	1,739
Transportation	4,628	4,943
Other specialised services	13,685	12,982
Other supplies and services	14,252	11,337
	165,055	166,982

The balance Rents and leases includes, in 2020, the amount of Euros 1,254,000 (30 June 2019: Euros 804,000) related to short-term lease contracts and the amount of Euros 1,216,000 (30 June 2019: Euros 1,018,000) related to lease contracts of low-value assets, as described in the accounting policy 1 H and note 56.

9. Amortisations and depreciations

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Amortisations of intangible assets (note 29):		
Software	13,511	9,491
Other intangible assets	1,995	782
	15,506	10,273
Depreciations of other tangible assets (note 28):		
Properties	8,496	8,635
Equipment		
Computers	8,927	6,707
Security equipment	520	600
Installations	1,384	1,291
Machinery	543	386
Furniture	1,475	1,271
Motor vehicles	2,418	2,452
Other equipment	722	874
Right-of-use		
Real estate	29,028	24,281
Vehicles and equipment	159	187
	53,672	46,684
	69,178	56,957

10. Impairment for financial assets at amortised cost

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Loans and advances to credit institutions (note 20)		
Charge for the period	1,436	14
Reversals for the period	-	(627)
	1,436	(613)
Loans and advances to customers (note 21)		
Charge for the period	466,157	491,487
Reversals for the period	(221,151)	(279,682)
Recoveries of loans and interest charged-off	(12,889)	(12,209)
	232,117	199,596
Debt securities (note 22)		
Associated to credit operations		
Charge for the period	5,216	1,420
Reversals for the period	-	(719)
	5,216	701
Not associated to credit operations		
Charge for the period	3,875	435
Reversals for the period	(97)	(93)
	3,778	342
	8,994	1,043
	242,547	200,026

11. Impairment for financial assets at fair value through other comprehensive income

The detail of these balances is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Impairment for financial assets at fair value through other comprehensive income (note 23)		
Charge for the period	11,693	844
Reversals for the period	(1,124)	(705)
	10,569	139

12. Impairment for other assets

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Impairment for non-current assets held for sale (note 26)		
Charge for the period	23,739	42,639
Reversals for the period	(4,899)	(5,068)
	18,840	37,571
Impairment for goodwill of subsidiaries (note 29)		
Charge for the period	180	-
Impairment for other assets (note 31)		
Charge for the period	9,523	6,749
Reversals for the period	(5,463)	(3,319)
	4,060	3,430
	23,080	41,001

13. Other provisions

This balance is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Provision for guarantees and other commitments (note 38)		
Charge for the period	27,104	17,127
Reversals for the period	(19,005)	(23,163)
	8,099	(6,036)
Other provisions for liabilities and charges (note 38)		
Charge for the period	70,232	7,994
Reversals for the period	(3,171)	-
	67,061	7,994
	75,160	1,958

14. Share of profit / (loss) of associates under the equity method

The main contributions of the investments accounted for under the equity method are analysed as follows:

(Thousands of euros)

	30 June 2020	30 June 2019
Banco Millennium Atlântico, S.A. (note 25)		
Appropriation relating to the current year	1,688	6,967
Appropriation relating to the previous year	(27)	78
Annulment of the gains arising from properties sold to Group entities	(93)	-
Effect of the application of IAS 29:		
Amortization of the effect calculated until 31 December 2018 (*)	883	(724)
	2,451	6,321
Banque BCP, S.A.S.	2,147	2,026
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	31,144	9,888
SIBS, S.G.P.S, S.A.	5,096	2,980
Unicre - Instituição Financeira de Crédito, S.A.	2,414	295
Other companies	(355)	(319)
	40,446	14,870
	42,897	21,191

(*) Based on the requirements of IAS 29, Angola was considered as a high inflation economy until 31 December 2018, for the purposes of presentation of consolidated financial statements, as described in accounting policy 1 B6. This classification is no longer applied since 1 January 2019.

15. Gains / (losses) arising from sales of subsidiaries and other assets

This balance is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Gains arising on sale of associated company Mundotêxtil - Indústrias Têxteis, S.A.	-	147
Losses arising on liquidation of Imábida - Imobiliária da Arrábida, S.A..	-	(96)
Other assets	(5,519)	24,655
	(5,519)	24,706

The balance Other assets includes gains arising from the sale of assets held by the Group and classified as non-current assets held for sale, which, in 2020, corresponds to a gain of Euros 4,426,000 (30 June 2019: gain of Euros 22,307,000).

16. Income / (loss) arising from discontinued or discontinuing operations

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2020	30 June 2019
Gain arising on sale of Planfipsa Group	-	13,454
Gains/(losses) arising from the sale of Millennium bcp Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	(41)
	-	13,413

Under the scope of the sale of Planfipsa Group occurred in February 2019 and in accordance with IFRS 5, this operation was considered as a discontinuing operation, during the 2nd semester of 2018, and the impact registered as at 30 June 2019 on results is shown in a separate item of the income statement Income / (loss) arising from discontinued or discontinuing operations.

The disposal of 51% held in Planfipsa S.G.P.S. S.A. and of a set of loans granted by Banco Comercial Português, S.A. to the entity, originated a gain as at 30 June 2019 of Euros 13,454,000 (gain of Euros 18,186,000, before taxes and a tax cost of Euros 4,732,000).

17. Earnings per share

The earnings per share are calculated as follows:

(Thousands of euros)

	30 June 2020	30 June 2019
Continuing operations		
Net income after income taxes from continuing operations	98,790	211,828
Non-controlling interests	(22,832)	(55,462)
Appropriated net income	75,958	156,366
Interests of the perpetual subordinated bonds (Additional Tier 1) (note 40)	(18,500)	(9,250)
Taxes associated to the interests of the perpetual subordinated bonds (Additional Tier 1)	3,885	1,459
Adjusted net income	61,343	148,575
Discontinued or discontinuing operations (note 16)		
Appropriated net income	-	13,413
Adjusted net income	61,343	161,988
Average number of shares	15,113,989,952	15,113,989,952
Basic earnings per share (Euros):		
from continuing operations	0.008	0.020
from discontinued or discontinuing operations	0.000	0.002
	0.008	0.022
Diluted earnings per share (Euros):		
from continuing operations	0.008	0.020
from discontinued or discontinuing operations	0.000	0.002
	0.008	0.022

The Bank's share capital, as at 30 June 2020, amounts to Euros 4,725,000,000 and is represented by 15,113,989,952 nominative book-entry shares without nominal value, fully subscribed and paid up.

There were not identified another dilution effects of the earnings per share as at 30 June 2020 and 2019, so the diluted result is equivalent to the basic result.

18. Cash and deposits at Central Banks

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Cash	516,883	636,048
Central Banks		
Bank of Portugal	3,366,686	3,658,202
Central Banks abroad	419,075	872,301
	4,302,644	5,166,551

The balance Central Banks includes deposits at Central Banks of the countries where the Group operates to satisfy the legal requirements to maintain a cash reserve calculated based on the value of deposits and other effective liabilities. According to the European Central Bank System for Euro Zone, the cash reserve requirements establishes the maintenance of a deposit with the Central Bank equivalent to 1% of the average value of deposits and other liabilities, during each reserve requirement period. The rate is different for countries outside the Euro Zone.

In addition, from the reserve counting period started on 30 October 2019, the ECB introduced the tiering regime, in which the balance with the Central Bank in excess of the minimum cash reserves, up to an estimated maximum of 6 times of the reserves, is remunerated at the central bank's lending rate instead of the deposit rate.

19. Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Credit institutions in Portugal	9,822	9,427
Credit institutions abroad	260,514	220,718
Amounts due for collection	79,882	90,712
	350,218	320,857

The balance Amounts due for collection represents essentially cheques due for collection on other financial institutions. These balances were settled in the first days of the following month.

20. Loans and advances to credit institutions

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Loans and advances to Central Banks abroad	111,526	-
Loans and advances to credit institutions in Portugal		
Short-term applications	49,984	-
Loans	35,568	36,655
Term deposits to collateralise CIRS and IRS operations (*)	370	-
Other	16,830	6,028
	102,752	42,683
Loans and advances to credit institutions abroad		
Very short-term deposits	223,774	342,090
Term deposits	345,261	220,426
Term deposits to collateralise CIRS and IRS operations (*)	274,628	252,584
Other	29,831	35,580
	873,494	850,680
	1,087,772	893,363
Overdue loans - Over 90 days	2	-
	1,087,774	893,363
Impairment for loans and advances to credit institutions	(1,804)	(368)
	1,085,970	892,995

(*) Under the scope of derivative financial instruments operations (IRS and CIRS) with institutional counterparties, and as defined in the respective contracts ("Cash collateral"), these deposits are held by the counterparties and are given as collateral of the referred operations (IRS and CIRS), whose revaluation is negative for the Group.

The changes occurred in impairment for Loans and advances to credit institutions are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Balance on 1 January	368	1,853
Impairment charge for the period (note 10)	1,436	55
Reversals for the period (note 10)	-	(867)
Loans charged-off	-	(673)
Balance at the end of the period	1,804	368

21. Loans and advances to customers

The analysis of loans and advances to customers, by type of credit, is as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Mortgage loans	26,257,587	25,968,814
Loans	16,488,325	14,783,169
Finance leases	4,038,358	4,144,376
Factoring operations	2,445,189	2,566,627
Current account credits	1,455,518	1,734,948
Overdrafts	1,066,284	1,215,941
Discounted bills	224,402	265,385
	51,975,663	50,679,260
Overdue loans - less than 90 days	107,052	115,707
Overdue loans - Over 90 days	1,396,931	1,469,884
	53,479,646	52,264,851
Impairment for credit risk	(2,231,340)	(2,417,022)
	51,248,306	49,847,829

As at 30 June 2020, the balance Loans and advances to customers includes the amount of Euros 11,852,849,000 (31 December 2019: Euros 11,778,334,000) regarding credits related to mortgage loans issued by the Group.

As part of the liquidity risk management, the Group holds a pool of eligible assets that can serve as collateral in funding operations with the European Central Bank and other Central Banks in countries where the Group operates, which include loans and advances to customers.

As referred in note 50, the Group provides loans and/or guarantees to qualifying shareholders holding individually or together with their affiliates, 2% or more of the share capital identified in the Board of Directors report and in note 40.

As at 30 June 2020, the Group granted credit to qualifying shareholders and entities controlled by them, in the amount of Euros 73,267,000 (31 December 2019: Euros 99,774,000), as referred in note 50 a). The amount of impairment recognised for these contracts amounts to Euros 431,000 (31 December 2019: Euros 210,000).

The business conducted between the company and qualifying shareholders or natural or legal persons related to them, pursuant to article 20 of the Securities Code, regardless of the amount, is always subject to appraisal and deliberation by the Board of Directors, through a proposal by the Credit Committee and the Executive Committee, supported by an analysis and technical opinion issued by the Internal Audit Division, and after a prior opinion has been obtained from the Audit Committee.

The balance Loans and advances to customers, as at 30 June 2020, is analysed as follows:

(Thousands of euros)

	30 June 2020				
	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Public sector	569,206	3	569,209	(2,037)	567,172
Asset-backed loans	29,886,951	690,166	30,577,117	(1,147,002)	29,430,115
Other guaranteed loans	5,101,108	185,053	5,286,161	(254,370)	5,031,791
Unsecured loans	7,842,051	384,621	8,226,672	(430,692)	7,795,980
Foreign loans	2,092,800	126,624	2,219,424	(218,275)	2,001,149
Factoring operations	2,445,189	31,939	2,477,128	(49,324)	2,427,804
Finance leases	4,038,358	85,577	4,123,935	(129,640)	3,994,295
	51,975,663	1,503,983	53,479,646	(2,231,340)	51,248,306

The balances Asset-backed loans and Other guaranteed loans follow the subsequent types of guarantees considered:

- Asset-backed loans: Financial collaterals, physical collaterals (movable or immovable) and amounts receivable (income consignment);
- Credit with other guarantees: First-demand guarantees issued by banks or other entities and personal guarantees.

The balance Loans and advances to customers, as at 31 December 2019, is analysed as follows:

(Thousands of euros)

	31 December 2019				
	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Public sector	588,970	10	588,980	(1,493)	587,487
Asset-backed loans	29,895,043	838,734	30,733,777	(1,412,285)	29,321,492
Other guaranteed loans	3,672,218	166,487	3,838,705	(252,711)	3,585,994
Unsecured loans	7,700,118	338,697	8,038,815	(400,468)	7,638,347
Foreign loans	2,111,908	125,073	2,236,981	(193,148)	2,043,833
Factoring operations	2,566,627	25,150	2,591,777	(42,805)	2,548,972
Finance leases	4,144,376	91,440	4,235,816	(114,112)	4,121,704
	50,679,260	1,585,591	52,264,851	(2,417,022)	49,847,829

As at 30 June 2020, the item Finance leases includes the amount of Euros 8.686.000 (31 December 2019: Euros 9.278.000) relative to sublease operations, as referred in accounting policy 1 H and in note 56.

The Outstanding loans related to finance leases contracts are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Amount of future minimum payments	4,509,442	4,649,569
Interest not yet due	(471,084)	(505,193)
Present value	4,038,358	4,144,376

Regarding operational leasing, the Group does not present relevant contracts as lessee.

The analysis of loans and advances to customers, as at 30 June 2020, by sector of activity, is as follows:

(Thousands of euros)

	30 June 2020					
	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount	% gross amount
Agriculture and forestry	375,732	8,439	384,171	(8,874)	375,297	0.72%
Fisheries	38,118	44	38,162	(814)	37,348	0.07%
Mining	72,214	2,490	74,704	(2,348)	72,356	0.14%
Food, beverage and tobacco	768,833	17,362	786,195	(28,574)	757,621	1.47%
Textiles	470,190	11,095	481,285	(21,586)	459,699	0.90%
Wood and cork	252,223	4,144	256,367	(7,622)	248,745	0.48%
Paper, printing and publishing	183,227	1,306	184,533	(13,756)	170,777	0.35%
Chemicals	782,575	22,781	805,356	(31,070)	774,286	1.51%
Machinery, equipment and basic metallurgical	1,366,715	37,072	1,403,787	(52,980)	1,350,807	2.63%
Electricity and gas	323,117	227	323,344	(2,892)	320,452	0.61%
Water	214,274	712	214,986	(10,921)	204,065	0.40%
Construction	1,574,571	96,613	1,671,184	(108,889)	1,562,295	3.13%
Retail business	1,538,924	35,264	1,574,188	(53,869)	1,520,319	2.94%
Wholesale business	2,189,820	59,835	2,249,655	(123,885)	2,125,770	4.21%
Restaurants and hotels	1,427,147	41,796	1,468,943	(114,066)	1,354,877	2.75%
Transports	1,201,908	29,653	1,231,561	(37,258)	1,194,303	2.30%
Post offices	10,657	282	10,939	(400)	10,539	0.02%
Telecommunications	441,707	5,088	446,795	(15,405)	431,390	0.84%
Services						
Financial intermediation	1,397,862	113,682	1,511,544	(368,273)	1,143,271	2.83%
Real estate activities	1,701,254	23,225	1,724,479	(90,007)	1,634,472	3.23%
Consulting, scientific and technical activities	1,126,523	17,099	1,143,622	(111,806)	1,031,816	2.14%
Administrative and support services activities	625,330	14,740	640,070	(83,745)	556,325	1.20%
Public sector	1,059,747	3	1,059,750	(4,521)	1,055,229	1.98%
Education	133,182	1,498	134,680	(6,677)	128,003	0.25%
Health and collective service activities	321,037	1,408	322,445	(5,541)	316,904	0.60%
Artistic, sports and recreational activities	322,331	7,736	330,067	(78,699)	251,368	0.62%
Other services	218,843	289,023	507,866	(218,698)	289,168	0.95%
Consumer loans	5,121,635	348,449	5,470,084	(357,858)	5,112,226	10.23%
Mortgage credit	25,886,077	190,023	26,076,100	(162,370)	25,913,730	48.76%
Other domestic activities	1,163	528	1,691	(46)	1,645	0.00%
Other international activities	828,727	122,366	951,093	(107,890)	843,203	1.78%
	51,975,663	1,503,983	53,479,646	(2,231,340)	51,248,306	100%

The analysis of loans and advances to customers, as at 31 December 2019, by sector of activity, is as follows:

(Thousands of euros)

	31 December 2019					
	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount	% Gross amount
Agriculture and forestry	328,520	7,599	336,119	(7,419)	328,700	0.64%
Fisheries	35,528	29	35,557	(679)	34,878	0.07%
Mining	54,611	1,397	56,008	(4,561)	51,447	0.11%
Food, beverage and tobacco	712,184	15,386	727,570	(24,840)	702,730	1.39%
Textiles	375,226	9,020	384,246	(18,807)	365,439	0.74%
Wood and cork	231,876	3,501	235,377	(5,075)	230,302	0.45%
Paper, printing and publishing	167,395	1,194	168,589	(14,416)	154,173	0.32%
Chemicals	718,269	23,210	741,479	(26,820)	714,659	1.42%
Machinery, equipment and basic metallurgical	1,224,725	31,448	1,256,173	(37,769)	1,218,404	2.40%
Electricity and gas	313,776	223	313,999	(2,550)	311,449	0.60%
Water	189,455	618	190,073	(9,504)	180,569	0.36%
Construction	1,525,891	163,138	1,689,029	(252,391)	1,436,638	3.23%
Retail business	1,197,223	37,489	1,234,712	(54,633)	1,180,079	2.36%
Wholesale business	2,057,044	50,408	2,107,452	(99,968)	2,007,484	4.03%
Restaurants and hotels	1,144,155	40,227	1,184,382	(87,325)	1,097,057	2.27%
Transports	1,250,810	25,826	1,276,636	(39,739)	1,236,897	2.44%
Post offices	10,583	254	10,837	(346)	10,491	0.02%
Telecommunications	354,129	3,959	358,088	(6,853)	351,235	0.69%
Services						
Financial intermediation	1,658,167	134,789	1,792,956	(494,251)	1,298,705	3.43%
Real estate activities	1,584,251	98,840	1,683,091	(110,495)	1,572,596	3.22%
Consulting, scientific and technical activities	1,096,394	24,594	1,120,988	(177,341)	943,647	2.15%
Administrative and support services activities	539,047	14,236	553,283	(75,801)	477,482	1.06%
Public sector	1,042,143	10	1,042,153	(3,729)	1,038,424	1.99%
Education	125,432	1,338	126,770	(6,389)	120,381	0.24%
Health and collective service activities	296,830	1,281	298,111	(4,256)	293,855	0.57%
Artistic, sports and recreational activities	272,838	1,230	274,068	(66,816)	207,252	0.52%
Other services	207,012	271,206	478,218	(207,350)	270,868	0.92%
Consumer loans	5,354,681	294,117	5,648,798	(316,423)	5,332,375	10.81%
Mortgage credit	25,686,880	206,666	25,893,546	(168,039)	25,725,507	49.54%
Other domestic activities	1,155	374	1,529	(82)	1,447	0.00%
Other international activities	923,030	121,984	1,045,014	(92,355)	952,659	2.00%
	50,679,260	1,585,591	52,264,851	(2,417,022)	49,847,829	100%

The item total credit portfolio, which includes further than loans and advances to customers, the guarantees granted, split by stage according with IFRS 9, is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Total credit	57,973,494	56,991,658
Stage 1		
Gross amount	46,093,845	44,374,375
Impairment	(164,246)	(110,509)
	45,929,599	44,263,866
Stage 2		
Gross amount	7,569,787	8,149,861
Impairment	(208,444)	(191,810)
	7,361,343	7,958,051
Stage 3		
Gross amount	4,309,862	4,467,422
Impairment	(1,968,535)	(2,212,693)
	2,341,327	2,254,729
	55,632,269	54,476,646

The total credit portfolio includes, as at 30 June 2020, loans and advances to customers in the amount of Euros 53,479,646,000 (31 December 2019: Euros 52,264,851,000) and guarantees granted and commitments to third parties (note 45) in the amount of Euros 4,493,848,000 (31 December 2019: Euros 4,726,807,000).

The items of Impairment were determined in accordance with the accounting policy described in note 1 C1.5, including the provision for Guarantees and other commitments to third parties (note 38), associated with guarantees granted, in the amount of Euros 109,885,000 (31 December 2019: Euros 97,990,000).

The analysis of the exposure covered by collaterals associated with loans and advances to customers' portfolio, by stage according with IFRS 9, considering the collaterals' fair value, is as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Stage 1		
Securities and other financial assets	1,710,816	1,904,675
Residential real estate	21,069,256	21,165,962
Other real estate	3,168,392	2,943,688
Other guarantees	6,127,625	4,571,961
	32,076,089	30,586,286
Stage 2		
Securities and other financial assets	273,016	293,565
Residential real estate	2,682,671	2,759,766
Other real estate	1,216,877	1,237,569
Other guarantees	820,111	868,877
	4,992,675	5,159,777
Stage 3		
Securities and other financial assets	190,153	301,745
Residential real estate	785,203	800,650
Other real estate	647,909	610,792
Other guarantees	512,907	579,905
	2,136,172	2,293,092
	39,204,936	38,039,155

The balance Other guarantees include first-demand guarantees issued by the Bank and other entities, personal guarantees and sureties, pledges and assets object of leasing transactions, among others. Considering the policy of risk management of the Group (note 53), the amounts presented do not include the fair value of the personal guarantees provided by clients with lower risk rating. When considered, the fair value of the personal guarantees corresponds to the guaranteed amount.

The Group is applying physical collaterals and financial guarantees as instruments to mitigate the credit risk. The physical collaterals are mainly mortgages on residential buildings for the mortgage portfolio and other mortgages on other types of buildings related to other types of loans. To reflect the market value, these collaterals are regularly reviewed based on independent and certified valuation entities or through the application of revaluation coefficients that reflect the market trends for each specific type of building and geographical area. The financial guarantees are reviewed based on the market value of the respective assets, when available, with the subsequent application of haircuts that reflect the volatility of their prices. Considering the current real estate and financial markets conditions, the Group continued to negotiate additional physical and financial collaterals with its customers.

The loan to customers' portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent establishment of a new funding to replace the previous. The restructuring may include in a reinforce of guarantees, liquidation of part of the credit as well as changes in the payment plan and / or in interest rate. The analysis of the restructured loans, by sector of activity, is as follows:

(Thousands of euros)

	30 June 2020			31 December 2019		
	Restructured loans	Impairment	Net amount	Restructured loans	Impairment	Net amount
Agriculture and forestry	17,915	(3,544)	14,371	14,391	(3,012)	11,379
Fisheries	6,128	(393)	5,735	6,134	(454)	5,680
Mining	2,406	(566)	1,840	5,558	(3,317)	2,241
Food, beverage and tobacco	29,269	(8,574)	20,695	25,290	(7,448)	17,842
Textiles	10,962	(4,361)	6,601	14,010	(4,287)	9,723
Wood and cork	7,584	(1,486)	6,098	7,978	(1,694)	6,284
Paper, printing and publishing	16,132	(11,547)	4,585	16,449	(12,222)	4,227
Chemicals	24,386	(8,679)	15,707	23,386	(5,095)	18,291
Machinery, equipment and basic metallurgical	58,161	(13,555)	44,606	54,949	(11,038)	43,911
Electricity and gas	404	(31)	373	454	(32)	422
Water	50,953	(8,168)	42,785	51,694	(7,116)	44,578
Construction	239,534	(55,011)	184,523	245,348	(148,041)	97,307
Retail business	59,267	(22,827)	36,440	61,569	(23,761)	37,808
Wholesale business	104,970	(16,835)	88,135	105,965	(13,463)	92,502
Restaurants and hotels	93,900	(21,294)	72,606	101,525	(20,402)	81,123
Transports	17,252	(4,054)	13,198	13,118	(2,691)	10,427
Post offices	197	(48)	149	236	(61)	175
Telecommunications	17,798	(7,432)	10,366	18,059	(1,219)	16,840
Services						
Financial intermediation	384,203	(262,851)	121,352	533,238	(340,993)	192,245
Real estate activities	166,452	(51,418)	115,034	157,808	(43,027)	114,781
Consulting, scientific and technical activities	298,627	(79,882)	218,745	166,498	(93,427)	73,071
Administrative and support services activities	82,435	(62,034)	20,401	83,319	(61,457)	21,862
Public sector	57,985	(1,308)	56,677	67,157	(1,309)	65,848
Education	19,878	(4,778)	15,100	20,057	(4,724)	15,333
Health and collective service activities	24,856	(2,091)	22,765	10,537	(1,156)	9,381
Artistic, sports and recreational activities	125,916	(51,897)	74,019	90,159	(40,616)	49,543
Other services	245,043	(177,112)	67,931	245,150	(177,061)	68,089
Consumer loans	277,981	(83,486)	194,495	301,820	(76,808)	225,012
Mortgage credit	577,290	(47,758)	529,532	604,597	(45,234)	559,363
Other international activities	36,365	(27,257)	9,108	36,531	(24,491)	12,040
	3,054,271	(1,040,277)	2,013,994	3,083,006	(1,175,657)	1,907,349

The restructured loans are subject to an impairment analysis resulting from the revaluation of expectation to meet new cash flows inherent to the new contract terms and considering new collaterals.

The Group has implemented a process for marking operations restructured due to clients' financial difficulties. This marking is part of the credit analysis process, being in charge of the respective decision-making bodies, according to the corresponding competencies, established in the regulations in force.

The information on operations restructured due to financial difficulties is available in the Group's information systems, having a relevant role in the processes of credit analysis, in the marking of customers in default and in the process of determining impairment. In particular:

- there are several default triggers related to restructurings due to financial difficulties (restructuring with loss of value, recidivism of restructuring, default on customers with restructured operations);
- in the process of individual impairment analysis, in addition to the existence of operations restructured due to financial difficulties, is a reason for customer selection, the loss inherent to the change in the conditions resulting from the restructuring is determined;

The demarcation of an operation can only take place at least 2 years after the date of marking, provided that a set of conditions exist that allow to conclude by the improvement of the financial condition of the client. In the case of credits marked as NPE, this 2-year period will only start on the date of classification of the credit as performing.

The definition of Non-Performing Loans for more than 90 days (NPL > 90) incorporates total credit (past due + outstanding) associated with past due operations for more than 90 days. As at 31 December 2019, the amount calculated is Euros 2,099,798,000 (31 December 2019: Euros 2,259,596,000).

All customers who check at least one of the following conditions are marked in default and therefore in Non Performing Exposure (NPE):

- Material payment delay of more than 90 days in the amounts of principal, interest or unpaid commissions on the due date that, cumulatively, represent:

a) More than 100 euros (retail) or more than 500 euros (non-retail); and
b) More than 1% of the total debt (direct liabilities).

- Indications of low probability of payment:

a) Credit restructuring due to financial difficulties with loss of value; b) Delay after restructuring due to financial difficulties; c) Recurrence of restructuring due to financial difficulties; d) Credit with signs of impairment (or Stage 3 of IFRS 9); e) Insolvency or equivalent process; f) Litigation; g) Guarantees of operations in default; h) Loss of credit sales; i) Credit fraud; j) Unpaid credit status; k) Breach of covenants in a credit agreement; l) Contagion of default in an economic group; m) Cross default in the BCP Group.

As at 30 June 2020, the NPE amounts to Euros 3,934,109,000 (31 December 2019: Euros 4,206,158,000).

The changes occurred in impairment for credit risks are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Balance on 1 January	2,417,022	2,851,906
Charge for the year in net income interest (note 2)	18,729	51,504
Other transfers	(1,895)	72,421
Impairment charge for the period (note 10)	466,157	924,248
Reversals for the period (note 10)	(221,151)	(510,585)
Loans charged-off	(425,404)	(979,451)
Exchange rate differences	(22,118)	6,979
Balance at the end of the period	2,231,340	2,417,022

As at 31 December 2019, the balance Other transfers includes the amount of Euros 64,588,000 related to provisions for guarantees and other commitments, which were transferred to impairment for credit risks due to the fact that the guarantees granted were converted into loans and advances to customers.

The analysis of loans charged-off, by sector of activity, is as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Agriculture and forestry	88	4,360
Fisheries	-	4
Mining	-	4,414
Food, beverage and tobacco	1,514	14,190
Textiles	3,668	7,418
Wood and cork	119	3,304
Paper, printing and publishing	66	6,823
Chemicals	1,520	30,947
Machinery, equipment and basic metallurgical	2,133	25,843
Electricity and gas	11	506
Water	47	619
Construction	134,611	282,889
Retail business	4,061	75,990
Wholesale business	2,635	37,281
Restaurants and hotels	646	13,128
Transports	2,112	11,546
Post offices	28	243
Telecommunications	125	17,956
Services		
Financial intermediation	146,792	21,154
Real estate activities	35,992	62,175
Consulting, scientific and technical activities	68,014	178,745
Administrative and support services activities	740	6,353
Education	10	603
Health and collective service activities	44	1,215
Artistic, sports and recreational activities	51	3,651
Other services	374	4,833
Consumer loans	16,807	149,500
Mortgage credit	2,138	9,059
Other domestic activities	106	2,561
Other international activities	952	2,141
	425,404	979,451

According with the accounting policy described in note 1 C1.3, loans and advances to customers are charged-off when there are no feasible expectations, of recovering the loan amount and for collateralised loans, the charge-off occurs when the funds arising from the execution of the respective collaterals are effectively received. This charge-off is carried out by the utilization of impairment losses when they refer to 100% of the loans that are considered unrecoverable.

The analysis of loans charged-off, by type of credit, is as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Asset-backed loans	1,836	14,896
Other guaranteed loans	815	37,499
Unsecured loans	416,094	894,640
Factoring operations	695	10,312
Finance leases	5,964	22,104
	425,404	979,451

The analysis of recovered loans and interest occurred during first semester 2020 and 2019, by sector of activity, is as follows:

(Thousands of euros)

	30 June 2020	30 June 2019
Agriculture and forestry	252	57
Food, beverage and tobacco	36	188
Textiles	15	29
Wood and cork	3	3
Paper, printing and publishing	-	111
Chemicals	414	444
Machinery, equipment and basic metallurgical	39	83
Water	1	-
Construction	291	1,310
Retail business	368	1,153
Wholesale business	472	606
Restaurants and hotels	66	12
Transports	94	2,771
Post offices	-	10
Telecommunications	2	2
Services		
Financial intermediation	1,085	592
Real estate activities	54	432
Consulting, scientific and technical activities	1,413	9
Administrative and support services activities	11	78
Education	35	-
Health and collective service activities	1	2
Artistic, sports and recreational activities	10	257
Other services	13	341
Consumer loans	5,880	3,475
Mortgage credit	196	78
Other domestic activities	3	159
Other international activities	2,135	7
	12,889	12,209

The analysis of recovered loans and interest occurred during first semester 2020 and 2019, by type of credit, is as follows:

(Thousands of euros)

	30 June 2020	30 June 2019
Asset-backed loans	243	88
Other guaranteed loans	3,329	3,632
Unsecured loans	8,147	8,139
Foreign loans	899	6
Factoring operations	45	-
Finance leases	226	344
	12,889	12,209

The balance Loans and advances to customers includes the effect of traditional securitization transactions made through Special Purpose Entities (SPEs) consolidated following the application of IFRS 10, in accordance with accounting policy 1 B and synthetic securitization. The characterization of these operations is described in note 1 D.

Traditional securitizations

Securitization transactions engaged by the Group and still ongoing, refer to mortgage loans portfolios and are set through securitization funds and special purpose entities (SPEs). As at 30 June 2020, the loans and advances referred to these operations amounts to Euros 256,260,000 (31 December 2019: Euros 269,668,000). As referred in accounting policy 1 B, when the substance of the relationships with the referred SPEs indicates that the Group holds control of its activities, those are consolidated by the full method.

Magellan Mortgages No. 2

The traditional securitization Magellan Mortgages No. 2 was reimbursed on 18 October 2019, through a Clean-Up Call exercise.

Magellan Mortgages No. 3

On 24 June 2005, the Bank transferred, through securitization funds, an owned mortgage loans portfolio to the SPE “Magellan Mortgages No. 3 PLC”. Considering that, by having acquired part of the subordinated tranche of the bonds issued by that SPE, the Bank holds the control of the referred assets, the SPE is consolidated in the Group’s Financial Statements, as established in the accounting policy 1 B. As at 30 June 2020, the SPE's credit portfolio associated with this operation amounts to Euros 256,260,000, and bonds issued with different subordination levels amount to Euros 189,214,000 (this amount excludes bonds hold by the Group in the amount of Euros 85,159,000) and the most subordinated tranche amounts to Euros 44,000 (this amount excludes bonds already acquired by the Group in the amount Euros 206,000).

Synthetic securitizations

The Group has two operations in progress which form structures of synthetic securitization.

Caravela SME No. 3

Caravela SME No.3, supports an operation started on 28 June 2013, based on a medium and long term loans portfolio of current accounts and authorized overdrafts granted by Bank, mainly to small and medium companies. The legal maturity date of the operation is 25 March of 2036 and the operation amounts to Euros 654,593,000 as at 30 June 2020. The fair value of the relative Credit Default Swap (CDS) is recorded as a positive amount of Euros 202,432,000 and the registered cost in 2020 amounts to Euros 2,435,000.

Caravela SME No. 4

Caravela SME No.4 is a similar operation, initiated on 5 June 2014, which portfolio contains car, real estate and equipment leasing granted between the Bank and a group of clients that belong to the same segment (small and medium companies). The legal maturity date is 21 September of 2043 and, as at 30 June 2020, the operation amounts to Euros 778,145,000. The fair value of the relative CDS is recorded as a positive amount of Euros 63,868,000 and their registered cost in 2020 amounts to Euros 224,000.

In both operations, the Bank hired a CDS with a Special Purpose Vehicle (SPV), buying by this way the protection for part of the credit risk inherent to the referenced portfolio. Both cases, the synthetic securitizations, the same CDS, the risk of the respective portfolios were divided in 3 classes: senior, mezzanine and equity. The total of mezzanine and part of the equity (20%) were placed in the market through an SPE, and the subscription by investors, the Credit Linked Notes (CLN). The Bank retained the senior risk and part of the equity remaining (80%). In both structures, the correspondent product of the CLN issue was invested by the referred SPE the constitution of a deposit that collateralizes, in full, their responsibilities towards its creditors under the operation, including the Bank under the CDS context.

These operations involve the Bank's to reduce the risk-weighted assets associated with the credit portfolios supporting the operations, but it did not transfer to third parties most of the rights and obligations arising from the credits included in them, thus not meeting the derecognition criteria in the accounting policy presented in note 1 C1.3.

22. Debt securities

The balance Debt securities is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Debt securities held associated with credit operations		
Portuguese issuers		
Bonds	143,047	155,567
Commercial paper	1,953,685	1,871,985
Foreign issuers		
Bonds	31,377	32,356
Commercial paper	30,566	25,233
	2,158,675	2,085,141
Overdue securities - over 90 days	1,799	1,799
	2,160,474	2,086,940
Impairment	(17,674)	(12,431)
	2,142,800	2,074,509
Debt securities held not associated with credit operations		
Bonds issued by public entities		
Portuguese issuers (*)	2,607,375	137,330
Foreign issuers	307,505	301,988
Bonds issued by other entities		
Portuguese issuers	177,901	178,069
Foreign issuers	45,345	50,854
Treasury bills (Public Issuers and Central Banks)		
Foreign issuers	467,233	445,226
	3,605,359	1,113,467
Impairment	(5,687)	(2,100)
	3,599,672	1,111,367
	5,742,472	3,185,876

(*) Includes the amount of Euros 20,839,000 (31 December 2019: Euros 856,000) related to adjustments resulting from the application of fair value hedge accounting.

In 2020, under the terms of IFRS 9, the Bank took the decision to establish, the balance Debt securities held not associated with credit operations - Bonds issued by portuguese public issuers, a portfolio of securities whose business model seeks to receive the respective income until maturity, that is, of a portfolio Held to Collect, whose value at 30 June 2020 amounts to Euros 2,391,625,000.

As at 30 June 2020, the item Debt securities held not associated with credit operations - Bonds issued by other Portuguese entities includes the amount of Euros 138,917,000 (31 December 2019: Euros 138,752,000) related to public sector companies.

The analysis of debt securities portfolio, net of impairment, by sector of activity, is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Debt securities held associated with credit operations		
Agriculture and forestry	4,810	-
Mining	43,017	17,493
Food, beverage and tobacco	96,984	83,063
Textiles	71,609	67,201
Wood and cork	8,896	8,017
Paper, printing and publishing	9,694	10,305
Chemicals	126,040	151,612
Machinery, equipment and basic metallurgical	80,400	76,345
Electricity and gas	176,850	184,911
Water	14,881	14,956
Construction	17,440	12,135
Retail business	95,237	73,243
Wholesale business	70,041	70,554
Restaurants and hotels	9,389	7,506
Transports	35,612	35,948
Telecommunications	8,249	6,444
Services		
Financial intermediation	296,809	222,846
Real estate activities	37,957	23,919
Consulting, scientific and technical activities	842,016	923,513
Administrative and support services activities	19,222	16,924
Health and collective service activities	4,994	4,999
Artistic, sports and recreational activities	5,972	-
Other services	5,049	5,084
Other international activities	61,632	57,491
	2,142,800	2,074,509
Debt securities held not associated with credit operations		
Chemicals	25,233	25,609
Water	39,334	39,324
Transports (*)	99,429	99,402
Services		
Financial intermediation	512,092	495,666
Consulting, scientific and technical activities	13,455	13,550
	689,543	673,551
Government and Public securities	2,910,129	437,816
	3,599,672	1,111,367
	5,742,472	3,185,876

(*) corresponds to securities from public sector companies.

The changes occurred in impairment for debt securities are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Debt securities held associated with credit operations		
Balance on 1 January	12,431	39,921
Charge for the period in net income interest (note 2)	27	120
Charge for the period (note 10)	5,216	1,717
Reversals for the period (note 10)	-	(907)
Loans charged-off	-	(28,420)
Balance at the end of the period	17,674	12,431
Debt securities held not associated with credit operations		
Balance on 1 January	2,100	1,788
Other transfers	(98)	-
Charge for the period (note 10)	3,875	1,161
Reversals for the period (note 10)	(97)	(246)
Loans charged-off	-	(620)
Exchange rate differences	(93)	17
Balance at the end of the period	5,687	2,100

23. Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income

The balances Financial assets at fair value through profit or loss and Financial assets at fair value through other comprehensive income are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Debt instruments	1,765,013	255,313
Equity instruments	2,940	3,109
Trading derivatives	567,744	619,912
	2,335,697	878,334
Financial assets not held for trading mandatorily at fair value through profit or loss		
Loans and advances to customers at fair value	333,250	352,367
Debt instruments	957,205	1,037,480
Equity instruments	14,988	15,666
	1,305,443	1,405,513
Financial assets designated at fair value through profit or loss		
Debt instruments	-	31,496
Financial assets at fair value through other comprehensive income		
Debt instruments	13,253,174	13,179,281
Equity instruments	32,216	37,420
	13,285,390	13,216,701
	16,926,530	15,532,044

The portfolio of Financial assets at fair value through profit or loss (excluding Loans and advances to customers at fair value) and Financial assets at fair value through other comprehensive income, net of impairment, by type of asset, as at 30 June 2020, is analysed as follows:

(Thousands of euros)

	30 June 2020				
	At fair value through profit or loss				
	Held for trading	Not held for trading mandatorily at fair value through profit or loss	Designated at fair value through profit or loss	At fair value through other comprehensive income	Total
Debt instruments					
Bonds issued by public entities					
Portuguese issuers	3,416	-	-	4,039,567	4,042,983
Foreign issuers	75,834	-	-	7,458,199	7,534,033
Bonds issued by other entities					
Portuguese issuers	3,029	16,778	-	878,431	898,238
Foreign issuers	46,071	-	-	587,881	633,952
Treasury bills (Public Issuers and Central Banks)					
Portuguese issuers	1,586,578	-	-	18,756	1,605,334
Foreign issuers	50,085	-	-	270,340	320,425
Shares of foreign companies (a)	-	38,099	-	-	38,099
Investment fund units (b)	-	902,328	-	-	902,328
	1,765,013	957,205	-	13,253,174	15,975,392
Equity instruments					
Shares					
Portuguese companies	2,459	-	-	18,670	21,129
Foreign companies	48	14,988	-	13,542	28,578
Investment fund units	-	-	-	4	4
Other securities	433	-	-	-	433
	2,940	14,988	-	32,216	50,144
Trading derivatives	567,744	-	-	-	567,744
	2,335,697	972,193	-	13,285,390	16,593,280
Level 1	1,762,168	-	-	12,550,776	14,312,944
Level 2	248,892	-	-	552,946	801,838
Level 3	324,637	972,193	-	181,668	1,478,498

(a) Under IFRS 9, and as detailed in note 58, these shares were considered as debt instruments because they not fall within the definition of SPPI.
(b) Under IFRS 9, and as detailed in note 58, these participation units were considered as debt instruments because they not fall within the definition of equity instruments.

As at 30 June 2020, the balance Trading derivatives includes the valuation of the embedded derivatives separated in accordance with the accounting policy 1 C.5, in the amount of Euros 655,000 (31 December 2019: Euros 1,257,000).

As at 30 June 2020, portfolios are recorded at fair value in accordance with the accounting policy described in note 1 C. As referred in IFRS 13, financial instruments are measured according to the levels of valuation described in note 49.

As at 30 June 2020, the balances Financial assets at fair value through other comprehensive income and Financial assets held for trading include bonds issued with different levels of subordination associated with the traditional securitization transactions Magellan Mortgages No.1 and No. 4, referred in note 1 D, in the amount of Euros 33,000 and Euros 93,000, respectively (31 December 2019: Euros 184,000 and Euros 105,000).

The Group, as part of the management process of the liquidity risk (note 53), holds a pool of eligible assets that can serve as collateral in funding operations in the European Central Bank and other Central Banks in countries were the Group operates, which includes debt instruments. As at 30 June 2020, the balances Financial assets at fair value through other comprehensive income and Financial designated at fair value through profit or loss, do not includes any amounts (31 December 2019: Euros 8,776,000 and Euros 29,603,000) of securities included in the ECB's monetary policy pool.

As at 30 June 2020, the balance Financial assets at fair value through other comprehensive income - Bonds issued by other entities includes the amount of Euros 329,572,000 (31 December 2019: Euros 297,243,000) related to public sector companies.

The portfolio of Financial assets at fair value through profit or loss (excluding Loans and advances to customers at fair value) and Financial assets at fair value through other comprehensive income, net of impairment, by type of asset, as at 31 December 2019, is analysed as follows:

(Thousands of euros)

	31 December 2019				
	At fair value through profit or loss				
	Held for trading	Not held for trading mandatorily at fair value through profit or loss	Designated at fair value through profit or loss	At fair value through other comprehensive income	Total
Debt instruments					
Bonds issued by public entities					
Portuguese issuers	3,180	-	31,496	4,425,302	4,459,978
Foreign issuers	205,805	-	-	5,398,404	5,604,209
Bonds issued by other entities					
Portuguese issuers	3,043	16,778	-	802,268	822,089
Foreign issuers	43,285	-	-	314,991	358,276
Treasury bills (Public Issuers and Central Banks)					
Portuguese issuers	-	-	-	1,922,991	1,922,991
Foreign issuers	-	-	-	315,325	315,325
Shares of foreign companies (a)	-	37,375	-	-	37,375
Investment fund units (b)	-	983,327	-	-	983,327
	255,313	1,037,480	31,496	13,179,281	14,503,570
Impairment for overdue securities	-	-	-	-	-
	255,313	1,037,480	31,496	13,179,281	14,503,570
Equity instruments					
Shares					
Portuguese companies	2,515	-	-	19,163	21,678
Foreign companies	49	15,666	-	18,254	33,969
Investment fund units	-	-	-	3	3
Other securities	545	-	-	-	545
	3,109	15,666	-	37,420	56,195
Trading derivatives	619,912	-	-	-	619,912
	878,334	1,053,146	31,496	13,216,701	15,179,677
Level 1	252,683	-	31,496	12,643,402	12,927,581
Level 2	317,689	-	-	464,728	782,417
Level 3	307,962	1,053,146	-	108,571	1,469,679

(a) Under IFRS 9, and as detailed in note 58, these shares were considered as debt instruments because they not fall within the definition of SPPI.
(b) Under IFRS 9, and as detailed in note 58, these participation units were considered as debt instruments because they not fall within the definition of equity instruments.

The impairment movements, on balance sheet, of the financial assets at fair value through other comprehensive, that occurred during the period, are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Balance on 1 January	1,177	4,887
Transfers to fair value changes (note 43)	(10,569)	2,180
Other transfers	-	(3,716)
Impairment through profit and loss (note 11)	11,693	538
Reversals through profit and loss (note 11)	(1,124)	(2,718)
Amounts charged-off	-	(6)
Exchange rate differences	(51)	12
Balance at the end of the period	1,126	1,177

As at 30 June 2020, the accumulated impairment related to credit risk associated with the financial assets at fair value through other comprehensive income amounts to Euros 14,067,000 and is recognised against the item Fair value reserves (31 December 2019: Euros 3,157,000).

The portfolio of financial assets at fair value through other comprehensive income, as at 30 June 2020, is analysed as follows:

(Thousands of euros)

	30 June 2020			
	Amortised cost (a)	Fair value hedge adjustments (note 43)	Fair value adjustments (note 43)	Total
Debt instruments				
Bonds issued by public entities				
Portuguese issuers	3,951,785	15,981	71,801	4,039,567
Foreign issuers	7,418,121	(3,217)	43,295	7,458,199
Bonds issued by other entities				
Portuguese issuers	854,755	20,137	3,539	878,431
Foreign issuers	575,927	16,004	(4,050)	587,881
Treasury bills (Public Issuers and Central Banks)				
Portuguese issuers	18,748	-	8	18,756
Foreign issuers	269,962	-	378	270,340
	13,089,298	48,905	114,971	13,253,174
Equity instruments				
Shares				
Portuguese companies	47,227	-	(28,557)	18,670
Foreign companies	20,460	-	(6,918)	13,542
Investment fund units	3	-	1	4
	67,690	-	(35,474)	32,216
	13,156,988	48,905	79,497	13,285,390

(a) Include interest accrued and accumulated impairment for debt securities classified as financial assets at fair value through other comprehensive income, as provided by IFRS 9, and according to the requirements defined in the accounting policy 1 C1.5.1.2.

The portfolio of financial assets at fair value through other comprehensive income, as at 31 December 2019, is analysed as follows:

(Thousands of euros)

	31 December 2019			
	Amortised cost (a)	Fair value hedge adjustments (note 43)	Fair value adjustments (note 43)	Total
Debt instruments				
Bonds issued by public entities				
Portuguese issuers	4,292,931	93,586	38,785	4,425,302
Foreign issuers	5,384,433	(744)	14,715	5,398,404
Bonds issued by other entities				
Portuguese issuers	764,470	17,875	19,923	802,268
Foreign issuers	303,954	6,026	5,011	314,991
Treasury bills (Public Issuers and Central Banks)				
Portuguese issuers	1,922,666	-	325	1,922,991
Foreign issuers	315,235	-	90	315,325
	12,983,689	116,743	78,849	13,179,281
Equity instruments				
Shares				
Portuguese companies	50,476	-	(31,313)	19,163
Foreign companies	20,855	-	(2,601)	18,254
Investment fund units	2	-	1	3
	71,333	-	(33,913)	37,420
	13,055,022	116,743	44,936	13,216,701

(a) Include interest accrued and accumulated impairment for debt securities classified as financial assets at fair value through other comprehensive income, as provided by IFRS 9, and according to the requirements defined in the accounting policy 1 C1.5.1.2.

The balance Financial assets not held for trading mandatorily at fair value through profit or loss - Loans to customers at fair value is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Public sector	17	27
Asset-backed loans	5	8
Unsecured loans	326,411	346,558
	326,433	346,593
Overdue loans - less than 90 days	2,108	1,717
Overdue loans - Over 90 days	4,709	4,057
	333,250	352,367

The balance Loans to customers at fair value corresponds, essentially, to consumer loans.

The analysis of Financial assets at fair value through profit or loss (excluding loans and advances to customers at fair value and trading derivatives) and Financial assets at fair value through other comprehensive income, by sector of activity, as at 30 June 2020, is as follows:

(Thousands of euros)

	30 June 2020				
	Bonds and Treasury bills	Shares	Other Financial Assets	Overdue Securities	Total
Fisheries	719	-	-	-	719
Mining	2,465	6	-	-	2,471
Paper, printing and publishing	50,332	1	-	-	50,333
Chemicals	-	5	-	-	5
Machinery, equipment and basic metallurgical	2,310	2,466	-	-	4,776
Electricity and gas	15,937	-	-	-	15,937
Water	6,987	-	-	-	6,987
Construction	17,128	13	23,022	-	40,163
Retail business	-	5	-	-	5
Wholesale business	222,105	-	-	-	222,105
Restaurants and hotels	-	4,981	-	-	4,981
Transports	237,485	-	-	-	237,485
Telecommunications	-	2,771	-	-	2,771
Services					
Financial intermediation (*)	749,327	60,457	853,460	-	1,663,244
Real estate activities	-	-	19,515	-	19,515
Consulting, scientific and technical activities	246,067	177	-	-	246,244
Administrative and support services activities	9,627	9,928	-	-	19,555
Public sector	43,175	-	432	-	43,607
Artistic, sports and recreational activities	16,683	-	-	-	16,683
Other services	1	6,996	6,336	-	13,333
Other international activities	2	-	-	-	2
	1,620,350	87,806	902,765	-	2,610,921
Government and Public securities	13,414,615	-	-	-	13,414,615
	15,034,965	87,806	902,765	-	16,025,536

(*) The balance Other financial assets includes restructuring funds in the amount of Euros 846,381,000, which are classified in the sector of activity Services - Financial intermediation, but which have the core segment as disclosed in note 46.

The analysis of Financial assets at fair value through profit or loss (excluding loans and advances to customers at fair value and trading derivatives) and Financial assets at fair value through other comprehensive income, by sector of activity, as at 31 December 2019, is as follows:

(Thousands of euros)

	31 December 2019				
	Bonds and Treasury bills	Shares	Other Financial Assets	Overdue Securities	Total
Fisheries	680	-	-	-	680
Mining	-	7	-	-	7
Paper, printing and publishing	51,735	2	-	-	51,737
Chemicals	-	4	-	-	4
Machinery, equipment and basic metallurgical	2,363	2,518	-	-	4,881
Electricity and gas	9,410	-	-	-	9,410
Water	7,000	-	-	-	7,000
Construction	17,611	16	23,252	-	40,879
Retail business	-	6	-	-	6
Wholesale business	200,367	162	-	-	200,529
Restaurants and hotels	-	9,357	-	-	9,357
Transports	297,236	-	-	-	297,236
Telecommunications	-	4,686	-	-	4,686
Services					
Financial intermediation (*)	753,341	59,314	933,445	-	1,746,100
Real estate activities	-	-	19,749	-	19,749
Consulting, scientific and technical activities	129,301	140	-	-	129,441
Administrative and support services activities	9,961	9,391	-	-	19,352
Public sector	-	-	544	-	544
Artistic, sports and recreational activities	16,683	-	-	-	16,683
Other services	2	7,412	6,885	-	14,299
Other international activities	-	7	-	-	7
	1,495,690	93,022	983,875	-	2,572,587
Government and Public securities	11,987,178	-	-	-	11,987,178
	13,482,868	93,022	983,875	-	14,559,765

(*) The balance Other financial assets includes restructuring funds in the amount of Euros 924,489,000, which are classified in the sector of activity Services - Financial intermediation, but present the core segment disclosed in note 46.

The analysis of trading derivatives, by maturity, as at 30 June 2020, is as follows:

(Thousands of euros)

	30 June 2020					
	Notional (remaining term)				Fair value	
	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities (note 36)
Interest rate derivatives:						
OTC Market:						
Interest rate swaps	1,196,370	2,306,589	5,762,383	9,265,342	253,709	367,004
Interest rate options (purchase)	-	95,633	182,792	278,425	57	-
Interest rate options (sale)	-	-	182,763	182,763	-	86
	1,196,370	2,402,222	6,127,938	9,726,530	253,766	367,090
Stock Exchange transactions:						
Interest rate futures	3,115	-	15,000	18,115	-	-
Currency derivatives:						
OTC Market:						
Forward exchange contract	258,084	205,715	44,884	508,683	3,040	5,150
Currency swaps	1,398,332	545,509	42,052	1,985,893	14,332	9,362
Currency options (purchase)	41,488	96,715	-	138,203	1,466	-
Currency options (sale)	41,488	96,715	-	138,203	-	1,466
	1,739,392	944,654	86,936	2,770,982	18,838	15,978
Currency and interest rate swaps:						
OTC Market:						
Currency and interest rate swaps:	-	40,499	-	40,499	1,067	1,058
Shares/indexes:						
OTC Market:						
Shares/indexes swaps	414,790	641,263	692,277	1,748,330	2,177	2,723
Shares/indexes options (sale)	421,608	-	19,808	441,416	-	-
Others shares/indexes options (purchase)	16,864	-	-	16,864	16,483	-
Others shares/indexes options (sale)	16,864	-	-	16,864	-	-
	870,126	641,263	712,085	2,223,474	18,660	2,723
Stock exchange transactions:						
Shares futures	-	-	589,520	589,520	-	-
Shares/indexes options (purchase)	162,021	236,496	121,555	520,072	8,393	-
Shares/indexes options (sale)	58,573	4,651	817	64,041	-	318
	220,594	241,147	711,892	1,173,633	8,393	318
Credit derivatives:						
OTC Market:						
Credit default swaps (CDS)	-	-	278,624	278,624	266,365	-
Other credit derivatives (sale)	76,684	-	-	76,684	-	-
	76,684	-	278,624	355,308	266,365	-
Total derivatives traded in:						
OTC Market	3,882,572	4,028,638	7,205,583	15,116,793	558,696	386,849
Stock Exchange	223,709	241,147	726,892	1,191,748	8,393	318
Embedded derivatives					655	8,242
	4,106,281	4,269,785	7,932,475	16,308,541	567,744	395,409

The analysis of trading derivatives, by maturity, as at 31 December 2019, is as follows:

(Thousands of euros)

	31 December 2019					
	Notional (remaining term)				Fair value	
	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities (note 36)
Interest rate Derivatives:						
OTC Market:						
Interest rate swaps	254,840	507,831	5,718,298	6,480,969	306,167	242,288
Interest rate options (purchase)	-	92,815	165,628	258,443	39	-
Interest rate options (sale)	-	-	162,574	162,574	-	58
	254,840	600,646	6,046,500	6,901,986	306,206	242,346
Stock Exchange transactions:						
Interest rate futures	53,192	17,817	-	71,009	-	-
Currency derivatives:						
OTC Market:						
Forward exchange contract	260,402	174,276	23,013	457,691	1,244	5,486
Currency swaps	2,386,123	340,615	36,118	2,762,856	6,750	29,295
Currency options (purchase)	24,979	2,274	-	27,253	632	-
Currency options (sale)	24,979	2,274	-	27,253	-	632
	2,696,483	519,439	59,131	3,275,053	8,626	35,413
Currency and interest rate swaps:						
OTC Market:						
Currency and interest rate swaps:	-	50,848	-	50,848	157	1,013
Shares/indexes:						
OTC Market:						
Shares/indexes swaps	304,513	1,179,093	1,027,987	2,511,593	4,271	1,910
Shares/indexes options (sale)	478,348	-	20,126	498,474	-	-
Other shares/indexes options (purchase)	16,864	-	-	16,864	16,442	-
Other shares/indexes options (sale)	16,864	-	-	16,864	-	-
	816,589	1,179,093	1,048,113	3,043,795	20,713	1,910
Stock Exchange transactions:						
Shares futures	728,807	-	-	728,807	-	-
Shares/indexes options (purchase)	125,064	297,909	163,362	586,335	15,112	-
Shares/indexes options (sale)	27,983	52,721	(2,624)	78,080	-	696
	881,854	350,630	160,738	1,393,222	15,112	696
Commodity derivatives:						
Stock exchange transactions:						
Commodities futures	38	-	-	38	-	-
Credit derivatives:						
OTC Market:						
Credit default swaps (CDS)	-	-	283,107	283,107	267,841	-
Other credit derivatives (sale)	-	-	78,484	78,484	-	-
	-	-	361,591	361,591	267,841	-
Total derivatives traded in:						
OTC Market	3,767,912	2,350,026	7,515,335	13,633,273	603,543	280,682
Stock Exchange	935,084	368,447	160,738	1,464,269	15,112	696
Embedded derivatives					1,257	14,983
	4,702,996	2,718,473	7,676,073	15,097,542	619,912	296,361

24. Hedging derivatives

This balance is analysed, by hedging instruments, as follows:

(Thousands of euros)

	30 June 2020		31 December 2019	
	Assets	Liabilities	Assets	Liabilities
Swaps	133,557	265,447	45,141	229,923
Others	33	-	-	-
	133,590	265,447	45,141	229,923

Hedging derivatives are measured in accordance with internal valuation techniques considering observable market inputs and, when not available, on information prepared by the Group by extrapolation of market data. In accordance with the hierarchy of the valuation sources, as referred in IFRS 13, these derivatives are classified in level 2. The Group resources to derivatives to hedge interest and exchange rate exposure risks. The accounting method depends on the nature of the hedged risk, namely if the Group is exposed to fair value changes, variability in cash flows or highly probable forecast transactions.

As allowed by IFRS 9, the Group opted to continue to apply the hedge accounting requirements in accordance with IAS 39, using mainly interest rate and exchange rate derivatives. The fair value hedge model is adopted for debt securities, loans granted at fixed rate and money market loans and deposits, securities and combined hedge of variable rate financial assets and fixed rate financial liabilities. The cash flows hedge model is adopted for future transactions in foreign currency to cover dynamic changes in cash flows from loans granted and variable rate deposits in foreign currency and foreign currency mortgage loans.

During the first semester of 2020, the relationships that follow the fair value hedge model recorded ineffectiveness of a positive amount of Euros 1,265,000 (31 December 2019: positive amount of Euros 2,259,000) and the hedging relationships that follow the cash flows model recorded ineffectiveness of a negative amount of Euros 1,670,000 (31 December 2019: negative amount of Euros 4,514,000).

During the first semester of 2020, there were made reclassifications from results to fair value reserves, related to cash flow hedge relationships, in a positive amount of Euros 35,827,000 (31 December 2019: positive amount of Euros 44,882,000). The accumulated adjustment on financial risks covered performed on the assets and liabilities which includes hedged items is detailed in note 53.

The analysis of hedging derivatives portfolio, by maturity, as at 30 June 2020, is as follows:

(Thousands of euros)

	30 June 2020					
	Notional (remaining period)				Fair value	
	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities
Fair value hedging derivatives related to interest rate risk changes						
OTC Market						
Interest rate swaps	312,450	187,058	6,374,566	6,874,074	22,021	90,782
Fair value hedging derivatives related to currency risk changes						
OTC Market						
Other currency contracts (CIRS)	121,120	146,947	-	268,067	115	46
Cash flow hedging derivatives related to interest rate risk changes						
OTC Market						
Interest rate swaps	21,377	40,503	11,715,017	11,776,897	76,150	24,004
Cash flow hedging derivatives related to currency risk changes						
OTC Market						
Forward exchange contract	3,666	3,666	-	7,332	33	-
Currency swaps	65,008	374,546	-	439,554	-	4,220
Other currency contracts (CIRS)	245,888	1,300,916	1,976,116	3,522,920	19,526	144,320
	314,562	1,679,128	1,976,116	3,969,806	19,559	148,540
Hedging derivatives related to net investment in foreign operations						
OTC Market						
Currency and interest rate swap	57,937	477,634	58,140	593,711	15,745	2,075
Total derivatives traded by OTC Market	827,446	2,531,270	20,123,839	23,482,555	133,590	265,447

The analysis of hedging derivatives portfolio, by maturity, as at 31 December 2019, is as follows:

(Thousands of euros)

	31 December 2019					
	Notional (remaining period)				Fair value	
	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities
Fair value hedging derivatives related to interest rate risk changes						
OTC Market						
Interest rate swaps	52,919	1,420,269	3,063,197	4,536,385	17,131	46,122
Cash flow hedging derivatives related to interest rate risk changes						
OTC Market						
Interest rate swaps	65,854	111,717	11,706,362	11,883,933	18,972	77,272
Cash flow hedging derivatives related to currency risk changes						
OTC Market						
Currency swaps	83,090	-	-	83,090	185	172
Other currency contracts	469,804	930,004	1,605,817	3,005,625	8,853	98,300
	552,894	930,004	1,605,817	3,088,715	9,038	98,472
Hedging derivatives related to net investment in foreign operations						
OTC Market						
Currency and interest rate swap	-	462,072	136,723	598,795	-	8,057
Total derivatives traded by						
OTC Market	671,667	2,924,062	16,512,099	20,107,828	45,141	229,923

25. Investments in associated companies

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Portuguese credit institutions	40,982	37,959
Foreign credit institutions	153,982	172,432
Other Portuguese companies	267,209	228,897
Other foreign companies	21,510	21,876
	483,683	461,164
Impairment	(54,094)	(60,773)
	429,589	400,391

The movements occurred in Impairment for investments in associated companies are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Balance on 1 January	60,773	78,012
Transfers	-	2,853
Impairment charge for the year (note 12)	-	4,550
Loans charged-off	-	(3,756)
Exchange rate differences	(6,679)	(20,886)
Balance at the end of the period	54,094	60,773

The balance Investments in associated companies is analysed as follows:

(Thousands of euros)

	30 June 2020				31 December 2019
	Ownership on equity	Goodwill	Impairment for investments in associated companies	Total	Total
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	209,013	-	-	209,013	174,348
Banco Millennium Atlântico, S.A.	74,909	36,775	(32,435)	79,249	93,044
Banque BCP, S.A.S.	42,298	-	-	42,298	40,274
Cold River's Homestead, S.A.	18,869	-	(3,648)	15,221	15,522
SIBS, S.G.P.S, S.A.	38,820	-	-	38,820	34,815
Unicre - Instituição Financeira de Crédito, S.A.	33,546	7,436	-	40,982	37,959
Webspectator Corporation	94	18,011	(18,011)	94	94
Others	3,912	-	-	3,912	4,335
	421,461	62,222	(54,094)	429,589	400,391

These investments correspond to unquoted companies. According to the accounting policy described in note 1 B, these investments are measured at the equity method.

The Group's companies included in the consolidation perimeter are presented in note 59.

The main indicators of the principal associated companies, as at 30 June 2020, are analysed as follows:

(Thousands of euros)

	30 June 2020 (a)					
	Country	% held	Total Assets	Total Liabilities	Total Income	Net income for the period
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Portugal	49.0	11,305,698	10,578,957	221,219	58,935
Banco Millennium Atlântico, S.A. (*)	Angola	22.7	2,671,357	2,415,012	132,289	7,425
Banque BCP, S.A.S. (**)	France	19.8	3,935,472	3,727,595	63,692	10,830
SIBS, S.G.P.S, S.A. (**)	Portugal	23.3	284,879	123,561	113,476	15,541
Unicre - Instituição Financeira de Crédito, S.A. (**)	Portugal	32.0	375,736	279,017	85,284	8,113

(a) Non-audited accounts

(*) These indicators correspond to the statutory financial statements that do not include the effects of applying IAS 29 (note 14).

(**) Provisional values.

The main indicators of the principal associated companies, as at 31 December 2019, are analysed as follows:

(Thousands of euros)

	31 December 2019 (a)					
	Country	% held	Total Assets	Total Liabilities	Total Income	Net income for the period
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Portugal	49.0	11,808,337	11,147,890	1,035,785	47,677
Banco Millennium Atlântico, S.A. (*)	Angola	22.7	3,027,719	2,725,875	359,375	74,094
Banque BCP, S.A.S.	France	19.8	4,147,954	3,944,835	123,119	20,624
SIBS, S.G.P.S, S.A.	Portugal	23.3	284,879	123,561	226,952	31,082
Unicre - Instituição Financeira de Crédito, S.A.	Portugal	32.0	375,736	279,017	170,568	16,225

(a) Non-audited accounts

(*) These indicators correspond to the statutory financial statements that do not include the effects of applying IAS 29 (note 14).

In accordance with the requirements of IFRS 12 and considering their relevance, the movements occurred in the investment held in Banco Millennium Atlântico, S.A., is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Ownership held by BCP on equity of the associated company as at 1 January	93,044	141,188
Application of IAS 29 for the year:		
Net non-monetary assets of the BMA		
Effect of exchange rate variations (note 43)	(4,492)	(14,733)
Amortization of the effect of the application of IAS 29 calculated as at 31 December 2018 (note 14)	883	(5,725)
Goodwill of the merger operation of the BMA		
Effect of exchange rate variations (note 43)	(3,416)	(10,682)
Appropriation of the net income of the associated companies (note 14)	1,688	16,923
Appropriation of the net income of previous years (note 14)	(27)	-
Annulment of the gains arising from properties sold to Group entities (note 14)	(93)	(8,680)
Other comprehensive income attributable to BCP	(137)	(1,735)
Exchange differences		
Effect on BMA's equity	(11,868)	(33,779)
Goodwill associated with BMA investment	(4,157)	(12,999)
Impairment for investments in associated companies (note 43)	6,679	20,886
Annulment of the gains arising from properties sold to Group entities	1,145	2,073
Others	-	307
Investment held at the end of the period	79,249	93,044

The following table presents the financial statements of Banco Millennium Atlântico, S.A, prepared in accordance with IFRS, modified by the consolidation adjustments:

(Thousands of euros)

	30 June 2020	31 December 2019
Income	132,289	359,375
Net profit for the year	7,425	74,094
Comprehensive income	(603)	(7,633)
Total comprehensive income attributable to Shareholders of the associated company	6,822	66,461
Application of IAS 29 (*)	3,886	(25,181)
Attributable to Shareholders of the associated companies adjusted to BCP GAAP	10,708	41,280
Attributable to the BCP Group	2,434	9,385
Balance sheet		
Financial assets	2,226,218	2,455,612
Non-financial assets	445,139	572,107
Financial liabilities	(2,366,945)	(2,657,420)
Non-financial liabilities	(48,067)	(68,455)
Attributable to Shareholders of the associated companies	256,345	301,844
Application of IAS 29 (*)	97,588	113,459
Reverse of the gain from the sale of buildings to entities of the Group	(24,439)	(29,064)
Attributable to Shareholders of the associated companies adjusted to BCP GAAP	329,494	386,239
Attributable to the BCP Group	74,909	87,810
Goodwill of the merge	36,775	44,349
Impairment for investments in associated companies	(32,435)	(39,115)
Attributable to the BCP Group adjusted of consolidation items	79,249	93,044

(*) The impact of the IAS 29 adoption was calculated from the date of the merger (April 2016).

The amounts presented do not include adjustments arising from the application of IAS 29. Based on the requirements of IAS 29, Angola was considered a hyperinflationary economy until 31 December 2018, for the purpose of presenting the consolidated financial statements, as described in accounting policy 1 B6. This classification ceased to be applied on 1 January 2019.

In accordance with the requirements of IFRS 12 and considering their relevance, the movements occurred in the investment held in Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A., is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Ownership held by BCP on equity of the associated company as at 1 January	174,348	138,460
Appropriation of the net income of the associated company (note 14) (*)	31,144	28,430
Other comprehensive income attributable to BCP	3,521	7,458
Investment held at the end of the period	209,013	174,348

(*) Includes adjustments according to BCP GAAP.

The following table presents the financial statements of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A., prepared in accordance with IFRS, modified by the consolidation adjustments:

(Thousands of euros)

	30 June 2020	31 December 2019
Income	221,219	1,035,785
Net profit for the year	58,935	47,677
Comprehensive income	7,186	15,220
Total comprehensive income attributable to Shareholders of the associated company	66,121	62,897
Adjustments of intra-group transactions (reverse of the VOBA annual amortisation (*)	4,624	10,343
Attributable to Shareholders of the associated company adjusted to BCP GAAP	70,745	73,240
Attributable to the BCP Group	34,665	35,888
Balance sheet		
Financial assets	10,870,355	11,374,831
Non-financial assets	435,343	433,506
Financial liabilities	(10,450,494)	(11,061,276)
Non-financial liabilities	(128,463)	(86,614)
Total equity	726,741	660,447
Attributable to non-controlling interests	11,824	11,649
Attributable to Shareholders of the associated companies	714,917	648,798
Adjustments of intra-group transactions (reverse of the VOBA annual amortisation (*)	342,542	337,917
Attributable to Shareholders of the associated company adjusted to BCP GAAP	1,057,459	986,715
Attributable to the BCP Group	518,155	483,490
Reverse of the initial gain in 2004 allocated to the BCP Group	(309,142)	(309,142)
Attributable to the BCP Group adjusted of consolidation items	209,013	174,348

(*) VOBA corresponds to the estimated current value of the future cash flows of the contracts in force at the date of acquisition. The value of the acquired business (VOBA) is recognised in the consolidated accounts of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. as intangible assets and is amortised over the period of recognition of the income associated with the policies acquired.

The Group owns 49% of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. (Mbcp Ageas), being accounted as investment in an associate under the equity method.

According to IFRS 4, there is the possibility to differ the application of IFRS 9 to insurance entities, i.e. although IFRS 9 is in force on 1 January 2018, the insurance companies can choose for the temporary exemption until 2021.

The Group chose for the temporary exemption until 2021, following the approach of Mbcp Ageas, and as far it fulfils the requirements to be accomplish with the temporary exemption until 2021 which are:
- The entity didn't adopt previously the IFRS 9;
- The liabilities measured according IFRS 4 are significative;
- The weight of IFRS4 liabilities in total liabilities of entity is more than 90%;
- Non-related activities with insurance activity isn't significant.

This exception, and based on paragraph 20P b) and 20Oa) of IFRS 4, allows the Group to apply IFRS 9 in its consolidated accounts and to have Mbcp Ageas not applying IFRS 9 in its individual accounts (which are integrated into the consolidated accounts using the equity method).

Regarding to the evaluation of the impacts arising from the adoption of IFRS 9, the Ageas Group Portugal has a project in progress to determine the impacts of adopting IFRS 9. Based on the evaluation made on this date, the total impact of IFRS 9, as at 31 December 2019, net of Participation of Benefits (PB) and net of Tax (29%) in consolidation in BCP Group is a positive amount of Euros 513,000.

26. Non-current assets held for sale

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020			31 December 2019		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Real estate						
Assets arising from recovered loans	997,088	(189,969)	807,119	1,072,391	(191,105)	881,286
Assets belong to investments funds and real estate companies	369,209	(54,347)	314,862	371,417	(54,579)	316,838
Assets for own use (closed branches)	32,666	(6,109)	26,557	30,778	(7,333)	23,445
Equipment and other	41,793	(9,926)	31,867	45,113	(10,874)	34,239
Other assets	21,246	-	21,246	24,033	-	24,033
	1,462,002	(260,351)	1,201,651	1,543,732	(263,891)	1,279,841

The assets included in this balance are accounted for in accordance with the accounting policy described in note 1 G).

The balance Real estate - Assets arising from recovered loans includes, essentially, real estate resulted from process of recovered loans or judicial auction being accounted for at the time the Group assumes control of the asset, which is usually associated with the transfer of their legal ownership. Additional information on these assets is presented in note 53.

These assets are available for sale in a period less than one year and the Group has a strategy for its sale, according to the characteristic of each asset. However, considering the formal constraints, it was not possible in all instances to conclude the sales in the expected time. The sale strategy is based in an active search of buyers, with the Group having a website where advertises these properties and through partnerships with the mediation of companies having more ability for the product that each time the Bank has for sale. Prices are periodically reviewed and adjusted for continuous adaptation to the market. The Group requests, regularly, to the European Central Bank, the extension of the period of holding these properties.

The referred balance includes real estate for which the Group has already established contracts for the sale in the amount of Euros 55,001,000 (31 December 2019: Euros 36,111,000), of which Euros 51,000 (31 December 2019: Euros 2,092,000) relate to properties held by investment funds. The impairment associated with all the established contracts is Euros 16,501,000 (31 December 2019: Euros 10,618,000), of which Euros 6,000 (31 December 2019: Euros 479,000) relate to properties held by investment funds which was calculated considering the value of the respective contracts.

In 2019, the Group established a contract for the sale of a real estate assets portfolio in the total amount of Euros 122,029,000, which generated at 31 December 2019 a gain of Euros 2,000,000. Under the same contract up to 30 June 2020, additional real estate assets were sold in the total amount of Euros 5,549,000, which generated a loss of Euros 747,000.

The changes occurred in impairment for non-current assets held for sale are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Balance on 1 January	263,891	296,699
Transfers resulting from changes in the Group's structure (a)	-	(5,707)
Transfers (b)	-	2,937
Charge for the year (note 12)	23,739	98,080
Reversals for the year (note 12)	(4,899)	(13,656)
Amounts charged-off	(21,559)	(114,462)
Exchange rate differences	(821)	-
Balance at the end of the period	260,351	263,891

(a) In 2019, Cold River's Homestead S.A. started to be consolidated under the equity method of consolidation, so this balance refers to the impairment that was accounted to Cold River's Homestead S.A. real estate portfolio, as at 31 December 2018 .

(b) In 2019, the balance Transfers refers to impairments that, as at 31 December 2018, were accounted in loans to customers. In the context of the financial restructuring of a group of customers occurred in 2019, the associated credits were liquidated and the Group received a set of assets *in lieu*.

27. Investment property

As at 30 June 2020, the balance Investment property corresponds to real estate evaluated in accordance with the accounting policy presented in note 1 N), based on independent assessments and compliance with legal requirements.

The rents received related to these assets amounted to Euros 204,000 (31 December 2019: Euros 484,000), and the maintenance expenses related to rented or not rented real estate, amount to Euros 99,000 (31 December 2019: Euros 323,000).

The changes occurred in this balance are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Balance on 1 January	13,291	11,058
Transfers from / to non-current assets held for sale	-	1,267
Revaluations	77	2,092
Disposals	(203)	(1,126)
Balance at the end of the period	13,165	13,291

28. Other tangible assets

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Real estate	740,609	762,085
Equipment:		
Computer equipment	330,888	330,524
Security equipment	70,639	71,268
Interior installations	146,033	145,298
Machinery	49,702	48,466
Furniture	85,528	85,951
Motor vehicles	30,060	31,820
Other equipment	31,552	32,072
Right of use		
Real estate	331,078	329,604
Vehicles and equipment	947	958
Work in progress	13,644	20,833
Other tangible assets	285	296
	1,830,965	1,859,175
Accumulated depreciation		
Relative to the current period (note 9)	(53,672)	(101,184)
Relative to the previous periods	(1,105,816)	(1,028,549)
	(1,159,488)	(1,129,733)
	671,477	729,442

As at 30 June 2020, the balance Real Estate includes the amount of Euros 117,705,000 (31 December 2019: Euros 120,395,000) related to real estate held by the Group's real estate investment funds.

The balance Right-of-use essentially corresponds to real estate (branches and central buildings) and to a residual number of vehicles, which are amortized according to the lease term of each contract, as described in the accounting policy 1 H and note 56.

The changes occurred in Other tangible assets during the first semester of 2020 are analysed as follows:

(Thousands of euros)

	30 June 2020					
	Balance on 1 January	Acquisitions / Charge	Disposals / Charged-off	Transfers	Exchange differences	Balance on 30 June
Real estate	762,085	48	(5,278)	(4,800)	(11,446)	740,609
Equipment:						
Computer equipment	330,524	4,201	(838)	1,742	(4,741)	330,888
Security equipment	71,268	178	(138)	(181)	(488)	70,639
Interior installations	145,298	445	(309)	1,911	(1,312)	146,033
Machinery	48,466	196	(55)	2,262	(1,167)	49,702
Furniture	85,951	476	(254)	(33)	(612)	85,528
Motor vehicles	31,820	1,344	(1,903)	(14)	(1,187)	30,060
Other equipment	32,072	7	(154)	922	(1,295)	31,552
Right-of-use						
Real estate	329,604	10,682	(3,006)	217	(6,419)	331,078
Vehicles and equipment	958	1	-	-	(12)	947
Work in progress	20,833	2,581	(37)	(8,718)	(1,015)	13,644
Other tangible assets	296	19	-	(1)	(29)	285
	1,859,175	20,178	(11,972)	(6,693)	(29,723)	1,830,965
Accumulated depreciation						
Real estate	(434,959)	(8,496)	2,776	2,625	4,750	(433,304)
Equipment:						
Computer equipment	(287,185)	(8,927)	607	15	3,298	(292,192)
Security equipment	(66,236)	(520)	138	181	396	(66,041)
Interior installations	(129,157)	(1,384)	209	352	783	(129,197)
Machinery	(41,233)	(543)	55	(476)	932	(41,265)
Furniture	(76,517)	(1,475)	246	474	377	(76,895)
Motor vehicles	(16,616)	(2,418)	1,651	24	681	(16,678)
Other equipment	(24,001)	(722)	154	(6)	953	(23,622)
Right-of-use						
Real estate	(53,428)	(29,028)	1,378	(9)	1,345	(79,742)
Vehicles and equipment	(365)	(159)	-	-	6	(518)
Other tangible assets	(36)	-	-	1	1	(34)
	(1,129,733)	(53,672)	7,214	3,181	13,522	(1,159,488)
	729,442	(33,494)	(4,758)	(3,512)	(16,201)	671,477

The changes occurred in Other tangible assets during 2019 are analysed as follows:

(Thousands of euros)

	31 December 2019						
	Balance on 1 January	Acquisitions / Charge	Disposals / Charged-off	Acquisition of Euro Bank	Transfers	Exchange differences	Balance on 31 December
Real estate	780,726	410	(20,359)	3,749	(3,788)	1,347	762,085
Equipment:							
Computer equipment	306,699	16,560	(8,090)	5,340	9,489	526	330,524
Security equipment	71,703	920	(1,243)	-	(139)	27	71,268
Interior installations	143,114	1,464	(928)	-	1,579	69	145,298
Machinery	45,871	679	(874)	944	1,570	276	48,466
Furniture	84,363	2,740	(2,745)	-	1,559	34	85,951
Motor vehicles	32,948	7,202	(9,166)	573	145	118	31,820
Other equipment	32,663	19	(629)	361	(646)	304	32,072
Right-of-use - (IFRS 16) (*)							
Real estate	248,753	64,477	(12,148)	18,378	8,785	1,359	329,604
Vehicles and equipment	663	2	(5)	-	284	14	958
Work in progress	21,719	25,592	(214)	356	(26,830)	210	20,833
Other tangible assets	236	46	-	-	14	-	296
	1,769,458	120,111	(56,401)	29,701	(7,978)	4,284	1,859,175
Accumulated depreciation							
Real estate	(431,078)	(17,859)	11,042	-	3,738	(802)	(434,959)
Equipment:							
Computer equipment	(278,202)	(15,441)	7,832	-	(1,003)	(371)	(287,185)
Security equipment	(66,409)	(1,191)	1,234	-	150	(20)	(66,236)
Interior installations	(127,455)	(2,641)	867	-	108	(36)	(129,157)
Machinery	(41,873)	(948)	848	-	962	(222)	(41,233)
Furniture	(75,600)	(2,609)	2,723	-	(1,012)	(19)	(76,517)
Motor vehicles	(14,294)	(5,178)	2,824	-	98	(66)	(16,616)
Other equipment	(23,819)	(1,720)	617	-	1,141	(220)	(24,001)
Right-of-use							
Real estate	-	(53,236)	53	-	-	(245)	(53,428)
Vehicles and equipment	-	(361)	1	-	-	(5)	(365)
Other tangible assets	(36)	-	-	-	-	-	(36)
	(1,058,766)	(101,184)	28,041	-	4,182	(2,006)	(1,129,733)
	710,692	18,927	(28,360)	29,701	(3,796)	2,278	729,442

(*) The balance on 1 January of the item Right-of-use corresponds to the IFRS 16 adjustment (note 56)

29. Goodwill and intangible assets

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Goodwill - Differences arising on consolidation		
Bank Millennium, S.A. (Poland)	108,141	113,032
Euro Bank, S.A. (Poland) (*)	43,232	38,280
Others	14,740	14,592
	166,113	165,904
Impairment		
Others	(14,017)	(13,837)
	152,096	152,067
Intangible assets		
Software	181,625	189,031
Other intangible assets	64,313	67,214
	245,938	256,245
Accumulated amortisation		
Charge for the year (note 9)	(15,506)	(23,601)
Charge for the previous years	(144,388)	(142,081)
	(159,894)	(165,682)
	86,044	90,563
	238,140	242,630

(*) Euro Bank, S.A was merged into Bank Millennium, S.A. in November 2019.

According to the accounting policy described in note 1 B), the recoverable amount of the Goodwill is annually assessed in the second semester of each year or whenever there are indications of eventual loss of value. In accordance with IAS 36 the recoverable amount of goodwill resulting from the consolidation of the subsidiaries, should be the greater between its value in use (the present value of the future cash flows expected from its use) and its fair value less costs to sell. Based on these criteria, the Group made in 2019, valuations of their investments for which there is goodwill recognised considering among other factors:

(i) an estimate of future cash flows generated by each cash generating unit;
(ii) an expectation of potential changes in the amounts and timing of cash flows;
(iii) the time value of money;
(iv) a risk premium associated with the uncertainty by holding the asset; and
(v) other factors associated with the current situation of financial markets.

The valuations are based on reasonable and sustainable assumptions representing the best estimate of the Executive Committee on the economic conditions that affect each subsidiary, the budgets and the latest projections approved for those subsidiaries and their extrapolation to future periods. The assumptions made for these valuations might vary with the change in economic conditions and in the market.

During the first semester of 2020, there were no factors pointing to the deterioration of the value of those financial participations that could lead to impairment charges in respect of goodwill, nor to the improvement of the value of those financial participations that could lead to a reversion of previously booked impairments to the goodwill.

Bank Millennium, S.A. (Poland)

The estimated cash flows of the business were projected based on current operating results and assuming the business plan and projections approved at the end of 2019 by the Executive Committee up to 2024. After that date, a perpetuity was considered based on the average long-term expected rate of return for this activity in the Polish market. Additionally the market performance of Bank Millennium, S.A. in the Polish capital market was taken into consideration and the direct percentage of shareholding. Based on this analysis and the expectations of future development, the Group concluded that there is no need for impairment charges related to the goodwill of this participation.

The abovementioned business plan of Bank Millennium, S.A. comprises a five-year period, from 2020 to 2024, considering, along this period, a compound annual growth rate of 7.3% for Total Assets and of 12.5% for Total Equity, while considering a ROE evolution from 9.9% by the end of 2020 to 10.5% by the end of 2024. The exchange rate EUR/PLN considered was 4.2518 as at 31 December 2019. The Cost of Equity considered was 8.57% for the period 2020-2024 and 8.75% in perpetuity. The annual growth rate in perpetuity (g) was 2.8%.

The changes occurred, during the first semester of 2020, in Goodwill and intangible assets are analysed as follows:

(Thousands of euros)

	30 June 2020					
	Balance on 1 January	Acquisitions / Charge	Disposals / Charged-off	Transfers	Exchange differences	Balance on 30 June
Goodwill - Differences arising on consolidation	165,904	6,788	-	-	(6,579)	166,113
Impairment for goodwill	(13,837)	(180)	-	-	-	(14,017)
	152,067	6,608	-	-	(6,579)	152,096
Intangible assets						
Software	189,031	13,648	(15,042)	-	(6,012)	181,625
Other intangible assets	67,214	-	(1)	-	(2,900)	64,313
	256,245	13,648	(15,043)	-	(8,912)	245,938
Accumulated depreciation						
Software	(108,690)	(13,511)	14,936	(274)	3,898	(103,641)
Other intangible assets	(56,992)	(1,995)	-	274	2,460	(56,253)
	(165,682)	(15,506)	14,936	-	6,358	(159,894)
	90,563	(1,858)	(107)	-	(2,554)	86,044
	242,630	4,750	(107)	-	(9,133)	238,140

The changes occurred in Goodwill and intangible assets during 2019 are analysed as follows:

(Thousands of euros)

	31 December 2019						
	Balance on 1 January	Acquisitions / Charge	Disposals / Charged-off	Acquisition of Euro Bank	Transfers	Exchange differences	Balance on 31 December
Goodwill - Differences arising on consolidation	170,493	38,576	(44,608)	-	-	1,443	165,904
Impairment for goodwill	(54,137)	(559)	40,859	-	-	-	(13,837)
	116,356	38,017	(3,749)	-	-	1,443	152,067
Intangible assets							
Software	142,229	45,082	(5,476)	8,542	(2,499)	1,153	189,031
Other intangible assets	56,765	5,001	(622)	2,910	2,464	696	67,214
	198,994	50,083	(6,098)	11,452	(35)	1,849	256,245
Accumulated depreciation							
Software	(87,126)	(21,525)	45	-	690	(774)	(108,690)
Other intangible assets	(53,829)	(2,076)	196	-	(690)	(593)	(56,992)
	(140,955)	(23,601)	241	-	-	(1,367)	(165,682)
	58,039	26,482	(5,857)	11,452	(35)	482	90,563
	174,395	64,499	(9,606)	11,452	(35)	1,925	242,630

30. Income tax

The deferred income tax assets and liabilities are analysed as follows:

(Thousands of euros)

	30 June 2020			31 December 2019		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred taxes not depending on the future profits (a)						
Impairment losses (b)	983,177	-	983,177	983,177	-	983,177
Employee benefits	836,911	-	836,911	836,911	-	836,911
	1,820,088	-	1,820,088	1,820,088	-	1,820,088
Deferred taxes depending on the future profits						
Impairment losses (b)	795,495	(50,303)	745,192	822,822	(50,303)	772,519
Tax losses carried forward	144,051	-	144,051	120,295	-	120,295
Employee benefits	46,124	(904)	45,220	47,919	(811)	47,108
Financial assets at fair value through other comprehensive income	40,110	(166,785)	(126,675)	59,379	(140,103)	(80,724)
Derivatives	-	(4,360)	(4,360)	-	(5,640)	(5,640)
Intangible assets	49	-	49	49	(663)	(614)
Other tangible assets	11,265	(3,853)	7,412	11,199	(4,171)	7,028
Others	38,023	(13,638)	24,385	46,711	(17,192)	29,519
	1,075,117	(239,843)	835,274	1,108,374	(218,883)	889,491
Total deferred taxes	2,895,205	(239,843)	2,655,362	2,928,462	(218,883)	2,709,579
Offset between deferred tax assets and deferred tax liabilities	(233,250)	233,250	-	(207,814)	207,814	-
Net deferred taxes	2,661,955	(6,593)	2,655,362	2,720,648	(11,069)	2,709,579

(a) Special Regime applicable to deferred tax assets
(b) The amounts of 2020 and 2019 include deferred tax assets related with credit impairments non-accepted fiscally of which credits were written-off, according to the expectation that the use of such impairments will be deductible for the purposes of determining taxable income for the tax periods in which the legal conditions required for their tax deductibility are met.

As at 30 June 2020, the balance deferred tax assets amounts to Euros 2.661.955.000, of which Euros 2,531,932,000 are related to the Bank's activity. The deferred tax assets related to the Bank's activity includes a net amount of Euros 711,879,000 that depends of the existence of future profitable profits (deferred tax assets not eligible under the special regime applicable to deferred tax assets, approved by Law No. 61/2014, of 26 August), including:

- Euros 635,245,000 related to impairment losses; and
- Euros 109,964,000 resulting from reportable tax losses originating in 2016 and Euros 18,254,000 in 2020, with a reporting period up to 2030 and 2032 .

Special regime applicable to deferred tax assets

The Extraordinary General Meeting of the Bank that took place on 15 October 2014 approved the Bank's accession to the Special Regime approved by Law No. 61/2014, of 26 August, applicable to deferred tax assets that resulted from not deduction of expenses and negative equity variations with impairment losses on credits and post-employment or long-term employee benefits.

The special regime is applicable to those expenses and negative equity variations recorded in tax periods beginning on or after January 1, 2015, as well as to deferred tax assets recorded in the annual accounts for the last tax period prior to that date and to part of expenses and negative equity variations associated with them. Pursuant to Law No. 23/2016, of 19 August, this special regime is not applicable to expenses and negative equity variations with impairment losses on credits and with post-employment or long-term employee benefits recorded in the periods taxation commencing on or after 1 January 2016, nor to deferred tax assets to these associates.

The special regime applicable to deferred tax assets provides for an optional framework and with the possibility of subsequent waiver, under which:

- Expenses and negative equity variations with impairment losses on credits and with post-employment or long-term employee benefits covered by it are deducted, under the terms and conditions set out in the IRC Code and in relevant separate tax legislation, until the competition taxable profit for the tax period determined before these deductions. Expenses and negative equity variations not deducted as a result of applying this limit are deducted in subsequent tax periods, with the same limit. In the BCP Group, deferred tax assets associated with expenses and negative equity variations under these conditions amount to Euros 1,423,805,000 (31 December 2019: Euros 1,391,087,000).

- In certain situations (those with negative net results in annual individual accounts or liquidation by voluntary dissolution, insolvency decreed by court or revocation of the respective authorization), deferred tax assets covered by the Special Regime are converted into tax credits, in part or in wholeness. In situations of negative net income, the conversion is made according to the proportion between the amount of the negative net income for the period and the total of equity capital, and a special reserve corresponding to 110% of the tax credit must be constituted and, simultaneously, conversion rights attributable to the State of equivalent value, rights that can be acquired by the shareholders upon payment to the State of the same value. Tax credits may be offset against tax debts of the beneficiaries (or an entity based in Portugal within the same prudential consolidation perimeter) or reimbursed by the State.

Pursuant to the regime described, the recovery of deferred tax assets covered by the optional regime approved by Law No. 61/2014, of 26 August, is not dependent on future profits.

The above-mentioned legal framework was densified by Ordinance no. 259/2016, of 4 October, about the control and use of tax credits, and by the Ordinance No. 293-A/2016, of 18 November, which establishes the conditions and procedures for the acquisition by the shareholders of the referred rights of the State. Law No. 98/2019, of 4 September, establishes a deadline for the acquisition of the referred rights of the State by the shareholders, after which the Management Board of the issuing bank is obliged to promote the record of the capital increase by the amount resulting from the exercise of the conversion rights. According to this legislation, among other aspects, these rights are subject to a right of acquisition by the shareholders on the date of creation of the rights of the State, exercisable in periods that will be established by the Board of Directors until 3 years after the confirmation date of the conversion of the deferred tax asset into tax credit by the Portuguese Tax and Customs Authority. The issuing bank shall deposit in favor of the State the amount of the price corresponding to all the rights issued, within 3 months beginning from the confirmation date of the conversion of the deferred tax asset into tax credit. Such deposit shall be redeemed when and to the extent that the rights of the State are acquired by the shareholders, or exercised by the State.

Deferred taxes are calculated based on the tax rates expected to be in force when the temporary differences are reversed, which correspond to the approved rates or substantially approved at the balance sheet date. The deferred tax assets and liabilities are presented on a net basis whenever, in accordance with applicable law, current tax assets and current tax liabilities can be offset with each other and when the deferred taxes are related to the same tax.

The current tax rate for Banco Comercial Português, S.A. is analysed as follows:

	30 June 2020	31 December 2019
Income tax	21%	21%
Municipal surtax rate (on taxable net income)	1.5%	1.5%
State tax rate (on taxable net income)		
More than 1,500,000 to 7,500,000	3%	3%
From more than 7,500,000 to 35,000,000	5%	5%
More than 35,000,000 (a)	9%	9%

The deferred tax rate related to the Bank's tax losses is 21% (31 December 2019: 21%).

The average deferred tax rate associated with temporary differences of Banco Comercial Português, S.A. is 31.30% (31 December 2019: 31.30%). The income tax rate in the other main countries where the Group operates is 19% in Poland, 32% in Mozambique, 0% (exemption) in the Cayman Islands and 24.16% in Switzerland.

The reporting period of tax losses in Portugal is 12 years for the losses of 2014, 2015 and 2016 and 5 years for the losses of 2017, 2018 and 2019. In Poland, the term is 5 years, in Mozambique it is 5 years and in Switzerland it is 7 years.

In accordance with the amendments already approved in Parliament under the Supplementary Budget for 2020:
- the tax losses calculated in 2020 and 2021 have a reporting period of 12 years, which may be deducted until 2032 and 2033 respectively;
- the period for the use of tax losses in effect on 1 January 2020 is suspended during the tax periods of 2020 and 2021, so that the effective period for the report of tax losses is 14 years for the losses of 2014, 2015 and 2016 and 7 years for the tax losses of 2017, 2018 and 2019;
- the limit for the deduction of tax losses is increased from 70% to 80%, when the difference results from the deduction of tax losses determined in the tax periods of 2020 and 2021.

Banco Comercial Português, S.A. applies the Special Tax Regime for Groups of Companies (RETGS) since 2016 for taxation purposes under IRC, in which it's the dominant company.

The balance of Deferred tax assets not depending on the future profits (covered by the regime approved by Law no. 61/2014, of 26 August) includes the amounts of Euros 210,686,000 and Euros 4,020,000 recorded in 2015 and 2016, respectively, related to expenses and negative equity variations with post-employment or long-term employee benefits and to impairment losses in loans accounted until 31 December 2014.

The deferred income tax assets associated to tax losses, by expiry date, are presented as follows:

(Thousands of euros)

Expiry date	30 June 2020	31 December 2019
2020-2025	15,809	10,306
2028-2029 (a)	-	109,989
2030-2032 (a)	128,242	-
	144,051	120,295

(a) The evolution from 2019 to 2020 reflects, in Portugal, the suspension in 2020 and 2021 of the counting of the period for deduction of tax losses in effect as of 1 January 2020, provided for in the Supplementary Budget for 2020, already approved by Parliament.

Following the publication of the Notice of Bank of Portugal No. 5/2015, the entities that presented their financial statements in Adjusted Accounting Standards issued by the Bank of Portugal (NCA), since 1 January 2016 began to apply the International Financial Reporting Standards as adopted in the European Union, including, among others, the Bank's individual financial statements.

As a result of this change, in the Bank's individual financial statements, the loans portfolio, guarantees provided and other operations of a similar nature became subject to impairment losses calculated in accordance with the requirements of International Accounting Standards (IAS 39 until 31 December 2017 and IFRS 9 since 1 January 2018), replacing the registration of provisions for specific risk, for general credit risks and for country risk, in accordance with Bank of Portugal's Notice No. 3/95.

The Regulatory Decrees No. 5/2016, of 18 November, No. 11/2017, of 28 December, and No. 13/2018, of 28 December, established the maximum limits of impairment losses and other corrections of value for specific credit risk that are deductible for the purpose of calculating the taxable profit under IRC in 2016, 2017 and 2018, respectively. These Decrees declare that Bank of Portugal Notice No. 3/95 (Notice that was relevant for determining provisions for credit in the financial statements presented on an NCA basis) should be considered for the purpose of calculating the maximum limits of impairment losses accepted for tax purposes in 2016, 2017 and 2018, respectively.

Law No. 98/2019, of 4 September, establishes the tax regime of credit impairment and of provisions for guarantees for the tax periods beginning on or after 1 January 2019, predicting the approximation between accounting and tax rules for purposes of deductibility of expenses related to the increase of credit impairments. Until the end of 2023, the rules prevailing until 2018 will continue to be applied, except if the option of applying the new regime is exercised earlier.

Regardless the previously referred option, the new regime's application will be mandatory in the financial years of 2022 and/or 2023 in the following circumstances:

- In the financial year of 2022, if, since 1 January 2022, the Bank distributes dividends regarding that financial year or acquires own shares, without occurring a decrease of the deferred tax assets covered by the Special Regime in, at least, 10% comparatively to the amount recorded on 31 December 2018;
- In the financial year of 2023, if, since 1 January 2023, the Bank distributes dividends regarding that financial year or acquires own shares, without occurring a decrease of the deferred tax assets covered by the Special Regime in, at least, 20% comparatively to the amount recorded on 31 December 2018.

In the calculation of the taxable income for the year 2019 and in the estimation of taxable income by reference to 30 June 2020 it was considered the maintenance of the tax rules in force until 2018, since the option for the application of the new regime was not exercised.

In 2018, the Group adopted IFRS 9 - Financial Instruments. Since there is no transitional regime that establishes the tax treatment to be applied to the transition adjustments to IFRS 9, the treatment given resulted from the Bank's interpretation of the application of IRC Code's general rules.

The Group complies with the guidelines of IFRIC 23 - Uncertainty over Income Tax Treatments on the determination of taxable profit, tax bases, tax losses to be reported, tax credits to be used and tax rates in scenarios of uncertainty regarding the income tax treatment, not having occurred material impact on the Bank's financial statements resulting from its application.

Analysis of the recoverability of deferred tax assets

In accordance with the accounting policy 1 Z.3) and with the requirements of IAS 12, the deferred tax assets were recognised based on the Group's expectation of their recoverability. The recoverability of deferred taxes depends on the implementation of the strategy of the Bank's Board of Directors, namely the generation of estimated taxable income and its interpretation of tax legislation. Any changes in the assumptions used in estimating future profits or tax legislation may have material impacts on deferred tax assets.

The assessment of the recoverability of deferred tax assets was carried based on the respective estimated financial statements, prepared under the budgetary process for 2020 and adjusted according to the strategic plan approved by the elected governing bodies, considering the macroeconomic and competitive environment.

To estimate taxable net income for the periods of 2020 to 2033, the following main assumptions were considered:

- It was considered the approximation between accounting and tax rules predicted by Law No. 98/2019, of 4 September, assuming the Group will not exercise its application earlier over the adaptation period of 5 years that the referred Law predicts. In the application of these rules, the following assumptions were considered, in general terms:

a) non-deductible expenses related to increase of credit impairments for the years between 2020 to 2023 were estimated based on the average percentage of non-deducted amounts for tax purposes in the last accounting years between 2016 to 2019, compared to the amounts of net impairment increases recorded in these years;

b) the expenses with credit impairment's increases beginning in 2024 were considered deductible for tax purposes according to the new fiscal regime;

c) impairment reversals not accepted for tax purposes were estimated based on the Reduction Plan of Non-Performing Assets 2019-2021 submitted to the supervisory authority in March 2019, and also on the average reversal percentage observed in the last years of 2016 to 2019;

d) the referred average percentages were calculated separately, according to the presence or not of a mortgage security, the eligibility for the special regime applicable to deferred tax assets and according to the clients' rating as Non-Performing Exposures.

-The deductions related to impairment of financial assets were projected based on the destination (sale or settlement) and the estimated date of the respective operations;

- Reversals of impairment of non-financial assets not accepted for tax purposes were projected taking into account the expected periods of disinvestment in certain real estate. For the remaining assets without a forecasted term for disinvestment, the reversals were estimated based on the average percentage of reversal observed in the years from 2016 to 2019. Non-deductible expenses related to the reinforcement of impairment of non-financial assets were estimated on the basis of the average percentage of amounts not deducted for tax purposes in the years from 2016 to 2019, compared to the amounts of reinforcements net of impairment recorded in those years.

- The deductions related to employee benefits were projected based on their estimated payments or deduction plans, in accordance with information provided by the actuary of the pension fund.

The projections made reflect the effects of changes in the macroeconomic, competitive and legal/regulatory framework caused by the Covid - 19 pandemic. The Group's strategic priorities remain unchanged, although the achievement of the projected financial results will necessarily suffer a time delay due, on the one hand, to the constraints on the development of activity imposed by the crisis and, on the other, to the impact that the same crisis will have on the credit and other asset portfolios, with immediate repercussions on profitability. To this extent, the projections assume, beyond the initial years of the crisis, a convergence towards medium/long-term metrics and trends consistent with commercial positioning and the ambitious capture of efficiency gains, to which the Group remains committed, with emphasis on:

- improvement in the net margin, reflecting an effort to increase credit, favoring certain segments, the focus on off-balance sheet resources while interest rates remain negative and the effect of the normalization of those rates in the last years of the projection horizon, such as results from the market interest rate curve;

- increase in commission income based on efficient and judicious management of commissioning and pricing, and, regarding the Individuals segment, the growth of off-balance sheet products;

- normalization of the cost of risk to levels aligned with the current activity of the Bank and reduction of negative impacts produced by the devaluation or sale of non current assets, with the progressive reduction of the historical NPE, foreclosed assets and FREs portfolios;

- capturing efficiency gains enhanced by digitalization, reflected in the control of operating costs, but implying in the short term an effort to adapt the Bank's structure.

The performed analyse allow the conclusion of total recoverability of the deferred tax assets recognized as at 30 june 2020.

In accordance with these assessments, the amount of unrecognised deferred tax related to tax losses, by expiry year, is as follows:

(Thousands of euros)

Tax losses carried forward	30 June 2020	31 December 2019
2021-2025	147,324	182,872
2026	35,457	213,521
2027-2029	214,840	408,679
2030-2032	408,154	-
	805,775	805,072

(a) The evolution from 2019 to 2020 reflects, in Portugal, the suspension in 2020 and 2021 of the counting of the period for deduction of tax losses in effect as of 1 January 2020, provided for in the Supplementary Budget for 2020, already approved by Parliament.

The impact of income taxes in Net income and in other balances of Group's equity, as at 30 June 2020, is analysed as follows:

(Thousands of euros)

	30 June 2020		
	Net income for the period	Reserves	Exchange differences
Deferred taxes depending on the future profits			
Impairment losses	(23,321)	-	(4,006)
Tax losses carried forward (a)	22,098	2,850	(1,192)
Employee benefits	(124)	(1,869)	105
Financial assets at fair value through other comprehensive income	-	(46,723)	772
Derivatives	-	-	1,280
Intangible assets	635	-	28
Other tangible assets	452	-	(68)
Others	(2,452)	(334)	(2,348)
	(2,712)	(46,076)	(5,429)
Current taxes			
Current period	(56,344)	3,329	-
Correction of previous period	180	-	-
	(56,164)	3,329	-
	(58,876)	(42,747)	(5,429)

(a) The tax in reserves refers to realities recognised in reserves that compete for the purposes of calculating taxable profit.

The impact of income taxes in Net income / (loss) and in other balances of Group's equity, as at 30 June 2019, is analysed as follows:

(Thousands of euros)

	30 June 2019				
	Net income for the period	Reserves	Exchange differences	Euro Bank	Discontinuing operations (c)
Deferred taxes					
Deferred taxes not depending on the future profits (a)					
Impairment losses	(7,041)	-	-	-	-
Employee benefits	(43)	(15)	-	-	-
	(7,084)	(15)	-	-	-
Deferred taxes depending on the future profits					
Impairment losses	56,110	-	1,584	41,538	-
Tax losses carried forward (b)	(96,442)	(6,885)	(85)	-	(4,732)
Employee benefits	(18,584)	15,931	47	511	-
Financial assets at fair value through other comprehensive income	-	(92,700)	174	2,259	-
Derivatives	-	-	152	-	-
Intangible assets	37	-	(5)	(710)	-
Other tangible assets	198	-	12	130	-
Others	(7,886)	6,060	(1,924)	(10,758)	-
	(66,567)	(77,594)	(45)	32,970	(4,732)
	(73,651)	(77,609)	(45)	32,970	(4,732)
Current taxes					
Current period	(60,445)	428	-	639	-
Correction of previous period	13,008	-	-	-	-
	(47,437)	428	-	639	-
	(121,088)	(77,181)	(45)	33,609	(4,732)

(a) The increase in deferred tax assets not dependent on future profitability results from the merger by incorporation of Banco de Investimento Imobiliário, S.A. into Banco Comercial Português, S.A.
(b) The tax in reserves respects to realities recognised in reserves that compete for the purposes of determining taxable profit. The impacts on results and reserves for 2019 include the negative amounts of Euros 9,889,000 and Euros 1,349,000, respectively, arising from the merger by incorporation of Banco de Investimento Imobiliário, S.A., calculated with reference to 1 January 2019, the date on which the merger produced its tax-accounting effects (from a corporate income tax perspective).
(c) It concerns the sale of the Planfipsa Group.

The reconciliation between the nominal tax rate and the effective tax rate is analysed as follows:

(Thousands of euros)

	30 June 2020	30 June 2019
Net income / (loss) before income taxes	157,666	332,916
Current tax rate (%)	31.5%	31.5%
Expected tax	(49,665)	(104,869)
Tax benefits	6,988	6,783
Correction of previous years	3,526	10,868
Effect of the difference between the tax rate and deferred tax recognition/derecognition	(4,234)	(23,425)
Other corrections	1,734	380
Non-deductible impairment and provisions	(9,940)	1,776
Results of companies accounted by the equity method	13,513	6,903
Autonomous tax	(566)	(461)
Contribution to the banking sector	(20,232)	(19,043)
Total	(58,876)	(121,088)
Effective rate (%)	37.34%	36.37%

31. Other assets

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Deposit account applications	326,058	468,123
Associated companies	836	631
Subsidies receivables	6,726	9,429
Prepaid expenses	26,660	25,757
Debtors for futures and options transactions	198,217	98,965
Insurance activity	5,981	5,882
Debtors		
Residents		
Prosecution cases / agreements with the Bank	14,821	14,832
SIBS	3,999	6,183
Receivables from real estate, transfers of assets and other securities	36,608	40,361
Others	76,756	18,575
Non-residents	27,897	31,832
Interest and other amounts receivable	60,089	55,628
Amounts receivable on trading activity	350,258	7,256
Gold and other precious metals	3,769	3,769
Other recoverable tax	17,440	20,473
Artistic patrimony	28,818	28,818
Capital supplementary contributions	165	165
Reinsurance technical provision	15,007	16,604
Obligations with post-employment benefits	31,672	10,529
Capital supplies	241,215	238,449
Amounts due for collection	39,840	74,469
Amounts due from customers	188,306	225,073
Sundry assets	96,035	85,247
	1,797,173	1,487,050
Impairment for other assets	(267,497)	(247,916)
	1,529,676	1,239,134

As referred in note 46, as at 30 June 2020, the item Capital supplies includes the amount of Euros 233,905,000 (31 December 2019: Euros 231,136,000) arising from the transfers of assets to Specialized recovery funds which have impairment in the same amount.

As at 30 June 2020, the balance Deposit account applications includes the amount of Euros 286,368,000 (31 December 2019: Euros 431,226,000) on the Clearing houses / Clearing derivatives.

The balance Amounts receivable on trading activity includes amounts receivable within 3 business days of stock exchange operations.

Considering the nature of these transactions and the age of the amounts of these items, the Group's procedure is to periodically assess the collectability of these amounts and whenever impairment is identified, an impairment loss is registered in the income statement.

The changes occurred in impairment for other assets are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Balance on 1 January	247,916	285,141
Transfers	16,160	3,442
Charge for the period (note 12)	9,523	14,107
Reversals for the period (note 12)	(5,463)	(7,606)
Amounts charged-off	(352)	(47,173)
Exchange rate differences	(287)	5
Balance at the end of the period	267,497	247,916

32. Resources from credit institutions

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Resources and other financing from Central Banks		
Bank of Portugal	7,548,602	3,940,496
Central Banks abroad	105,799	109,508
	7,654,401	4,050,004
Resources from credit institutions in Portugal		
Very short-term deposits	4,453	-
Repayable on demand	36,677	112,244
Term deposits	243,087	92,471
Loans obtained	713	1,771
CIRS and IRS operations collateralised by deposits (*)	420	1,060
	285,350	207,546
Resources from credit institutions abroad		
Very short-term deposits	1,424	640
Repayable on demand	69,945	109,004
Term deposits	157,475	169,413
Loans obtained	866,032	1,784,671
CIRS and IRS operations collateralised by deposits (*)	19,570	18,484
Sales operations with repurchase agreement	-	21,335
Other resources	1,029	5,861
	1,115,475	2,109,408
	9,055,226	6,366,958

(*) Under the scope of transactions involving derivative financial instruments (IRS and CIRS) with institutional counterparties, and in accordance with the terms of their respective agreements ("Cash collateral"). These deposits are held by the Group and are reported as collateral for the referred operations (IRS and CIRS), whose revaluation is positive.

The balance Resources from credit institutions - Resources from credit institutions abroad - Sales operations with repurchase agreement, corresponds to repo operations carried out in the money market and is a tool for the Bank's treasury management.

33. Resources from customers and other loans

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Deposits from customers		
Repayable on demand	41,385,295	37,083,367
Term deposits	15,677,129	17,329,381
Saving accounts	4,885,355	4,276,990
Treasury bills and other assets sold under repurchase agreement	21,793	21,963
Cheques and orders to pay	445,394	355,077
Other	60,210	60,227
	62,475,176	59,127,005

In the terms of the Law, the Deposit Guarantee Fund was established to guarantee the reimbursement of funds deposited in Credit Institutions. The criteria to calculate the annual contributions to the Portuguese fund are defined in the Regulation no. 11/94 of the Bank of Portugal.

34. Non-subordinated debt securities issued

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Bonds	204,215	309,804
Covered bonds	996,793	995,976
Medium term notes (MTNs)	98,409	99,119
Securitisations	175,436	184,631
	1,474,853	1,589,530
Accruals	909	5,194
	1,475,762	1,594,724

This balance as at 30 June 2020, excluding accruals, is analysed by the remaining period, as follows:

(Thousands of euros)

	30 June 2020					
	Up to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
Bonds	-	68,192	63,931	72,092	-	204,215
Covered bonds	-	-	-	996,793	-	996,793
MTNs	-	6,335	69,115	22,959	-	98,409
Securitisations	-	-	-	-	175,436	175,436
	-	74,527	133,046	1,091,844	175,436	1,474,853

This balance as at 31 December 2019, excluding accruals, is analysed by the remaining period, as follows:

(Thousands of euros)

	31 December 2019					
	Up to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
Bonds	18,019	75,225	72,451	144,109	-	309,804
Covered bonds	-	-	-	995,976	-	995,976
MTNs	-	-	6,319	92,800	-	99,119
Securitisations	-	-	-	-	184,631	184,631
	18,019	75,225	78,770	1,232,885	184,631	1,589,530

35. Subordinated debt

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Bonds		
Non Perpetual	1,414,697	1,540,201
Perpetual	-	22,035
	1,414,697	1,562,236
Accruals	25,656	15,470
	1,440,353	1,577,706

As at 30 June 2020, the subordinated debt issues are analysed as follows:

(Thousands of euros)

Issue	Issue date	Maturity date	Interest rate	Nominal value	Book value	Own funds value (*)
Non Perpetual Bonds						
Banco Comercial Português						
Bcp Ob Sub Mar 2021 - Emtn 804	March, 2011	March, 2021	Euribor 3M+3.75%	114,000	114,000	16,973
Bcp Ob Sub Apr 2021 - Emtn 809	April, 2011	April, 2021	Euribor 3M+3.75%	64,100	64,100	9,651
Bcp Ob Sub 3S Apr 2021 - Emtn 812	April, 2011	April, 2021	Euribor 3M+3.75%	35,000	35,000	5,658
BCP Subordinadas jul 20-EMTN 844	July, 2012	July, 2020	Fixed rate 9%	26,250	26,252	29
Bcp Fix Rate Reset Sub Notes-Emtn 854	December, 2017	December, 2027	See reference (i)	300,000	298,835	300,000
Bcp Subord Fix Rate Note Projeto Tagus Mtn 855	September, 2019	March, 2030	See reference (ii)	450,000	447,496	450,000
Bank Millennium Group						
Bank Millennium - BKMO_071227R	December, 2017	December, 2027	Wibor 6M 1,81% + 2,3%	157,512	157,512	57,238
Bank Millennium - BKMO_300129W	January, 2019	January, 2029	Wibor 6M 2,30%	186,764	186,764	67,868
BCP Finance Bank						
BCP Fin Bank Ltd EMTN - 828	October, 2011	October, 2021	Fixed rate 13%	91,943	84,694	7,843
Magellan No. 3:						
Magellan No. 3 Series 3 Class F	June, 2005	May, 2058	-	44	44	-
					1,414,697	915,260
Accruals					25,656	-
					1,440,353	915,260

(*) Amount of subordinated loans, eligible as Level 2 own funds, in accordance with Articles 62 a), 63 to 65, 66 a) and 67 of the CRR.

References:

Interest rate

(i) up to the 5th year fixed rate 4.5%; 6th year and following: mid-swap rate in force at the beginning of this period + 4.267%; (ii) Annual interest rate of 3.871% during the first 5.5 years (corresponding to a spread of 4.231% over the 5.5 year mid-swap rate, for the remaining 5 years will be applied over the mid-swap rate in force at the beginning of that period).

As at 31 December 2019, the subordinated debt issues are analysed as follows:

(Thousands of euros)

Issue	Issue date	Maturity date	Interest rate	Nominal value	Book value	Own funds value (*)
Non Perpetual Bonds						
Banco Comercial Português						
Bcp Ob Sub Mar 2021 - Emtn 804	March, 2011	March, 2021	Euribor 3M + 3.75%	114,000	114,000	28,373
Bcp Ob Sub Apr 2021 - Emtn 809	April, 2011	April, 2021	Euribor 3M + 3.75%	64,100	64,100	16,061
Bcp Ob Sub 3S Apr 2021 - Emtn 812	April, 2011	April, 2021	Euribor 3M + 3.75%	35,000	35,000	9,158
Mbcp Subord Jan 2020 - Emtn 834	January, 2012	January, 2020	Fixed rate 7.01%	14,000	14,042	101
Mbcp Subord Feb 2020 - Vm Sr. 173	April, 2012	February, 2020	Fixed rate 9%	23,000	23,210	741
Bcp Subord Apr 2020 - Vm Sr 187	April, 2012	April, 2020	Fixed rate 9.15%	51,000	51,611	2,635
Bcp Subord 2 Serie Apr 2020 - Vm 194	April, 2012	April, 2020	Fixed rate 9%	25,000	25,325	1,417
Bcp Subordinadas Jul 20-Emtn 844	July, 2012	July, 2020	Fixed rate 9%	26,250	26,668	2,654
Bcp Fix Rate Reset Sub Notes-Emtn 854	December, 2017	December, 2027	See reference (ii)	300,000	298,742	300,000
Bcp Subord Fix Rate Note Projeto Tagus Mtn 855	September, 2019	March, 2030	See reference (iii)	450,000	441,390	450,000
Grupo Bank Millennium						
Bank Millennium - BKMO_071227R	December, 2017	December, 2027	Wibor 6M 1,81% + 2,3%	164,636	164,636	55,948
Bank Millennium - BKMO_300129W	October, 2011	October, 2021	Fixed rate 13%	195,211	195,211	66,339
BCP Finance Bank						
BCP Fin Bank Ltd EMTN - 828	October, 2011	October, 2021	Fixed rate 13%	96,000	86,222	10,563
Magellan No. 3						
Magellan No. 3 Series 3 Class F	June, 2005	May, 2058	-	44	44	-
					1,540,201	943,990
Perpetual Bonds						
Banco Comercial Português						
TOPS BPSM 1997	December, 1997	See reference (i)	Euribor 6M+0,9%	22,035	22,035	-
					22,035	-
Accruals					15,470	-
					1,577,706	943,990

(*) Amount of subordinated loans, eligible as Level 2 own funds, in accordance with Articles 62 a), 63 to 65, 66 a) and 67 of the CRR.

References:

Date of exercise of the next call option - Dates of the next call options are the dates provided in the Issues Terms and Conditions.

(i) June 2020.

Interest rate

(ii) up to the 5th year fixed rate 4.5%; 6th year and following: mid-swap rate in force at the beginning of this period + 4.267%; (iii) Annual interest rate of 3.871% during the first 5.5 years (corresponding to a spread of 4.231% over the 5.5 year mid-swap rate, for the remaining 5 years will be applied over the mid-swap rate in force at the beginning of that period).

36. Financial liabilities held for trading

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Short selling securities	15,818	47,572
Trading derivatives (note 23):		
Swaps	380,147	274,506
Options	1,870	1,386
Embedded derivatives	8,242	14,983
Forwards	5,150	5,486
	395,409	296,361
	411,227	343,933
Level 1	115	67
Level 2	386,853	280,944
Level 3	24,259	62,922

As referred in IFRS 13, financial instruments are measured according to the levels of valuation described in note 48.

The balance Financial liabilities held for trading includes, as at 30 June 2020, the embedded derivatives valuation separated from the host contracts in accordance with the accounting policy presented in note 1 C.5. in the amount of Euros 8,242,000 (31 December 2019: Euros 14,983,000). This note should be analysed together with note 23.

37. Financial liabilities designated at fair value through profit or loss

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Deposits from customers	989,221	1,720,134
Debt securities at fair value through profit and loss		
Bonds	-	262
Medium term notes (MTNs)	670,087	734,722
	670,087	734,984
Accruals	22	801
	670,109	735,785
Certificates	628,352	745,390
	2,287,682	3,201,309

38. Provisions

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Provision for guarantees and other commitments (note 21)	109,885	116,560
Technical provisions for the insurance activity - For direct insurance and reinsurance accepted:		
Unearned premiums	7,851	7,346
Life insurance	2,746	3,400
For participation in profit and loss	114	216
Other technical provisions	23,214	26,853
Other provisions for liabilities and charges	202,101	190,937
	345,911	345,312

Changes in Provisions for guarantees and other commitments are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Balance on 1 January	116,560	187,710
Transfers resulting from changes in the Group's structure (Euro Bank acquisition)	-	172
Other transfers	(14,224)	(67,072)
Charge for the period (note 13)	27,104	36,230
Reversals for the period (note 13)	(19,005)	(40,618)
Exchange rate differences	(550)	138
Balance at the end of the period	109,885	116,560

As at 31 December 2019, the balance Other transfers includes the amount of Euros 64,588,000 corresponding to provisions for guarantees and other commitments, which was transferred to impairment for credit risks due the conversion of guarantees granted into loans and advances to customers.

Changes in Other provisions for liabilities and charges are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Balance on 1 January	190,937	136,483
Transfers	367	2,447
Charge for the period (note 13)	70,232	65,239
Reversals for the period (note 13)	(3,171)	(3,367)
Amounts charged-off	(54,284)	(10,627)
Exchange rate differences	(1,980)	762
Balance at the end of the period	202,101	190,937

The Other provisions for liabilities and charges were based on the probability of occurrence of certain contingencies related to risks inherent to the Group's activity, being reviewed at each reporting date in order to reflect the best estimate of the amount and respective probability of payment.

This balance includes provisions for contingencies in the sale of Millennium Bank (Greece) (Euros 23,507,000), lawsuits, fraud and tax contingencies. As at 30 June 2020, the provisions constituted to cover tax contingencies totalled Euros 66,733,000 (31 December 2019: Euros 70,714,000) and are associated, essentially, to contingencies related to VAT and Stamp Duty.

As at 30 June 2020, this balance also includes the amount of PLN 391,153,000 correspondent to Euros 88,016,000 (31 December 2019: PLN 223,134,000 correspondent to Euros 52,480,000) related to the creation, by Bank Millennium, of provisions for legal risk related to FX-indexed mortgages. As described in note 56, the methodology developed by Bank Millennium is based on the following main parameters: (i) the number of current (including class actions) and potential future court cases that will appear within a specified (three-year) time horizon; (ii) the amount of Bank Millennium's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account); and, (iii) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector in Poland and legal opinions obtained. Variation in the level of provisions or concrete losses will depend on the final court decisions about each case and on the number of court cases. As at 30 June 2020, the Loans and advances to customers portfolio in CHF has a net amount of approximately Euros 3,373,000,000.

39. Other liabilities

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Creditors		
Associated companies	2	190
Suppliers	23,108	44,627
From factoring operations	32,807	35,948
For futures and options transactions	7,365	11,039
For direct insurance and reinsurance operations	4,531	3,350
Deposit account and other applications	44,850	60,339
Liabilities not covered by the Group Pension Fund - amounts payable by the Group	14,295	15,014
Rents to pay	256,217	281,072
Other creditors		
Residents	21,919	29,774
Non-residents	39,485	61,564
Negative equity in associated companies	278	278
Holidays, subsidies and other remuneration payable	57,920	59,420
Interests and other amounts payable	128,308	151,170
Operations to be settled - foreign, transfers and deposits	289,378	288,281
Amounts payable on trading activity	107,382	89,003
Other administrative costs payable	6,315	5,153
Deferred income	9,877	10,846
Loans insurance received and to amortised	76,470	74,712
Public sector	37,863	38,037
Other liabilities	179,339	182,408
	1,337,709	1,442,225

The balance Liabilities not covered by the Group Pension Fund - amounts payable by the Group includes the amount of Euros 5,311,000 (31 December 2019: Euros 5,543,000) related to the actual value of benefits attributed associated with mortgage loans to employees, retirees and former employees and the amount of Euros 3,733,000 (31 December 2019: Euros 3,733,000), related to the obligations with retirement benefits already recognised in Staff costs, to be paid to former members of the Executive Board of Directors, as referred in note 49.

The balance Amounts payable on trading activity includes amounts payable within 3 business days of stock exchange operations.

The Group has several operating leases for properties, being registered in the item Rents to pay the amount of lease liabilities recognised under IFRS 16, as described in the accounting policy 1 H and in note 56. The analysis of this balance, by maturity, is as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Until 1 year	26,780	26,473
1 to 5 years	95,270	97,590
Over 5 years	144,076	168,361
	266,126	292,424
Accrued costs recognised in Net interest income	(9,909)	(11,352)
	256,217	281,072

40. Share capital, Preference shares and Other equity instruments

The Bank's share capital, as at 30 June 2020, amounts to Euros 4,725,000,000 and is represented by 15,113,989,952 nominative book-entry shares without nominal value, fully subscribed and paid up.

As at 30 June 2020 and 31 December 2019, the share premium amounts to Euros 16,470,667.11, corresponding to the difference between the issue price (Euros 0.0834 per share) and the issue value (Euros 0.08 per share) determined under the scope of the Exchange Offer occurred in June 2015.

As at 30 June 2020 and 31 December 2019, the balance Other equity instruments, in the amount of Euros 400,000,000 corresponds to 2,000 subordinated perpetual bonds (Additional Tier 1), issued on 31 January 2019, with a nominal value of Euros 200,000 each.

As at 30 June 2020, the shareholders who individually or jointly hold 2% or more of the capital of the Bank, are the following:

Shareholder	number of shares	% share capital	% voting rights
Fosun Group - Chiado (Luxembourg) S.a.r.l. held by Fosun International Holdings Ltd	4,384,384,503	29.01%	29.01%
Sonangol - Sociedade Nacional de Combustíveis de Angola, EP, directly	2,946,353,914	19.49%	19.49%
BlackRock, Inc. (*)	451,995,799	2.99%	2.99%
EDP Pension Fund (**)	311,616,144	2.06%	2.06%
Total Qualified Shareholdings	8,094,350,360	53.56%	53.56%

(*) In accordance with the announcement on 30 April 2020 (last information available).

(**) Allocation in accordance with Art. 20 (1.f) of the Portuguese Securities Code.

Banco Comercial Português, S.A. proceeded, on 31 January 2019, to an issue of perpetual bonds, representing subordinated debt, classified as Additional Tier 1 core capital instrument, in the amount of Euros 400,000,000. This issue was classified as an equity instrument in accordance with the specific rules of IAS 32 and accounting policy 1E.

This operation without fixed term has the option of early repayment by the Bank as from the end of the 5th year, and an annual interest rate of 9.25% during the first 5 years. As an instrument classified as AT1, the corresponding interest payment is decided by the Bank at its discretion and is still subject to compliance with a set of conditions, including compliance with the combined requirement of capital reserve and the existence of Distributable Funds in sufficient amount. The payment of interest may also be cancelled by imposition of the competent authorities.

41. Legal and statutory reserves

Under the Portuguese legislation, the Bank is required to annually set-up a legal reserve equal to a minimum of 10% of annual profits until the reserve equals the share capital, or until the sum of the free reserves constituted and the retained earnings, if higher. Such reserve is not normally distributable. In accordance with the proposal for the appropriation of net income for the 2019 financial year approved at the General Shareholders' Meeting held on 22 May 2020, the Bank increased its legal reserve in the amount of Euros 13,929,000. Thus, as at 30 June 2020, the Legal reserves amount to Euros 254,464,000 (31 December 2019: Euros 240,535,000).

In accordance with the current Portuguese legislation, the Group companies must set-up annually a reserve with a minimum percentage between 5 and 20% of their net annual profits depending on the nature of their economic activity and are recognised in Other reserves and retained earnings in the Bank's consolidated financial statements (note 43).

Under the appropriation of net income for the 2018 financial year, in 2019 the Bank distributed the Statutory reserves in the amount of Euros 30,000,000.

42. Treasury shares

This balance is analysed as follows:

	30 June 2020			31 December 2019		
	Net book value (Euros '000)	Number of securities	Average book value (Euros)	Net book value (Euros '000)	Number of securities	Average book value (Euros)
Banco Comercial Português, S.A. shares	35	323,738	0.11	65	323,738	0.20
Other treasury stock	35			37		
Total	70			102		

As at 30 June 2020, Banco Comercial Português, S.A. does not hold treasury shares and did not purchase or sold own shares during the period. However, this balance includes 323,738 shares (31 December 2019: 323,738 shares) owned by clients. Since for some of these clients there is evidence of impairment, the shares of the Bank owned by these clients were considered as treasury shares, and, in accordance with the accounting policies, deducted to equity.

The own shares held by the companies included in the consolidation perimeter are within the limits established by the Bank's by-laws and by the Commercial Companies Code.

As at 30 June 2020, regarding treasury shares owned by associated companies of the BCP Group, Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. owned 142,601,002 BCP shares (31 December 2019: 142,601,002 shares), in the amount of Euros 15,258,000 (31 December 2019: Euros 28,891,000), according to note 50.

43. Reserves and retained earnings

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Fair value changes - Gross amount		
Financial assets at fair value through other comprehensive income (note 23)		
Debt instruments (*)	114,971	78,849
Equity instruments	(35,474)	(33,913)
Of associated companies and other changes	35,994	29,205
Cash-flow hedge	265,464	153,330
From financial liabilities designated at fair value through profit or loss related to changes in own credit risk	1,120	132
	382,075	227,603
Fair value changes - Tax		
Financial assets at fair value through other comprehensive income		
Debt instruments	(30,899)	(22,724)
Equity instruments	5,192	3,797
Cash-flow hedge	(83,594)	(48,398)
From financial liabilities designated at fair value through profit or loss related to changes in own credit risk	(351)	(41)
	(109,652)	(67,366)
	272,423	160,237
Exchange differences arising on consolidation		
Bank Millennium, S.A.	(57,087)	(33,084)
BIM - Banco International de Moçambique, S.A.	(187,726)	(150,976)
Banco Millennium Atlântico, S.A.	(157,406)	(143,476)
Others	2,505	2,528
	(399,714)	(325,008)
Application of IAS 29		
Effect on equity of Banco Millennium Atlântico, S.A.	37,585	38,813
Others	(3,965)	(3,965)
	33,620	34,848
Other reserves and retained earnings	854,513	565,746
	760,842	435,823

(*) Includes the effects arising from the application of hedge accounting.

The fair value changes correspond to the accumulated changes of the Financial assets at fair value through other comprehensive income and Cash flow hedge, in accordance with the accounting policy presented in note 1 C.

During the first semester of 2020, the changes occurred in Fair value changes - Gross amount, excluding the effect of hedge accounting and changes in own credit risk associated with financial liabilities at fair value through profit or loss, are analysed as follows:

(Thousands of euros)

	Balance as at 1 January 2020	Fair value changes	Fair value hedge adjustment	Impairment in profit or loss	Disposals	Balance as at 30 June 2020
Financial assets at fair value through other comprehensive income (note 23)						
Debt instruments						
Debt securities - Portuguese public issuers	39,110	(35,078)	77,605	6,370	(16,198)	71,809
Others	39,739	20,705	(9,767)	4,199	(11,714)	43,162
	78,849	(14,373)	67,838	10,569	(27,912)	114,971
Equity instruments	(33,913)	(4,673)	-	-	3,112	(35,474)
Associated companies and others						
Millenniumbcp Ageas	26,268	3,521	-	-	-	29,789
Others	2,937	3,268	-	-	-	6,205
	29,205	6,789	-	-	-	35,994
	74,141	(12,257)	67,838	10,569	(24,800)	115,491

The changes occurred, during 2019, in Fair value changes - Gross amount, excluding the effect of hedge accounting and changes in own credit risk associated with financial liabilities at fair value through profit or loss, are analysed as follows:

(Thousands of euros)

	Balance as at 1 January 2019	Fair value changes	Fair value hedge adjustment	Impairment in profit or loss	Disposals	Balance as at 31 December 2019
Financial assets at fair value through other comprehensive income						
Debt instruments						
Debt securities - Portuguese public issuers	(72,484)	112,077	72,400	(2,718)	(70,165)	39,110
Others	62,141	17,245	(15,427)	538	(24,758)	39,739
	(10,343)	129,322	56,973	(2,180)	(94,923)	78,849
Equity instruments	(30,197)	(10,508)	-	-	6,792	(33,913)
Associated companies and others						
Millenniumbcp Ageas	18,774	7,494	-	-	-	26,268
Others	6,901	(2,897)	-	-	(1,067)	2,937
	25,675	4,597	-	-	(1,067)	29,205
	(14,865)	123,411	56,973	(2,180)	(89,198)	74,141

The item Disposals refers to the derecognition of debt securities and equity instruments at fair value through other comprehensive income.

44. Non-controlling interests

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Fair value changes		
Debt instruments	37,048	10,538
Equity instruments	3,194	3,337
Cash-flow hedge	(4,137)	(3,286)
Other	17	38
	36,122	10,627
Deferred taxes		
Debt instruments	(7,011)	(1,994)
Equity instruments	(607)	(634)
Cash-flow hedge	786	624
	(6,832)	(2,004)
	29,290	8,623
Exchange differences arising on consolidation	(165,859)	(101,914)
Actuarial losses (net of taxes)	178	178
Other reserves and retained earnings	1,353,410	1,354,637
	1,217,019	1,261,524

The balance Non-controlling interests is analysed as follows:

(Thousands of euros)

	Balance Sheet		Income Statement	
	30 June 2020	31 December 2019	30 June 2020	30 June 2019
Bank Millennium, S.A.	1,032,993	1,049,395	8,088	38,874
BIM - Banco International de Moçambique, SA (*)	153,042	180,278	14,531	16,939
Other subsidiaries	30,984	31,851	213	(351)
	1,217,019	1,261,524	22,832	55,462

(*) Includes the non-controlling interests of SIM - Seguradora International de Moçambique, S.A.R.L.

The following table presents a summary of financial information for the main subsidiaries included in this balance, prepared in accordance with IFRS. The information is presented before inter-company eliminations:

(Thousands of euros)

	Group Bank Millennium		Group BIM - Banco Internacional de Moçambique	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Total income	531,499	482,037	146,527	161,823
Net profit for the year	16,209	77,904	42,483	47,956
Net profit for the year attributable to the shareholders	8,121	39,030	28,330	31,980
Net profit for the year attributable to non-controlling interests	8,088	38,874	14,153	15,976
Other comprehensive income attributable to the shareholders	(24,603)	10,223	(36,767)	(923)
Other comprehensive income attributable to non-controlling interests	(24,504)	10,182	(18,368)	(462)
Total comprehensive income	(32,898)	98,309	(12,652)	46,571
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
Balance sheet				
Financial assets	22,629,164	22,593,994	1,978,109	2,120,457
Non-financial assets	452,819	468,044	187,915	213,856
Financial liabilities	(20,448,439)	(20,375,566)	(1,618,279)	(1,696,897)
Non-financial liabilities	(563,419)	(583,476)	(95,955)	(105,067)
Equity	2,070,125	2,102,996	451,790	532,349
Equity attributed to the shareholders	1,037,132	1,053,601	301,278	354,999
Equity attributed to the non-controlling interests	1,032,993	1,049,395	150,512	177,350
Cash flows arising from:				
operating activities	767,901	(134,219)	34,779	78,251
investing activities	(1,007,202)	(214,636)	(4,397)	(31,003)
financing activities	(84,936)	168,249	(45,394)	(47,490)
Net increase / (decrease) in cash and equivalents	(324,237)	(180,606)	(15,012)	(242)
Dividends paid during the year:				
attributed to the shareholders	-	-	44,965	29,834
attributed to the non-controlling interests	-	-	22,463	14,904
	-	-	67,428	44,738

45. Guarantees and other commitments

This balance is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Guarantees granted		
Guarantees	4,105,058	4,298,837
Stand-by letter of credit	50,319	52,447
Open documentary credits	201,007	237,828
Bails and indemnities	137,464	137,695
	4,493,848	4,726,807
Commitments to third parties		
Irrevocable commitments		
Term deposits contracts	20,570	-
Irrevocable credit lines	4,523,079	3,999,502
Securities subscription	79,829	83,842
Other irrevocable commitments	116,483	115,247
Revocable commitments		
Revocable credit lines	5,440,181	4,897,405
Bank overdraft facilities	631,453	566,525
Other revocable commitments	160,439	108,905
	10,972,034	9,771,426
Guarantees received	27,958,779	27,225,242
Commitments from third parties	12,287,603	10,262,135
Securities and other items held for safekeeping	68,611,602	69,128,000
Securities and other items held under custody by the Securities Depository Authority	71,307,822	67,072,528
Other off balance sheet accounts	121,680,437	126,060,542

The guarantees granted by the Group may be related to loans transactions, where the Group grants a guarantee in connection with a loan granted to a client by a third entity. According to its specific characteristics it is expected that some of these guarantees expire without being executed and therefore these transactions do not necessarily represent a cash-outflow. The estimated liabilities are recorded under provisions (note 38).

Stand-by letters and open documentary credits aim to ensure the payment to third parties from commercial deals with foreign entities and therefore financing the shipment of the goods. Therefore, the credit risk of these transactions is limited since they are collateralised by the shipped goods and are generally short term operations.

Irrevocable commitments are non-used parts of credit facilities granted to corporate or retail customers. Many of these transactions have a fixed term and a variable interest rate and therefore the credit and interest rate risk are limited.

The financial instruments accounted as Guarantees and other commitments are subject to the same approval and control procedures applied to the credit portfolio, namely regarding the analysis of objective evidence of impairment, as described in the accounting policy in note 1 C. The maximum credit exposure is represented by the nominal value that could be lost related to guarantees and commitments undertaken by the Group in the event of default by the respective counterparties, without considering potential recoveries or collaterals.

46. Transfers of assets

The Group performed a set of transactions of sale of financial assets (namely loans and advances to customers) for Funds specialized in the recovery of loans. These funds take the responsibility for management of the borrower companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of the companies/assets.

The specialized funds in credit recovery that acquired the financial assets are closed funds, in which the holders of the participation units have no possibility to request the reimbursement of its participation units throughout the useful life of the Fund. These participation units are held by several banks, which are the sellers of the loans, in percentages that vary through the useful life of the Funds, ensuring however that, separately, none of the banks hold more than 50% of the capital of the Fund.

The Funds have a specific management structure (General Partner), fully independent from the assignor banks and that is selected on the date of establishment of the Fund. The management structure of the Fund has as main responsibilities to: (i) determine the objective of the Fund and (ii) administrate and manage exclusively the Fund, determining the objectives and investment policy and the conduct in management and business of the Fund. The management structure is remunerated through management commissions charged to the Funds.

These funds (in which the Group holds minority positions) establish companies in order to acquire the loans to the banks, which are financed through the issuance of senior and junior securities. The value of the senior securities fully subscribed by the Funds that hold the share capital match the fair value of the asset sold, determined in accordance with a negotiation based on valuations performed by both parties.

The value of the junior securities is equivalent to the difference between the fair value based on the valuation of the senior securities and the value of the transfer of credits. These junior securities, when subscribed by the Group, provide the right to a contingent positive value if the recovered amount for the assets transferred is above the nominal value amount of senior securities plus it related interest. Thus, considering these junior assets reflect a difference between the valuations of the assets sold based on the appraisals performed by independent entities and the negotiation between the parties, the Group performs the constitution of impairment losses for all of them.

Therefore, as a result of the transfer of assets occurred operations, the Group subscribed:

- Senior securities (participation units) of the funds, for which the cash-flows arise mainly from a set of assets transferred from the participant banks. These securities are booked in Financial assets not held for trading mandatorily at fair value through profit or loss portfolio and are accounted for at fair value based on the last available Net assets value (NAV), as disclosed by the Management companies and audited at year end, still being analysed by the Bank;
- Junior securities (with higher subordination degree) issued by the Portuguese law companies held by the funds and which are fully provided to reflect the best estimate of impairment of the financial assets transferred.

Within this context, not withholding control but maintaining an exposure to certain risks and rewards, the Group, in accordance with IFRS 9 3.2 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the transaction, having concluded that it does not hold substantially all the risks and rewards. Considering that it does not hold control and does not exercise significant influence on the funds or companies' management, the Group performed, under the scope of IAS IFRS 9 3.2, the derecognition of the assets transferred and the recognition of the assets received.

The results are calculated on the date of transfer of the assets. During the first semester of 2020 and the financial year of 2019, no credits were sold to specialized funds in credit recovery.

The amounts accumulated as at 30 June 2020 and 31 December 2019, related to these operations, are analysed as follows:

(Thousands of euros)

	Assets transferred	Net assets transferred	Received value	Net gains / (losses)
Fundo Recuperação Turismo FCR (a)	304,400	268,318	294,883	26,565
Fundo Reestruturação Empresarial FCR (b)	84,112	82,566	83,212	646
FLIT-PTREL (c)	577,803	399,900	383,821	(16,079)
Fundo Recuperação FCR (b)	343,266	243,062	232,267	(10,795)
Fundo Aquarius FCR (c)	132,635	124,723	132,635	7,912
Discovery Real Estate Fund (c)	211,388	152,155	138,187	(13,968)
Fundo Vega FCR (d)	113,665	113,653	109,599	(4,054)
	1,767,269	1,384,377	1,374,604	(9,773)

The activity segments are as follows: a) Tourism; b) Diversified; c) Real estate and tourism; and d) Property.

As at 30 June 2020, the assets received under the scope of these operations are comprised of:

(Thousands of euros)

	30 June 2020			
	Senior securities	Junior securities		
	Participation units (note 23)	Capital supplies (note 31)	Capital supplementary contributions (*)	Total
Fundo Recuperação Turismo FCR				
Gross value	276,800	32,901	-	309,701
Impairment and other fair value adjustments	(84,679)	(32,901)	-	(117,580)
	192,121	-	-	192,121
Fundo Reestruturação Empresarial FCR				
Gross value	88,402	-	33,280	121,682
Impairment and other fair value adjustments	(46,591)	-	(33,280)	(79,871)
	41,811	-	-	41,811
FLIT-PTREL				
Gross value	248,010	38,154	-	286,164
Impairment and other fair value adjustments	(24,919)	(38,154)	-	(63,073)
	223,091	-	-	223,091
Fundo Recuperação FCR				
Gross value	188,002	83,956	-	271,958
Impairment and other fair value adjustments	(109,607)	(83,956)	-	(193,563)
	78,395	-	-	78,395
Fundo Aquarius FCR				
Gross value	127,138	-	-	127,138
Impairment and other fair value adjustments	(10,513)	-	-	(10,513)
	116,625	-	-	116,625
Discovery Real Estate Fund				
Gross value	156,257	-	-	156,257
Impairment and other fair value adjustments	(2,360)	-	-	(2,360)
	153,897	-	-	153,897
Fundo Vega FCR				
Gross value	48,075	78,894	-	126,969
Impairment and other fair value adjustments	(7,634)	(78,894)	-	(86,528)
	40,441	-	-	40,441
Total Gross value	1,132,684	233,905	33,280	1,399,869
Total impairment and other fair value adjustments	(286,303)	(233,905)	(33,280)	(553,488)
	846,381	-	-	846,381

(*) Corresponds to supplementary capital contributions initially recorded for the amount of Euros 33,280,000 and it was made a negative fair value adjustment of the same amount.

The book value of these assets resulted from the last communication by the respective management company of the NAV of the Fund which, as at 30 June 2020, corresponds to the estimate NAV at that date. In addition, the valuation of these funds includes, among others, the following aspects: (i) these are funds whose latest Limited Audit Reports available (with reference to 30 June 2020 for 5 funds), includes a related emphasis such as the impacts and uncertainties of Covid -19 (for 4 funds), a limitation reserve whose potential negative impact was considered in the valuation reflected in the consolidated accounts as of 31 December 2019 and the latest Audit reports available with reference to 31 December 2019 for 2 funds, which include an emphasis related to Covid -19 impacts and uncertainties (for 1 fund) and without reservations; (ii) the funds are subject to supervision by the competent authorities.

As a result of the update estimates of the NAV's of 30 June 2020, the bank recognized a negative impact of Euros 67.500.000 in the balance Net gains / (losses) from financial operations at fair value through profit or loss (note 58).

Within the scope of the transfer of assets, the junior securities subscribed which carry a subordinated nature and are directly linked to the transferred assets, are fully provided for. Although the junior securities are fully provisioned, the Group still holds an indirect exposure to financial assets transferred, under the minority investment that holds in the pool of all assets transferred by financial institutions involved, through the holding of participation units of the funds (denominated in the table as senior securities).

As at 31 December 2019, the assets received under the scope of these operations are comprised of:

(Thousands of euros)

	31 December 2019			
	Senior securities	Junior securities		
	Participation units (note 23)	Capital supplies (note 31)	Capital supplementary contributions (*)	Total
Fundo Recuperação Turismo FCR				
Gross value	276,247	32,669	-	308,916
Impairment and other fair value adjustments	(51,360)	(32,669)	-	(84,029)
	224,887	-	-	224,887
Fundo Reestruturação Empresarial FCR				
Gross value	88,402	-	33,280	121,682
Impairment and other fair value adjustments	(44,698)	-	(33,280)	(77,978)
	43,704	-	-	43,704
FLIT-PTREL				
Gross value	247,354	38,154	-	285,508
Impairment and other fair value adjustments	(7,587)	(38,154)	-	(45,741)
	239,767	-	-	239,767
Fundo Recuperação FCR				
Gross value	187,741	82,947	-	270,688
Impairment and other fair value adjustments	(101,496)	(82,947)	-	(184,443)
	86,245	-	-	86,245
Fundo Aquarius FCR				
Gross value	139,147	-	-	139,147
Impairment and other fair value adjustments	(9,153)	-	-	(9,153)
	129,994	-	-	129,994
Discovery Real Estate Fund				
Gross value	155,328	-	-	155,328
Impairment and other fair value adjustments	2,149	-	-	2,149
	157,477	-	-	157,477
Fundo Vega FCR				
Gross value	48,076	77,366	-	125,442
Impairment and other fair value adjustments	(5,661)	(77,366)	-	(83,027)
	42,415	-	-	42,415
Total Gross value	1,142,295	231,136	33,280	1,406,711
Total impairment and other fair value adjustments	(217,806)	(231,136)	(33,280)	(482,222)
	924,489	-	-	924,489

(*) Corresponds to supplementary capital contributions initially recorded for the amount of Euros 33,280,000, and it was made a negative fair value adjustment of the same amount.

The book value of these assets resulted from the last communication by the respective management company of the NAV of the Fund which, as at 31 December 2019, corresponds to the NAV at that date. In addition, the valuation of these funds includes, among others, the following aspects: (i) these are funds whose latest Audit Reports available (with reference to 31 December 2018 for 2 funds and Limited Revision Report with reference to 30 June 2019 for 5 funds), do not present any reservations except for Fundo de Reestruturação Empresarial whose Limited Review Report of 30 June 2019 includes a reserve by scope limitation whose potential negative impact was considered in the valuation reflected in the consolidated accounts as at 31 December 2019; (ii) the funds are subject to supervision by the competent authorities.

47. Relevant events occurred during the first semester of 2020

Covid-19

Covid-19 has affected a large number of countries, infecting thousands of people worldwide. Available data suggests their numbers will continue to rise. Given the trend and pace of developments globally, and particularly in some Euro-zone economies, it is too early to make a reliable projection of the total impacts that could materialise. However, international and multilateral organisations, as well as rating agencies, have revised down their projections for the growth of the European and World economies in 2020.

In this context, the Bank adopted a set of pre-established initiatives designed to protect human lives and maintain business activity, which include those recommended by the health authorities, work from home, the segregation of primary and back-up staff for various tasks, in an effort to maximise organizational resilience.

Depending on how long these disruptive impacts persist, and on their intensity, the Group´s activity and profitability will suffer to a greater or a lesser extent. Based on all available data, including the capital and liquidity situation, as well as the value of the assets, in management´s opinion, the going concern basis which underlies these financial statements continues to apply. The description of this relevant event is presented in note 58.

Banco Comercial Português, S.A. informs about resolutions of the Annual General Meeting

Banco Comercial Português, S.A. concluded today, exclusively through electronic means, with 61.31% of the share capital represented, the Annual General Meeting of Shareholders, with the following resolutions:

Item One – Approval of the management report, the individual and consolidated annual report, balance sheet and financial statements of 2019, including the Corporate Governance Report;

Item Two – Approval of the proposal for the appropriation of profit regarding the 2019 financial year;

Item Three – Approval of a vote of trust and praise addressed to the Board of Directors, including to the Executive Committee and to the Audit Committee and each one of their members, as well as to the Chartered Accountant and its representative;

Item Four – Approval of the remuneration policy of Members of Management and Supervisory Bodies;

Item Five – Approval of the acquisition and sale of own shares and bonds;

Item Six – Re-appointment of the elected members of the Board of the General Meeting of Shareholders of Banco Comercial Português, S.A., for the four-year term of office 2020/2023.

Appropriation of profits for the 2019 financial year

In accordance with the Companies Code, and with the Bank's articles of association, was deliberated in the Annual General Meeting of Shareholders of 20 May 2020, that the year-end results amounting to Euros 139,296,016.59, be applied as follows:

a) For the reinforcement of legal reserve, Euros 13,929,601.66;
b) to be distributed to employees Euros 5,281,009.00;
c) Euros 120,085,414.93, that is, the remaining, to Retained Earnings.

Rating evaluation

Long-term issuer rating reaffirmed by Fitch Ratings at BB and its intrinsic rating at bb, the long-term outlook was reviewed from positive to negative, based on the uncertainty associated with the coronavirus.

It was attributed the BB- rating to the Bank's senior non-preferred debt and the B + rating to Tier 2 debt, according to its new bank rating methodology.

It was assigned the BB + / B rating to deposits, a level above the long-term IDR, reflecting its view of a higher level of protection for depositors.

Long-term issuer rating reaffirmed by Standard & Poor's at BB and its intrinsic rating at bb, the long-term outlook was revised from positive to stable, based on the uncertainty associated with the coronavirus.

Amend of the terms and conditions of the Covered Bonds

On 21 April, Banco Comercial Português, SA changed the conditions relating to the issue of Mortgage Bonds with ISIN PTBCQLOE0036, namely the amount of said issue from Euros 2,000,000,000 to Euros 4,000,000,000, with the objective of increasing the portfolio of assets eligible for discount with the ECB.

48. Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as occurs regarding many products sold to clients, fair value is estimated through internal models based on cash-flow discounting techniques. Cash-flows for the different instruments sold are calculated according to its financial characteristics and the discount rates used include both the market interest rate curve and the current conditions of the Group's pricing policy.

Thus, the fair value obtained is influenced by the parameters used in the evaluation model that have some degree of judgment and reflects exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, as the future business evolution. Therefore, the values presented cannot be understood as an estimate of the economic value of the Group.

The main methods and assumptions used in estimating the fair value for the financial assets and financial liabilities are presented as follows:

Cash and deposits at Central Banks and Loans and advances to credit institutions repayable on demand

Considering the short term of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

Loans and advances to credit institutions, Deposits from credit institutions and Assets with repurchase agreements

The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates. This update is made based on the prevailing market rate for the term of each cash flow plus the average spread of the production of the most recent 3 months of the same. For the elements with signs of impairment, the net impairment of these operations is considered as a reasonable estimate of their fair value, considering the economic valuation that is realized in the determination of this impairment.

For resources from Central Banks it was considered that the book value is a reasonable estimate of its fair value, given the nature of operations and the associated short-term. The rate of return of funding with the European Central Bank is -0.5% as at 30 June 2020 (31 December 2019: -0.4%).

For the remaining loans and advances and deposits, the discount rate used reflects the current conditions applied by the Group on identical instruments for each of the different residual maturities (rates from the monetary market or from the interest rate swap market).

Loans and advances to customers without defined maturity date

Considering the short maturity of these financial instruments, the conditions of the portfolio are similar to conditions used at the date of the report. Therefore, the amount in the balance sheet is a reasonable estimate of its fair value.

Loans and advances to customers with defined maturity date

The fair value of these instruments is calculated by discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates. For loans with signs of impairment, the net impairment of these operations is considered as a reasonable estimate of their fair value, considering the economic valuation that is realized in the determination of this impairment.

The discount rate used is the one that reflects the current rates of the Group for each of the homogeneous classes of this type of instruments and with similar residual maturity. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market) and the spread used at the date of the report, which was calculated from the average production of the three most recent months compared to the reporting date.

Resources from customers and other loans

The fair value of these financial instruments is calculated by discounting the expected principal and interest future cash flows for the referred instruments, considering that payments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by the Group in similar instruments with a similar maturity. The discount rate includes the market rates of the residual maturity date (rates of monetary market or the interest rate swap market, at the end of the period) and the actual spread of the Group. This was calculated from the average production of the three most recent months compared to the reporting date.

The average discount rates for Loans and advances to credit institutions, Loans and advances to customers, Resources from credit institutions and Resources from customers are analysed as follows:

	Loans and advances to credit institutions		Loans and advances to customers		Resources from credit institutions		Resources from customers	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019	30 June 2020	31 December 2019	30 June 2020	31 December 2019
EUR	0.50%	0.66%	1.95%	2.26%	0.40%	0.57%	-0.04%	-0.08%
AUD	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.54%	1.17%
CAD	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.70%	2.05%
CHF	n.a.	n.a.	2.18%	2.30%	n.a.	n.a.	-0.18%	-0.45%
CNY	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.33%	2.64%
DKK	0.23%	n.a.	n.a.	n.a.	n.a.	n.a.	0.06%	-0.29%
GBP	n.a.	0.83%	3.28%	3.88%	n.a.	n.a.	0.33%	0.94%
HKD	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.36%	2.99%
MOP	n.a.	n.a.	0.90%	2.29%	n.a.	n.a.	0.53%	2.35%
MZN	11.33%	n.a.	14.09%	15.81%	n.a.	n.a.	7.77%	9.66%
NOK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.58%	2.08%
PLN	-0.28%	1.60%	4.46%	5.73%	0.77%	1.31%	0.13%	1.55%
SEK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.39%	0.44%
USD	0.67%	2.13%	1.48%	3.45%	0.57%	1.93%	0.10%	1.62%
ZAR	5.07%	7.20%	8.82%	11.58%	n.a.	n.a.	1.08%	3.72%

Financial assets and liabilities measured at fair value through profit or loss (except derivatives), financial assets at fair value through other comprehensive income

These financial instruments are accounted for at fair value. Fair value is based on market prices ("Bid-price"), whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the market interest rate curve adjusted for factors associated, predominantly credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

Market interest rates are determined based on information released by the suppliers of financial content - Reuters and Bloomberg - more specifically because of the prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are used in the projection of the non-deterministic cash flows such as indexes.

When optionality is involved, the standard templates (Black-Scholes, Black, Ho and others) are used considering the volatility areas applicable. Whenever there are no references in the market of sufficient quality or that the available models do not fully apply to meet the characteristics of the financial instrument, specific quotations supplied by an external entity are applied, typically a counterparty of the business.

Financial assets measured at amortised cost - Debt securities

These financial instruments are accounted at amortised cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the market interest rate curve adjusted for factors associated, predominantly credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

Hedging and trading derivatives

All derivatives are recorded at fair value. In case of derivative contracts that are quoted in organised markets their market prices are used. As for derivatives traded "Over-the-counter", it is applied methods based on numerical cash-flow discounting techniques and models for assessment of options considering variables of the market, particularly the interest rates on the instruments in question, and where necessary, their volatilities.

Interest rates are determined based on information disseminated by the suppliers of financial content - Reuters and Bloomberg - more specifically those resulting from prices of interest rate swaps. The values for the very short-term rates are obtained from a similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The interest rate curves are used in the projection of the non-deterministic cash flows such as indexes.

Debt securities non subordinated issued and subordinated debt

For these financial instruments the fair value was calculated for components for which fair value is not yet reflected in the balance sheet. Fixed rate remunerated instruments for which the Group adopts "hedge-accounting", the fair value related to the interest rate risk is already recognised. For the fair value calculation, other components of risk were considered, in addition to the interest rate risk already recorded, when applicable. The fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the market interest rate curve adjusted by associated factors, predominantly credit risk and trading margin, the latter only in the case of issues placed on non-institutional customers of the Group.

As original reference, the Group applies the curves resulting from the market interest rate swaps for each specific currency. The credit risk (credit spread) is represented by an excess from the curve of interest rate swaps established specifically for each term and class of instruments based on the market prices on equivalent instruments.

For own issued debts placed among non-institutional customers of the Group, one more differential was added (commercial spread), which represents the margin between the financing cost in the institutional market and the cost obtained by distributing the respective instrument in the owned commercial network.

The average of the reference rates of the yield curve obtained from the market prices of the different currencies used in the determination of the fair value of the issues is analysed as follows:

	30 June 2020			31 December 2019		
	EUR	PLN	USD	EUR	PLN	USD
Placed in the institutional market						
Subordinated	6.17%	0.24%	-	5.05%	1.74%	-
Senior (including mortgage)	0.00%	-	-	-0.01%	-	-
Placed in retail						
Subordinated	2.25%	-	-	3.88%	-	-
Senior and collateralised	0.04%	0.78%	0.97%	0.10%	1.99%	2.37%

For debt securities, the fair value calculation focused on all the components of these instruments, as a result the difference determined is a positive amount of Euros 23,464,000 (31 December 2019: a positive amount of Euros 29,017,000) and includes a payable amount of Euros 7,588,000 (31 December 2019: a payable amount of Euros 13,726,000) which reflects the fair value of embedded derivatives and are recorded in financial assets and liabilities held for trading (note 23 and 36).

The following table presents the interest rates used in the definition of the interest rate curves of main currencies, namely EUR, USD, GBP and PLN used to determine the fair value of the financial assets and liabilities of the Group:

	30 June 2020				31 December 2019			
	EUR	USD	GBP	PLN	EUR	USD	GBP	PLN
1 day	-0.48%	0.23%	0.14%	0.07%	-0.47%	1.73%	0.73%	1.45%
7 days	-0.47%	0.23%	0.15%	0.07%	-0.47%	1.70%	0.74%	1.45%
1 month	-0.42%	0.35%	0.18%	0.13%	-0.47%	1.75%	0.75%	1.53%
2 months	-0.41%	0.36%	0.19%	0.15%	-0.44%	1.79%	0.80%	1.57%
3 months	-0.39%	0.40%	0.21%	0.16%	-0.43%	1.81%	0.83%	1.61%
6 months	-0.33%	0.54%	0.31%	0.18%	-0.38%	1.84%	0.90%	1.69%
9 months	-0.27%	0.58%	0.40%	0.19%	-0.35%	1.86%	0.93%	1.70%
1 year	-0.36%	0.26%	0.48%	0.21%	-0.32%	1.75%	0.97%	1.70%
2 years	-0.39%	0.22%	0.18%	0.28%	-0.29%	1.67%	0.80%	1.75%
3 years	-0.39%	0.22%	0.19%	0.35%	-0.24%	1.65%	0.82%	1.75%
5 years	-0.36%	0.31%	0.23%	0.52%	-0.12%	1.70%	0.88%	1.79%
7 years	-0.30%	0.45%	0.28%	0.68%	0.02%	1.76%	0.94%	1.82%
10 years	-0.18%	0.61%	0.36%	0.85%	0.21%	1.86%	1.02%	1.87%
15 years	-0.01%	0.77%	0.43%	1.05%	0.47%	1.97%	1.10%	1.98%
20 years	0.06%	0.85%	0.44%	1.13%	0.60%	2.02%	1.12%	2.07%
30 years	0.02%	0.88%	0.42%	1.13%	0.63%	2.05%	1.11%	2.07%

The following table shows the fair value of financial assets and liabilities of the Group, as at 30 June 2020:

(Thousands of euros)

	30 June 2020				
	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Book value	Fair value
Assets					
Cash and deposits at Central Banks	-	-	4,302,644	4,302,644	4,302,644
Loans and advances to credit institutions repayable on demand	-	-	350,218	350,218	350,218
Financial assets at amortised cost					
Loans and advances to credit institutions	-	-	1,085,970	1,085,970	1,085,071
Loans and advances to customers (i)	-	-	51,248,306	51,248,306	50,703,932
Debt securities	-	-	5,742,472	5,742,472	5,765,844
Financial assets at fair value through profit or loss					
Financial assets held for trading	2,335,697	-	-	2,335,697	2,335,697
Financial assets not held for trading mandatorily at fair value through profit or loss	1,305,443	-	-	1,305,443	1,305,443
Financial assets at fair value through other comprehensive income	-	13,285,390	-	13,285,390	13,285,390
Hedging derivatives (ii)	133,590	-	-	133,590	133,590
	3,774,730	13,285,390	62,729,610	79,789,730	79,267,829
Liabilities					
Financial liabilities at amortised cost					
Resources from credit institutions	-	-	9,055,226	9,055,226	9,055,820
Resources from customers (i)	-	-	62,475,176	62,475,176	62,481,360
Non subordinated debt securities issued (i)	-	-	1,475,762	1,475,762	1,499,226
Subordinated debt (i)	-	-	1,440,353	1,440,353	1,436,071
Financial liabilities at fair value through profit or loss					
Financial liabilities held for trading	411,227	-	-	411,227	411,227
Financial liabilities designated at fair value through profit or loss	2,287,682	-	-	2,287,682	2,287,682
Hedging derivatives (ii)	265,447	-	-	265,447	265,447
	2,964,356	-	74,446,517	77,410,873	77,436,833

(i) - The book value includes the effect of the adjustments resulting from the application of hedge accounting;
(ii) - Includes a portion that is recognised in reserves in the application of accounting cash flow hedge.

The following table shows the fair value of financial assets and liabilities of the Group, as at 31 December 2019:

(Thousands of euros)

	31 December 2019				
	Fair value through profit or loss	Fair value through reserves	Amortised cost	Book value	Fair value
Assets					
Cash and deposits at Central Banks	-	-	5,166,551	5,166,551	5,166,551
Loans and advances to credit institutions repayable on demand	-	-	320,857	320,857	320,857
Financial assets at amortised cost					
Loans and advances to credit institutions	-	-	892,995	892,995	881,873
Loans and advances to customers (i)	-	-	49,847,829	49,847,829	49,421,513
Debt securities	-	-	3,185,876	3,185,876	3,199,965
Financial assets at fair value through profit or loss					
Financial assets held for trading	878,334	-	-	878,334	878,334
Financial assets not held for trading mandatorily at fair value through profit or loss	1,405,513	-	-	1,405,513	1,405,513
Financial assets designated at fair value through profit or loss	31,496	-	-	31,496	31,496
Financial assets at fair value through other comprehensive income	-	13,216,701	-	13,216,701	13,216,701
Hedging derivatives (ii)	45,141	-	-	45,141	45,141
	2,360,484	13,216,701	59,414,108	74,991,293	74,567,944
Liabilities					
Financial liabilities at amortised cost					
Resources from credit institutions	-	-	6,366,958	6,366,958	6,353,655
Resources from customers (i)	-	-	59,127,005	59,127,005	59,134,647
Non subordinated debt securities issued (i)	-	-	1,594,724	1,594,724	1,623,741
Subordinated debt (i)	-	-	1,577,706	1,577,706	1,685,810
Financial liabilities at fair value through profit or loss					
Financial liabilities held for trading	343,933	-	-	343,933	343,933
Financial liabilities designated at fair value through profit or loss	3,201,309	-	-	3,201,309	3,201,309
Hedging derivatives (ii)	229,923	-	-	229,923	229,923
	3,775,165	-	68,666,393	72,441,558	72,573,018

(i) - The book value includes the effect of the adjustments resulting from the application of hedge accounting;
(ii) - Includes a portion that is recognised in reserves in the application of accounting cash flow hedge.

The Group classified the financial instruments recorded in the balance sheet at fair value in accordance with the hierarchy established in IFRS 13. The fair value of financial instruments is determined using quotations recorded in active and liquid markets, considering that a market is active and liquid whenever its stakeholders conduct transactions on a regular basis giving liquidity to the instruments traded. When it is verified that there are no transactions that regularly provide liquidity to the traded instruments, valuation methods and techniques are used to determine the fair value of the financial instruments.

Level 1 - With quotation in active market

In this category are included, in addition to financial instruments traded on a regulated market, bonds and units of investment funds valued based on the prices disclosed through trading systems.

The classification of the fair value of level 1 is used when:

i) - There is a firm daily enforceable quotation for the financial instruments concerned, or;
ii) - There is a quotation available in market information systems that aggregate multiple prices of various stakeholders, or;
iii) - Financial instruments have been classified in level 1, at least 90% of trading days in the year (at the valuation date).

Level 2 - Valuation methods and techniques based on market data

Financial instruments, when there are no regular transactions in the active and liquid markets (level 1), are classified in level 2, according to the following rules:

i) - Failure to comply with the rules defined for level 1, or;
ii) - They are valued based on valuation methods and techniques that use mostly observable market data (interest rate or exchange rate curves, credit curves, etc.).

Level 2 includes over-the-counter derivative financial instruments contracted with counterparties with which the Bank maintains collateral agreements (ISDAs with Credit Support Annex (CSA)), in particular with MTA (Minimum Transfer Amount) which contributes to the mitigation of the counterparty credit risk, so that the CVA (Credit Value Adjustment) component is not significant. In addition, derivative financial instruments traded in the over-the-counter market, which, despite not having CSA agreements, the non-observable market data component (i.e. internal ratings, default probabilities determined by internal models, etc.) incorporated in valuation of CVA is not significant in the value of the derivative as a whole. In order to assess the significance of this component, the Bank defined a quantitative relevance criterion and performed a qualitative sensitivity analysis on the valuation component that includes unobservable market data.

Level 3 - Valuation methods and techniques based on data not observable in the market

If the level 1 or level 2 criteria are not met, financial instruments should be classified in level 3, as well as in situations where the fair value of financial instruments results from the use of information not observable in the market, such as:

- financial instruments which are not classified as level 1 and which are valued using evaluation methods and techniques without being known or where there is consensus on the criteria to be used, namely:

i) - They are valued using comparative price analysis of financial instruments with risk and return profile, typology, seniority or other similar factors, observable in the active and liquid markets;
ii) - They are valued based on performance of impairment tests, using performance indicators of the underlying transactions (e.g. default probability rates of the underlying assets, delinquency rates, evolution of the ratings, etc.);
iii) - They are valued based on NAV (Net Asset Value) disclosed by the management entities of securities/real estate/other investment funds not listed on a regulated market.

Level 3 includes over-the-counter derivative financial instruments that have been contracted with counterparties with which the Bank does not maintain collateral exchange agreements (CSAs), and whose unobservable market data component incorporated in the valuation of CVA is significant in the value of the derivative as a whole. In order to assess the significance of this component, the Bank defined a quantitative relevance criterion and performed a qualitative sensitivity analysis on the valuation component that includes unobservable market data.

The following table shows, by valuation levels, the fair value of financial assets and liabilities of the Group as at 30 June 2020:

(Thousands of euros)

	30 June 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and deposits at Central Banks	4,302,644	-	-	4,302,644
Loans and advances to credit institutions repayable on demand	350,218	-	-	350,218
Financial assets at amortised cost				
Loans and advances to credit institutions	-	-	1,085,071	1,085,071
Loans and advances to customers	-	-	50,703,932	50,703,932
Debt securities	2,593,432	719,037	2,453,375	5,765,844
Financial assets at fair value through profit or loss				
Financial assets held for trading	1,762,168	248,892	324,637	2,335,697
Financial assets not held for trading mandatorily at fair value through profit or loss	-	-	1,305,443	1,305,443
Financial assets at fair value through other comprehensive income	12,550,776	552,946	181,668	13,285,390
Hedging derivatives	-	133,590	-	133,590
	21,559,238	1,654,465	56,054,126	79,267,829
Liabilities				
Financial liabilities at amortised cost				
Resources from credit institutions	-	-	9,055,820	9,055,820
Resources from customers	-	-	62,481,360	62,481,360
Non subordinated debt securities issued	-	-	1,499,226	1,499,226
Subordinated debt	-	-	1,436,071	1,436,071
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading	115	386,853	24,259	411,227
Financial liabilities designated at fair value through profit or loss	628,352	-	1,659,330	2,287,682
Hedging derivatives	-	265,447	-	265,447
	628,467	652,300	76,156,066	77,436,833

The following table shows, by valuation levels, the fair value of financial assets and liabilities of the Group as at 31 December 2019:

(Thousands of euros)

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and deposits at Central Banks	5,166,551	-	-	5,166,551
Loans and advances to credit institutions repayable on demand	320,857	-	-	320,857
Financial assets at amortised cost				
Loans and advances to credit institutions	-	-	881,873	881,873
Loans and advances to customers	-	-	49,421,513	49,421,513
Debt securities	123,300	703,248	2,373,417	3,199,965
Financial assets at fair value through profit or loss				
Financial assets held for trading	252,683	317,689	307,962	878,334
Financial assets not held for trading mandatorily at fair value through profit or loss	-	-	1,405,513	1,405,513
Financial assets designated at fair value through profit or loss	31,496	-	-	31,496
Financial assets at fair value through other comprehensive income	12,643,402	464,728	108,571	13,216,701
Assets with repurchase agreement	-	-	-	-
Hedging derivatives	-	45,141	-	45,141
	18,538,289	1,530,806	54,498,849	74,567,944
Liabilities				
Financial liabilities at amortised cost				
Resources from credit institutions	-	-	6,353,655	6,353,655
Resources from customers	-	-	59,134,647	59,134,647
Non subordinated debt securities issued	-	-	1,623,741	1,623,741
Subordinated debt	-	-	1,685,810	1,685,810
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading	67	280,944	62,922	343,933
Financial liabilities designated at fair value through profit or loss	745,390	-	2,455,919	3,201,309
Hedging derivatives	-	229,923	-	229,923
	745,457	510,867	71,316,694	72,573,018

49. Post-employment benefits and other long-term benefits

The Group assumed the liability to pay to their employees' pensions on retirement or disability and other obligations, in accordance with the accounting policy described in note 1 S).

As at 30 June 2020 and 31 December 2019, the number of participants in the Pension Fund of Banco Comercial Português covered by this pension plan and other benefits is analysed as follows:

Number of participants	30 June 2020	31 December 2019
Pensioners	16,978	16,959
Former Attendees Acquired Rights	3,249	3,258
Employees	7,281	7,340
	27,508	27,557

In accordance with the accounting policy described in note 1 S), the Group's retirement pension liabilities and other benefits and the respective coverage, based on the Projected Unit Credit method are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Actual amount of the past services		
Pensioners	2,270,794	2,310,799
Former attendees acquired rights	214,717	224,004
Employees	905,371	955,538
	3,390,882	3,490,341
Pension fund value	(3,422,562)	(3,500,869)
Net (assets) / liabilities in balance sheet (note 31)	(31,680)	(10,528)
Accumulated actuarial losses and changing assumptions effect recognised in Other comprehensive income	3,555,358	3,574,864

In 2017, following the authorization of the Insurance and Pension Funds Supervisory Authority, the BCP group's pension fund agreement was amended. The main purpose of this process was to incorporate into the pension fund the changes made to the Group's Collective Labour Agreement (CLA) in terms of retirement benefits and to pass on to the pension fund the responsibilities that were directly in charge by the companies (extra-fund liabilities). The pension fund has a share exclusively related to the financing of these liabilities, which under the scope of the fund is called an Additional Complement, which as at 30 June 2020 amounts to Euros 278,646,000 (31 December 2019: Euros 289,733,000). The End of Career Premium also came to be borne by the pension fund under the basic pension plan.

The Bank established, in September 2019, an agreement with the trade unions regarding the review of salary tables and other pecuniary clauses for 2018 and 2019, with reference to 1 January 2018 and 1 January 2019, respectively. The agreement establishes the increase for 2018 by 0.75% to level 6 and 0.50% for levels 7 to 20 (similar increase for 2019) and the increase of other pecuniary clauses, such as the lunch allowance, diuturnities, among others.

Regarding from the update of salary tables, with reference to 2019 and 2018, the Group recorded an actuarial loss in the amount of Euros 53,705,000 in the pension fund's liabilities.

At the end of 2019, the Bank started a negotiation process with the Unions for the full revision of the Collective Bargaining Agreements, with work continuing to take place during the first months of 2020, until they were interrupted in March, in view of the constraints imposed by the pandemic. In June, negotiations with the Unions resumed, following the proposals received in the meantime from the Unions regarding the 2020 update of the Salary Tables and other clauses of pecuniary expression of the Collective Labor Agreements under negotiation, the Bank formally presented on 3 July 2020, a counter-proposal to the Unions to update them by 0.30%, in line with the variation recorded in 2019 in the Consumer Price Index, according to official information from the National Statistics Institute.

Following the negotiation meetings held in the meantime with the Unions, the Bank agreed, on 30 July 2020, with "SNQTB - Sindicato Nacional dos Quadros e Técnicos Bancários", "SIB - Sindicato Independente da Banca" and "SBN - Sindicato Bancários do Norte", meanwhile renamed to "SBN - Sindicato dos Trabalhadores do Sector Financeiro de Portugal", the updating of the Bank's Wage Tables and Contributions for SAMS in 2020 by 0.30%, and the increase in other clauses of monetary expression, such as subsidy lunch, seniority, among others. The agreed updates will take effect on 1 January 2020, with the exception of remunerations related to subsistence allowances and travel, which will be updated after the operationalization of the agreed updates.

With regard to the remaining unions subscribing to the Group's Collective Bargaining Agreements, that is, "SBSI - Sindicato Bancários Sul e Ilhas", meanwhile renamed to "Mais Sindicato do Sector Financeiro" and "SBC - Sindicato Bancários do Centro", the above-mentioned updates have not yet been agreed. , providing for the continuation of the negotiation process during the month of September, with the objective of the updates being applied to all Bank Employees in the salary processing of September 2020, regardless of their union affiliation. In September, negotiations will also be resumed with all the Unions subscribing to the Group's Collective Labor Agreements, for the conclusion of the full review of the respective Clause.

The change in the projected benefit obligations is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Balance as at 1 January	3,490,341	3,065,723
Service cost	(7,666)	(15,372)
Interest cost / (income)	24,022	57,755
Actuarial losses / (gains)		
Not related to changes in actuarial assumptions	15,795	99,969
Related to changes in assumptions	(81,459)	367,125
Payments	(57,013)	(111,339)
Early retirement programmes and terminations by mutual agreement	2,922	18,375
Contributions of employees	3,940	8,105
Balance at the end of the year	3,390,882	3,490,341

As at 30 June 2020, the amount of pensions paid by the Fund, including the Additional Complement, amounts to Euros 57,013,000 (31 December 2019: Euros 111,339,000).

The liabilities with health benefits are fully covered by the Pension Fund and correspond to Euros 319,382,000 as at 30 June 2020 (31 December 2019: Euros 327,573,000).

Additionally, regarding the coverage of some benefit obligations related to pensions, the Bank contracted with Ocidental Vida the acquisition of perpetual annuities for which the total liability as at 30 June 2020 amounts to Euros 52,112,000 (31 December 2019: Euros 58,039,000), in order to pay:

i) pensions of former Group's Board Members in accordance with the Bank's Board Members Retirement Regulation;
ii) pensions and complementary pension to pensioners in accordance with the Pension Fund of the BCP Group employees established in 28 December 1987, as also to pensioners, in accordance with other Pension Funds, that were incorporated after on the BCP Group Pension Fund and which were planed that the retirement benefits should be paid through the acquisition of insurance policies, in accordance with the Decree - Law no. 12/2006.

Ocidental Vida is 100% owned by Ageas Group and Ageas Group is 49% owned by the BCP Group.

Changes in the Collective Labour Agreement (CLA)

At the end of December 2016, a revision of the Collective Labour Agreement (CLA) was reached between the BCP Group and the Workers' Trade Unions, "Federação dos Sindicatos Independentes da Banca" and" Federação Nacional do Sector Financeiro". "Sindicato dos Bancários do Norte" ("SBN"), which was also involved in the negotiations of the new CLA only formalized the acceptance of the amendments to the CLA in April 2017 and, as such, the Bank only recognise the impact of changes from CLA to employees associates of SBN in 2017. The new CLA have already been published by the Ministry of Labour in Bulletin of Labour and Employment

The most relevant changes that occurred in the CLA and can be described as follows:

- Change in the retirement age (presumed disability) from 65 years to 66 years and 2 months in 2016. This age is not fixed and increases at the beginning of each calendar year one month. So, in 2020 the retirement age is 66 years and 6 months (66 years and 5 months in 2019). It was agreed that the retirement age in each year, fixed by the application of the above mentioned rule, cannot exceed in any case the normal retirement age in force in the General Social Security Regime. For the actuarial calculation, a progressive increase in retirement age was considered up to 67 years and 2 months.

- It was introduced a change into the formula for determining the employer's contribution to the SAMS, which is no longer a percentage of the Pensions (Euros 88 per beneficiary and Euros 37.93 in the case of pensioners). This amount will be updated by the salary table update rate. This change has no impact on participants and beneficiaries, both in terms of their contributions and in their benefits.

- A new benefit and retirement was introduced called End of Career Premium. At the retirement date the participant is entitled to a capital equal to 1.5 times the amount of the monthly remuneration earned at the retirement date. This benefit replaces the Seniority premium that was awarded during active life. This benefit, to be attributed at the retirement date or in the event of death, is a post-employment benefit by which it becomes part of retirement liabilities. This benefit is not included in the pension fund agreement in force at 2016 and as such was considered as Extra-Fund. The End of Career Premium also came to be borne by the pension fund under the basic pension plan.

During the first semester of 2020 and the financial year of 2019, the changes in the value of plan's assets is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Balance as at 1 January	3,500,869	3,078,430
Contributions to the Fund	-	290,000
Employees' contributions	3,940	8,105
Actuarial gains / (losses)	(46,158)	181,759
Payments	(57,013)	(111,339)
Expected return on plan assets	20,784	53,231
Amount transferred to the Fund resulting from acquired rights unassigned related to the Complementary Plan	140	683
Balance at the end of the year	3,422,562	3,500,869

The elements of the Pension Fund's assets are analysed as follows:

(Thousands of euros)

	30 June 2020			31 December 2019		
Asset class	Assets with market price in active market	Remaining	Total Portfolio	Assets with market price in active market	Remaining	Total Portfolio
Shares	345,141	105,095	450,236	303,434	111,902	415,336
Bonds and other fixed income securities	1,568,140	4,524	1,572,664	1,745,335	4,405	1,749,740
Participations units in investment funds	-	788,736	788,736	-	550,732	550,732
Participation units in real estate funds	-	262,401	262,401	-	266,222	266,222
Properties	-	245,392	245,392	-	245,392	245,392
Loans and advances to credit institutions and others	-	103,133	103,133	-	273,447	273,447
	1,913,281	1,509,281	3,422,562	2,048,769	1,452,100	3,500,869

The balance Shares includes an investment of 2.61% held in the Dutch unlisted insurance group "Achmea BV", whose valuation as at 30 June 2020 amounts to Euros 103,642,000 (31 December 2019: Euros 110,459,000). This valuation was determined by the Management Company based on the last independent valuation carried out by Achmea solicitation.

The balance Properties includes buildings owned by the Fund and used by the Group's companies which, as at 30 June 2020, amounts to Euros 245,392,000 (31 December 2019: Euros 245,392,000), standing out a set of properties called "Taguspark", whose book value amounts to Euros 243,750,000 (31 December 2019: Euros 243,750,000). This book value was calculated based on valuations performed by independent expert evaluators in 2017.

The securities issued by Group's companies accounted in the portfolio of the Fund are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Loans and advances to credit institutions and others	65,092	26,534
Bonds and other fixed income securities	12,202	12,278
	77,294	38,812

The evolution of net (assets) / liabilities in the balance sheet is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Balance as at 1 January	(10,528)	(12,707)
Recognised in the income statement:		
Service cost	(7,666)	(15,372)
Interest cost / (income) net of the balance liabilities coverage	3,238	4,524
Cost with early retirement programs	2,922	18,375
Amount transferred to the Fund resulting from acquired rights unassigned related to the Complementary Plan	(140)	(683)
	(1,646)	6,844
Recognised in the statement of comprehensive income:		
Actuarial (gains) / losses		
Not related to changes in actuarial assumptions		
Difference between the estimated and the actual income of the fund	46,158	(181,759)
Difference between expected and effective obligations	15,795	99,969
Arising from changes in actuarial assumptions	(81,459)	367,125
	(19,506)	285,335
Contributions to the fund	-	(290,000)
Balance at the end of the year	(31,680)	(10,528)

In accordance with IAS 19, during the first semester of 2020 and the financial year of 2019, the Group registered cost/(income) with post-employment benefits, which is analysed as follows:

(Thousands of euros)

	30 June 2020	30 June 2019
Current service cost	(7,666)	(7,619)
Net interest cost in the liability coverage balance	3,238	2,765
Cost with early retirement programs	2,922	5,656
Amount transferred to the Fund resulting from acquired rights unassigned related to the Complementary Plan	(140)	(664)
(Income) / Cost of the year	(1,646)	138

Within the framework of the three-party agreement between the Government, the Banking and the Trade Unions, the bank's employees in activity as at 31 December 2010 under the CAFEB / CLA regime were integrated into the General Social Security System (RGSS) with effect from 1 January 2011. The integration led to an effective decrease in the present value of the total benefits reported at the retirement age to be borne by the Pension Fund, and this effect is recorded on a straight-line basis over the average period of active life until the normal retirement age is reached. The calculation of the liability for pensions carried out periodically by the actuary considers this effect and is calculated considering the actuarial assumptions in force, ensuring that the liabilities calculated with reference to 31 December 2010, not considering the effect of the integration of bank employees into the General Social Security Scheme are fully covered and deducted from the amount of the effect recognised until the date. The component of this effect for the year is recognised under the heading "Current service costs".

Board of Directors Plan

As the Board of Directors Retirement Regulation establish that the pensions are subjected to an annual update, and as it is not common in the insurance market the acquisition of perpetual annuities including variable updates in pensions, the Bank determined, the liability to be recognised on the financial statements related to that update, taking into consideration current actuarial assumptions.

In accordance with the remuneration policy of the Board Members, the Group has the responsibility of supporting the cost with: i) the retirement pensions of former Group's Executive Board Members; and ii) the Complementary Plan for these members in accordance with the applicable rules funded through the Pension Fund, Extra-fund and perpetual annuities.

In order to cover liabilities with pensions to former members of the Executive Board of Directors, under the Bank's Board of Directors Retirement Regulation the Bank contracted with Ocidental Vida to purchase immediate life annuity insurance policies.

To cover the update of contracted responsibilities through perpetual annuities policies, based on the actuarial calculations, the Group recognised as at 30 June 2020 a provision of Euros 3,733,000 (31 December 2019: Euros 3,733,000).

Considering the market indicators, particularly the inflation rate estimates and the long term interest rate for Euro Zone, as well as the demographic characteristics of its employees, the Group considered the following actuarial assumptions for calculating the liabilities with pension obligations:

	30 June 2020	31 December 2019
Salary growth rate	0.75%	0.75%
Pensions growth rate	0.50%	0.50%
Discount rate / Projected Fund's rate of return	1.55%	1.4%
Mortality tables		
Men	TV 88/90	TV 88/90
Women (a)	TV 88/90-3 years	TV 88/90-3 years
Disability rate	Not applicable	Not applicable
Turnover rate	Not applicable	Not applicable
Normal retirement age (b)	66 years and 6 months	66 years and 5 months
Total salary growth rate for Social Security purposes	1.75%	1.75%
Revaluation rate of wages / pensions of Social Security	1%	1%

a) The mortality table considered for women corresponds to TV 88/90 adjusted in less than 3 years (which implies an increase in hope life expectancy compared to that which would be considered in relation to their effective age).

b) The retirement age is variable. In 2020, it is 66 years and 6 months (2019: 66 years and 5 months) and will increase by 1 month for each calendar year. This age cannot be higher than the normal retirement age in force in the General Social Security System (RGSS). The normal retirement age in RGSS is variable and depends on the evolution of the average life expectancy at 65 years. For the purposes of the actuarial calculation, it was assumed that the increase in life expectancy in future years will be one year in every 10 years. However, as a prudential factor it was used a maximum age of 67 years and 2 months.

The assumptions used on the calculation of the actuarial value of the liabilities are in accordance with the requirements of IAS 19. No disability decreases are considered in the calculation of the liabilities.

As defined by IAS 19, the discount rate used to update the responsibilities of the Bank's pension fund was determined based on an analysis performed over the market yield regarding a bond issues universe – with high quality (low risk), different maturities (appropriate to the period of liquidation of the fund's liabilities) and denominated in Euros - related to a diverse and representative range of issuers. As at 30 June 2020, the Group used a discount rate of 1.55% (31 December 2019: 1.4%) to measure its liability for defined benefit pension plans of its employees and managers.

As at 30 June 2020 and 31 December 2019, the Actuarial losses are related to the difference between the actuarial assumptions used for the estimation of the liabilities and the values verified and the change in actuarial assumptions, are analysed as follows:

(Thousands of euros)

	Actuarial (gains) / losses			
	30 June 2020		31 December 2019	
	Values effectively verified in %	Amount of deviations	Values effectively verified in %	Amount of deviations
Deviation between expected and actual liabilities		15,795		99,969
Changes on the assumptions:				
Discount rate		(81,459)		367,125
Deviation between expected income and income from funds	-0.19%	46,158	8.13%	(181,759)
		(19,506)		285,335

In accordance with IAS 19, the sensitivity analysis to changes in assumptions, is as follows:

(Thousands of euros)

	Impact resulting from changes in financial assumptions			
	30 June 2020		31 December 2019	
	-0.25%	0.25%	-0.25%	0.25%
Discount rate	135,324	(127,446)	146,426	(137,734)
Pension's increase rate	(141,753)	149,387	(154,939)	164,454
Salary growth rate	(36,696)	39,415	(36,297)	45,536

(Thousands of euros)

	Impact resulting from changes in demographic assumptions			
	30 June 2020		31 December 2019	
	- 1 year	+ 1 year	- 1 year	+ 1 year
Changes in mortality table (*)	120,587	(120,149)	125,716	(125,224)

(*) The impact of the 1 year reduction in the mortality table implies an increase in the average life expectancy

Defined contribution plan

According to what is described in accounting policy 1 S3), in the scope of the Defined Contribution Plan provided for the BCP Pension Fund of the BCP Group, no contributions were made in during 2019 and 2018, for employees who have been admitted until 1 July 2009, because the following requirements have not been met, cumulatively: (i) the previous year BCP's ROE equals or exceeds the rate of government bonds of 10 years plus 5 percentage points, and (ii) distributable profits or reserves exist in the accounts of Banco Comercial Português.

For employees who have been admitted after 1 July 2009, are made monthly contributions equal to 1.5% of the monthly remuneration received by employees in the current month, either by themselves or by the Group and employees. This contribution has a mandatory character and is defined in the Collective Labour Agreement of the BCP Group and does not have a performance criterion. The Group accounted as staff costs in the first semester of 2020 the amount of Euros 113,000 (30 June 2019: Euros 81,000) related to this contribution.

50. Related parties

As defined by IAS 24, are considered related parties of the Group, the companies detailed in note 58 - List of subsidiary and associated companies of Banco Comercial Português Group, the Pension Fund, the members of the Board of Directors and key management members. The key management members are the first line Directors. Beyond the members of the Board of Directors and key management members, are also considered related parties people who are close to them (family relationships) and entities controlled by them or in whose management they have significant influence.

As the transactions with subsidiaries are eliminated in consolidation, these are not included in the notes to the Group's consolidated financial statements.

According to Portuguese law, namely under Article no. 109 of the General Law for Credit Institutions and Financial Companies, are also considered related parties, the qualified shareholders of Banco Comercial Português, S.A. and the entities controlled by them or with which they are in a group relationship. The list of the qualified shareholders is detailed in note 40.

A) Balances and transactions with qualified shareholders

The balances reflected in assets of consolidated balance sheet with qualified shareholders, are analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Assets		
Financial assets at amortised cost		
Loans and advances to customers	72,836	99,564
Debt instruments	137,673	159,160
Financial assets at fair value through profit or loss		
Financial assets held for trading	5,166	5,525
Financial assets at fair value through other comprehensive income	122,044	108,361
Others	52	53
	337,771	372,663
Liabilities		
Resources from customers	97,310	121,570
	97,310	121,570

Loans and advances to customers are net of impairment in the amount of Euros 431,000 (31 December 2019: Euro 210,000).

During the first semester of 2020 and 2019, the transactions with qualified shareholders, reflected in the consolidated income statement items, are as follows:

(Thousands of euros)

	30 June 2020	30 June 2019
Income		
Interest and similar income	6,196	5,789
Commissions	2,550	2,927
	8,746	8,716
Costs		
Interest and similar expenses	2	-
Commissions	41	43
	43	43

The balances with qualified shareholders, reflected in the guarantees granted and revocable and irrevocable credit lines, are as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Guarantees granted	99,016	99,792
Revocable credit lines	61,813	49,750
Irrevocable credit lines	151,300	150,000
	312,129	299,542

B) Balances and transactions with members of the Board of Directors and key management members

The balances with related parties discriminated in the following table, included in asset items on the consolidated balance sheet, are analysed as follows:

(Thousands of euros)

	Loans and advances to customers	
	30 June 2020	31 December 2019
Board of Directors		
Non-executive directors	1	2
Executive Committee	95	107
Closely related people	272	277
Key management members		
Key management members	5,310	6,066
Closely related people	894	933
Controlled entities	7	12
	6,579	7,397

The balances with related parties discriminated in the following table, included in liabilities items in the consolidated balance sheet, are analysed as follows:

(Thousands of euros)

	Resources from customers	
	30 June 2020	31 December 2019
Board of Directors		
Non-executive directors	9,417	7,892
Executive Committee	1,212	631
Closely related people	846	419
Controlled entities	23	30
Key management members		
Key management members	7,210	8,744
Closely related people	2,083	3,272
Controlled entities	1,968	1,801
	22,759	22,789

During the first semester of 2020 and 2019, the transactions with related parties discriminated in the following table, included in income for items of the consolidated income statement, are as follows:

(Thousands of euros)

	Interest and similar income		Commissions' income	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Board of Directors				
Non-executive directors	-	-	9	11
Executive Committee	-	-	4	6
Closely related people	-	-	2	2
Key management members				
Key management members	11	22	19	19
Closely related people	5	5	17	17
Controlled entities	-	-	4	4
	16	27	55	59

During the first semester of 2020 and 2019, the transactions with related parties discriminated in the following table, included in cost items of the consolidated income statement, are as follows:

(Thousands of euros)

	Interest and similar expense		Commissions' expense	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Board of Directors				
Non-executive directors	68	83	-	-
Key management members				
Key management members	5	10	-	1
Closely related people	-	1	-	-
Controlled entities	-	-	1	1
	73	94	1	2

The revocable and irrevocable credit lines granted by the Group to the following related parties are as follows:

(Thousands of euros)

	Revocable credit lines	
	30 June 2020	31 December 2019
Board of Directors		
Non-executive directors	39	39
Executive Committee	141	157
Closely related people	34	37
Key management members		
Key management members	640	748
Closely related people	201	176
Controlled entities	20	20
	1,075	1,177

The fixed remunerations and social charges paid to members of the Board of Directors and Key management members are analysed as follows:

(Thousands of euros)

	Board of Directors					
	Executive Committee		Non-executive directors		Key management members	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Fixed remuneration	1,528	1,528	952	958	3,386	3,718
Variable remuneration	-	-	-	-	821	-
Supplementary retirement pension	305	305	69	15	5	-
Post-employment benefits	2	1	-	-	(57)	(57)
Other mandatory social security charges	367	654	227	226	841	811
	2,202	2,488	1,248	1,199	4,996	4,472

Considering that the remuneration of members of the Executive Committee intends to compensate the functions that are performed in the Bank and in all other functions on subsidiaries or governing bodies for which they have been designated by indication of the Bank or representing it, in the latter case, the net amount of the remunerations annually received by each member will be deducted from the fixed annual remuneration attributed by the Bank.

During the first semester of 2020, the amount of remunerations paid to the Executive Committee includes Euros 5,000 (30 June 2019: Euros 36,000), as well as to the Non-executive directors includes Euros 2,000 (30 June 2019: Euros 12,000) which were supported by subsidiaries or companies whose governing bodies represent the Group's interests.

During the first semester of 2020 and 2019, no variable remuneration was attributed to the members of the Executive Committee.

During de first semester of 2020 the amount of remunerations and social charges paid to Key management members are analysed as follows:

(Milhares de euros)

	Key management members				
	Retail	Corporate	Private Banking	Others	**Total**
Fixed remuneration	429	868	225	1,864	3,386
Variable remuneration	115	157	31	517	820
Supplementary retirement pension	-	3	-	2	5
Post-employment benefits	(20)	11	7	(54)	(56)
Other mandatory social security charges	106	-	-	-	106
	630	1,039	263	2,329	4,261
Number of beneficiaries	6	10	2	29	47

As described in accounting policies 1 S4) and 1 S5), in 2019 in accordance with the remuneration policies for employees considered key management members, approved for the year 2018 and following, it was assigned a variable remuneration deferred over a 3-year period in the amount of Euros 542,000. During 2018 no variable remuneration was paid to key management members.

During the first semester of 2020, variable remunerations paid to key management members incorporates shares in the amount of Euros 139,000. It was also assigned to the Key management members a variable remuneration deferred over a 5-years period in the amount of Euros 387,000.

During the first semester of 2020, no severence payments were provided to key management members. During the first semester of 2019 were provided severance payments to two key management members in the amount of Euros 420,000.

The shareholder and bondholder position of members of the Board of Directors, Key management members and people closely related to the previous categories, as well as the movements occurred during the first semester of 2020, are as follows:

Shareholders/Bondholders	Security	Number of securities at 30/06/2020	Number of securities at 31/12/2019	Acquisitions	Disposals	Date	Unit Price Euros
MEMBERS OF BOARD OF DIRECTORS							
Ana Paula Alcobia Gray	BCP Shares	0	0				
Cidália Maria Mota Lopes (1)	BCP Shares	2,184	2,184				
Fernando da Costa Lima	BCP Shares	18,986	18,986				
João Nuno Oliveira Jorge Palma	BCP Shares	268,687	231,676	37,011 *		25-Jun-20	0.115
Jorge Manuel Baptista Magalhães Correia	BCP Shares	88,500	88,500				
	Bonds (a)	1	1				
José Manuel Elias da Costa	BCP Shares	0	0				
José Miguel Bensliman Schorcht da Silva Pessanha	BCP Shares	207,863	175,707	32,156 *		25-Jun-20	0.115
Lingjiang Xu	BCP Shares	0	0				
Maria José Henriques Barreto de Matos de Campos (2)	BCP Shares	221,325	****169,450	51,875 **		25-Jun-20	0.115
Miguel de Campos Pereira de Bragança	BCP Shares	602,626	564,949	37,677 *		25-Jun-20	0.115
Miguel Maya Dias Pinheiro	BCP Shares	621,467	581,117	40,350 *		25-Jun-20	0.115
Nuno Manuel da Silva Amado	BCP Shares	1,525,388	1,025,388	500,000		9-Mar-20	0.132
	Bonds (a)	2	2				
Rui Manuel da Silva Teixeira (3)	BCP Shares	244,199	212,043	32,156 *		25-Jun-20	0.115
Teófilo César Ferreira da Fonseca	BCP Shares	10,000	10,000				
Valter Rui Dias de Barros	BCP Shares	0	0				
Wan Sin Long	BCP Shares	0	0				
Xiao Xu Gu	BCP Shares	0	0				
KEY MANAGEMENT MEMBERS							
Albino António Carneiro de Andrade	BCP Shares	64,824		10,000		12/mar/20	0.115
			5,000	49,824		25-Jun-20	0.115
Alexandre Manuel Casimiro de Almeida	BCP Shares	31,878	0	31,878		25/jun/20	0.115
Américo João Pinto Carola (5)	BCP Shares	25,459	503	24,956		25/jun/20	0.115
Ana Isabel dos Santos de Pina Cabral (6)	BCP Shares	70,507	39,040	31,467		25/jun/20	0.115
Ana Maria Jordão F. Torres Marques Tavares (7)	BCP Shares	134,652	82,635	52,017		25/jun/20	0.115
André Cardoso Meneses Navarro	BCP Shares	290,091	267,888	22,203		25-Jun-20	0.115
António Augusto Amaral de Medeiros	BCP Shares	55,139	0	55,139		25/jun/20	0.115
António José Lindeiro Cordeiro	BCP Shares	16,314	0	16,314		25/jun/20	0.115
António Luís Duarte Bandeira (8)	BCP Shares	210,905		37,000		10/mar/20	0.130
			**** 115,976	57,929		25/jun/20	0.115
Artur Frederico Silva Luna Pais	BCP Shares	365,663	328,795	36,868		25/jun/20	0.115
Belmira Abreu Cabral	BCP Shares	37,841	0	37,841		25/jun/20	0.115
Bernardo Roquette de Aragão de Portugal Collaço	BCP Shares	15,015	0	15,015		25/jun/20	0.115
Filipe Maria de Sousa Ferreira Abecasis	BCP Shares	57,309	0	57,309		25/jun/20	0.115
Francisco António Caspa Monteiro (9)	BCP Shares	87,283	29,354	57,929		25/jun/20	0.115
Gonçalo Nuno Belo de Almeida Pascoal	BCP Shares	53,591	48	53,543		25/jun/20	0.115
Hugo Miguel Martins Resende	BCP Shares	65,527	11,984	53,543		25/jun/20	0.115
João Manuel Taveira Pinto Santos Paiva	BCP Shares	58,429	500	57,929		25/jun/20	0.115
Jorge Filipe Nogueira Freire Cortes Martins	BCP Shares	47,495	1,600	45,895		25/jun/20	0.115
Jorge Manuel Machado de Sousa Góis	BCP Shares	39,316	0	39,316		25/jun/20	0.115
Jorge Manuel Nobre Carreteiro	BCP Shares	24,169	9,468	14,701		25/jun/20	0.115
José Carlos Benito Garcia de Oliveira	BCP Shares	30,321	0	30,321		25/jun/20	0.115
José Gonçalo Prior Regalado (11)	BCP Shares	42,438	0	42,438		25/jun/20	0.115

The notes stated in the table above for the categories "Members of Board of Directors" and "Key management members" identify the people who they are related to in the category "People closely related to the previous categories".
(a) - Tejo Project - Fixed Rate Reset Perpetual Temporary Write Down Additional Tier 1 Capital Notes

Shareholders/Bondholders	Security	Number of securities at 30/06/2020	Number of securities at 31/12/2019	Acquisitions	Disposals	Date	Unit Price Euros
José Guilherme Potier Raposo Pulido Valente	BCP Shares	186,063	138,719	47,344		25/jun/20	0.115
Luis Miguel Manso Correia dos Santos	BCP Shares	82,903	21,328	61,575		25/jun/20	0.115
Maria Helena Soledade Nunes Henriques	BCP Shares	188,015	170,974	17,041		25/jun/20	0.115
Maria Manuela de Araújo Mesquita Reis (10)	BCP Shares	132,646	106,656	25,990		25/jun/20	0.115
Maria Rita Sítima Fonseca Lourenço	BCP Shares	79,222	42,385	36,837		25/jun/20	0.115
Mário António Pinho Gaspar Neves	BCP Shares	56,522	30,000	26,522		25/jun/20	0.115
Mário Madeira Robalo Fernandes	BCP Shares	43,702	0	43,702		25/jun/20	0.115
Nelson Luís Vieira Teixeira	BCP Shares	32840	285	32,555		25/jun/20	0.115
Nuno Alexandre Ferreira Pereira Alves	BCP Shares	59,982	10,755	49,227		25/jun/20	0.115
Nuno Miguel Nobre Botelho	BCP Shares	33,366	0	33,366		25/jun/20	0.115
Pedro José Mora de Paiva Beija	BCP Shares	57,929	0	57,929		25/jun/20	0.115
Pedro Manuel Francisco da Silva Dias (4)	BCP Shares	27,583	0	27,583		25/jun/20	0.115
Pedro Manuel Macedo Vilas Boas	BCP Shares	43,702	0	43,702		25/jun/20	0.115
Pedro Manuel Rendas Duarte Turras	BCP Shares	41,596	14,816	26,780		25/jun/20	0.115
Pedro Trigo de Morais de Albuquerque Reis	BCP Shares	37,108	0	37,108		25/jun/20	0.115
Ricardo Potes Valadares	BCP Shares	32,102	10,613	21,489		25/jun/20	0.115
Rosa Maria Ferreira Vaz Santa Bárbara	BCP Shares	41,168	8,204	32,964		25/jun/20	0.115
Rui Emanuel Agapito Silva	BCP Shares	33,078	0	33,078		25/jun/20	0.115
Rui Fernando da Silva Teixeira	BCP Shares	113,674	91,297	22,377		25/jun/20	0.115
Rui Manuel Pereira Pedro	BCP Shares	203,538	149,328	54,210		25/jun/20	0.115
Rui Miguel Alves Costa	BCP Shares	194,493	162,881	31,612		25/jun/20	0.115
Rui Nelson Moreira de Carvalho Maximino	BCP Shares	32,151	0	32,151		25/jun/20	0.115
Rui Pedro da Conceição Coimbra Fernandes	BCP Shares	39,316	0	39,316		25/jun/20	0.115
Vânia Alexandra Machado Marques Correia	BCP Shares	39,316	0	39,316		25/jun/20	0.115
PEOPLE CLOSELY RELATED TO THE PREVIOUS CATEGORIES							
Alexandre Miguel Martins Ventura (1)	BCP Shares	2,184	2,184				
Álvaro Manuel Coreia Marques Tavares (7)	BCP Shares	25,118	25,118				
Américo Simões Regalado (11)	BCP Shares	880	880				
Ana Isabel Salgueiro Antunes (5)	BCP Shares	29	29				
Ana Margarida Rebelo A.M. Soares Bandeira (8)	BCP Shares	115,976	210,905 ****				
António da Silva Bandeira (8)	BCP Shares	20,000	20,000				
Filomena Maria Brito Francisco Dias (4)	BCP Shares	4,290	4,290				
Francisco Jordão Torres Marques Tavares (7)	BCP Shares	1,016	1,016				
José Francisco Conceição Monteiro (9)	BCP Shares	18,002	18,002				
José Manuel de Vasconcelos Mendes Ferreira (6)	BCP Shares	1,616	1,616				
Luís Filipe da Silva Reis (10)	BCP Shares	280,000	280,000				
Maria Avelina V C L J Teixeira Diniz (7)	BCP Shares	16,770	16,770				
Maria Helena Espassandim Catão (3)	BCP Shares	576	576				
Ricardo Gil Monteiro Lopes de Campos (2) ***	BCP Shares	221,325	169,450 ****				
Ricardo Miranda Monteiro (9)	BCP Shares	1,639	1,639				
Rita Miranda Monteiro (9)	BCP Shares	1,639	1,639				

The notes stated in the table above for the categories "Members of Board of Directors" and "Key management members" identify the people who they are related to in the category "People closely related to the previous categories".
(*) identifies the increment of shares during the first semester of 2020 corresponding to variable remuneration of 2018.
(**) identifies the increment of shares during the first semester of 2020 corresponding to variable remuneration of 2019 and 2018.
(***) person in the category "People closely related to the previous categories" is equally a "Key management member".
(****) position held in which the primary account holder is part of "People closely related to the previous categories" or "Key management member".

C) Balances and transactions with associated companies

The balances with associated companies included in the consolidated balance sheet items, except for investments in associated companies, are as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Assets		
Loans and advances to credit institutions repayable on demand	6	597
Financial assets at amortised cost		
Loans and advances to credit institutions	198,625	250,621
Loans and advances to customers	81,023	68,062
Debt instruments	-	-
Financial assets at fair value through profit or loss		
Financial assets held for trading	49,611	101,391
Other assets	13,014	13,997
	342,279	434,668
Liabilities		
Financial liabilities at amortised cost		
Resources from credit institutions	14,116	120,999
Resources from customers	472,210	617,256
Non subordinated debt securities issued	45,170	45,622
Subordinated debt	238,060	355,297
Financial liabilities held for trading	136,565	18,448
Financial liabilities designated at fair value through profit or loss	-	31,070
Other liabilities	(2)	22
	906,119	1,188,714

As at 30 June 2020, the associated company Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. holds 142,601,002 BCP shares (31 December 2019: 142,601,002 shares) in the amount of Euros 15,258,000 (31 December 2019: Euros 28,891,000).

During the first semester of 2020 and 2019, the transactions with associated companies included in the consolidated income statement items, are as follows:

(Thousands of euros)

	30 June 2020	30 June 2019
Income		
Interest and similar income	3,918	7,330
Commissions	29,519	26,394
Other operating income	582	609
	34,019	34,333
Costs		
Interest and similar expenses	12,300	22,015
Commissions	11	7
Other operating losses	172	448
Other administrative costs	121	277
Losses from financial operations	-	2,807
	12,604	25,554

The guarantees granted and revocable credit lines by the Group over associated companies, are as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Guarantees granted	7,991	7,982
Revocable credit lines	326,112	3,951
Irrevocable credit lines	600	600
Other revocable commitments	4,907	4,907
	339,610	17,439

Under the scope of the Group's insurance mediation activities, the remunerations from services rendering are analysed as follows:

(Thousands of euros)

	30 June 2020	30 June 2019
Life insurance		
Saving products	17,519	16,952
Mortgage and consumer loans	8,944	9,655
Others	15	12
	26,478	26,619
Non-Life insurance		
Accidents and health	9,560	9,352
Motor	1,967	1,960
Multi-Risk Housing	3,373	3,273
Others	673	639
	15,572	15,224
	42,050	41,843

The remuneration for insurance intermediation services were received through bank transfers and resulted from insurance intermediation with the subsidiaries of Millenniumbcp Ageas Group (Ocidental - Companhia Portuguesa de Seguros de Vida, S.A. and Ocidental - Sociedade Gestora de Fundos de Pensões, S.A.) and with Ocidental - Companhia Portuguesa de Seguros, SA. The Group does not collect insurance premiums on behalf of Insurance Companies nor performs any movement of funds related to insurance contracts. Thus, there is no other asset, liability, income or expense to be reported related to the activity of insurance mediation exercised by the Group, other than those already disclosed.

The receivable balances from insurance intermediation activity, by nature, are analysed as follows:

(Thousands of euros)

	30 June 2020	30 June 2019
Funds receivable for payment of life insurance commissions	12,813	13,686
Funds receivable for payment of non-life insurance commissions	7,356	7,394
	20,169	21,080

The commissions received result from the insurance mediation contracts and investment contracts, under the terms established in the contracts. The mediation commissions are calculated given the nature of the contracts subject to mediation, as follows:
- insurance contracts – use of fixed rates on gross premiums issued;
- investment contracts – use of fixed rates on the responsibilities assumed by the insurance company under the commercialization of these products.

D) Transactions with the Pension Fund

The balances with the Pension Fund included in items of the consolidated balance sheet are as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Liabilities		
Resources from customers	66,395	31,391
Financial liabilities measured at amortised cost		
Non subordinated debt securities issued	14,337	14,426
	80,732	45,817

In the first semester of 2020 and during 2019, there were no transactions related to other financial instruments between the Group and the Pension Fund.

During the first semester of 2020 and 2019, income and expenses with the Pension Fund included in the items of the consolidated income statement are as follows:

(Thousands of euros)

	30 June 2020	30 June 2019
Income		
Commissions	871	363
Expenses		
Interest expense and similar charges	233	56
Other administrative costs	7,135	7,137
	7,368	7,193

The balance Other administrative costs corresponds to the amount of rents incurred under the scope of the Pension Fund's properties which the tenant is the Group.

As at 30 June 2020, the amount of Guarantees granted by the Group to the Pension Fund amounted to Euros 5,000 (31 December 2019: Euros 5,000).

51. Consolidated Balance sheet and Income statement by geographic and operational segments

The segments presented are in accordance with IFRS 8. In accordance with the Group's management model, the segments presented correspond to the segments used for management purposes by the Executive Committee. The Group offers a wide range of banking activities and financial services in Portugal and abroad, with a special focus on Commercial Banking, Companies Banking and Private Banking.

Segments description

A. Geographical Segments

The Group operates in the Portuguese market, and also in a few affinity markets with recognised growth potential. Considering this, the geographical segments are structured in Portugal and Foreign Business (Poland, Mozambique and Other). Portugal segment reflects, essentially, the activities carried out by Banco Comercial Português in Portugal and ActivoBank.

Portugal activity includes the following segments: i) Retail Banking; ii) Companies, Corporate & Investment Banking; iii) Private Banking and iv) Other.

Retail Banking includes the following business areas:

- Retail network, which ensures the monitoring of individual customers, entrepreneurs, merchants and small and medium enterprises with a turnover less than Euros 2.5 million. The Retail network strategic approach is to target "Mass Market" customers, who appreciate a value proposal based on innovation and speed, as well as Prestige and Small Business customers, whose specific characteristics, financial assets or income imply a value proposal based on innovation and personalisation, requiring a dedicated Account Manager;
- Retail Recovery Division that accompanies and manages the responsibilities of customers or economic groups in effective default, as well as customers with bankruptcy requirement or other similar mechanisms, looking through the conclusion of agreements or payment restructuring processes that minimizes the economic loss to the Bank; and
- ActivoBank, a bank focused on clients who are young, intensive users of new communication technologies and who prefer a banking relationship based on simplicity, offering modern products and services.

Companies, Corporate and Investment Banking segment includes:

- Companies and Corporate network, which monitors clients included in the corporate segment, economic groups and institutional entities, with a turnover higher than Euros 2.5 million, offering a wide range of traditional banking products complemented by specialised financing;
- Large Corporate network that assures the relationship and the monitoring of a set of Groups / Clients, which in addition to Portugal, develop their activity in several geographies (Poland, Angola, Mozambique and East), providing a complete range of value-added products and services;
- Specialised Monitoring Division which carries out the monitorisation of business groups that have high and complex credit exposures or that show relevant signs of impairment;
- Investment Banking unit, that ensures the offer of products and specific services, in particular financial advice, including corporate finance services, capital market transactions and analysis and financing structuring in the medium to long term;
- Trade Finance Department (from Treasury and Markets International Division), which coordinates the business with banks and financial institutions, boosting international business with the commercial networks of the Bank and institutional custody services for securities;
- Specialised Recovery Division which ensures efficient tracking of customers with predictable or effective high risk of credit, from Companies, Corporate, Large Corporate and retail networks (exposure exceeding Euros 1 million);
- Interfundos with the activity of management of real estate investment funds.

The Private Banking segment, for the purposes of geographical segments, comprises the Private Banking network in Portugal and the provision of advisory services and the asset management activity provided by the Wealth Management Division. For the purposes of business segments also includes Banque Privée BCP in Switzerland and Millennium bcp Bank & Trust in Cayman Islands that are considered Foreign Business on geographical segmentation.

All other businesses not previously discriminated are allocated to the Other segment (Portugal) and include centralized management of financial investments, corporate activities and operations not integrated in the remaining business segments and other amounts not allocated to segments.

Foreign Business includes the following segments:
- Poland, where the Group is represented by Bank Millennium, a universal bank offering a wide range of financial products and services to individuals and companies nationwide;
- Mozambique, where the Group is represented by BIM – Banco Internacional de Moçambique, a universal bank targeting companies and individual customers; and
- Other, which includes other countries activity such as Switzerland where the Group is represented by Banque Privée BCP, a Private Banking platform under Swiss law and Cayman Islands by Millennium bcp Bank & Trust, a bank designed for international services in the area of Private Banking to customers with high financial assets (Affluent segment). The Other segment also includes the contribution of the associate in Angola.

B. Business Segments

For the purposes of business segments reporting, Foreign Business segment comprises the Group's operations developed in other countries already mentioned excluding the activity of Banque Privée BCP in Switzerland and Millennium bcp Bank & Trust in the Cayman Islands which, in this context, are considered in Private Banking segment.

Business segments activity

The figures reported for each segment resulted from aggregating the subsidiaries and business units integrated in each segment. For the business units in Portugal, the aggregation process reflects the impact from capital allocation and balancing process in the balance sheet and income statement, based on average figures. The balance sheet headings for each business unit and Portuguese subsidiaries were re-calculated, considering the replacement of the equity book values by the amounts assigned through the allocation process, based on the regulatory solvency criteria.

Considering that the process of capital allocation complies with the regulatory criteria of solvency in force, as at 30 June 2020, 31 December 2019 and 30 June 2019 the risk weighted assets, and consequently the capital allocated to the business segments, are determined in accordance with the Basel III framework, pursuant to the CRD IV/CRR. The capital allocated to each segment resulted from the application of a target capital ratio to the risks managed by each segment, reflecting the application of the Basel III methodology previously referred. Each operation is balanced through internal transfers of funds, with impact on the net interest income and income taxes of each segment, hence with no impact on consolidated accounts.

Commissions and other net income, as well as operating costs calculated for each business area, are based on the amounts accounted for directly in the respective cost centres, on the one hand, and the amounts resulting from internal processes for allocating revenues and costs, for another. In this case, the allocation is based on the application of pre-defined criteria related to the level of activity of each business area.

The following information has been prepared based on the individual and consolidated financial statements of the Group prepared in accordance with international financial reporting standards (IFRS), as adopted by the European Union (EU), at the reference date and with the Organization of the Group's business areas in force on 30 June 2020. Information relating to prior periods is restated whenever it occurs changes in the internal organization of the entity susceptible to change the composition of the reportable segments (business and geographical).

The information in the financial statements of reportable segments is reconciled, at the level of the total revenue of those same segments, with the revenue from the demonstration of the consolidated financial position of the reportable entity for each date on which is lodged a statement of financial position.

As at 30 June 2020, the net contribution of the major business segments, for the income statement and balance sheet, is analysed as follows:

(Thousands of Euros)

	Commercial banking			Companies, Corporate and Investment banking in Portugal	Private banking	Other	Consolidated
	Retail in Portugal	Foreign business (1)	Total				
INCOME STATEMENT							
Interest and similar income	273,590	506,119	779,709	152,828	17,072	11,597	961,206
Interest expense and similar charges	(10,088)	(130,297)	(140,385)	(35,270)	(2,764)	(23,711)	(202,130)
Net interest income	263,502	375,822	639,324	117,558	14,308	(12,114)	759,076
Commissions and other income	201,601	145,434	347,035	82,356	30,441	5,876	465,708
Commissions and other costs	(20,714)	(99,042)	(119,756)	(12,202)	(4,330)	(94,657)	(230,945)
Net commissions and other income (2)	180,887	46,392	227,279	70,154	26,111	(88,781)	234,763
Net gains arising from trading activity (3)	12,192	34,680	46,872	177	2,171	(9,620)	39,600
Share of profit of associates under the equity method	-	2,452	2,452	-	-	40,445	42,897
Gains / (losses) arising from the sale of subsidiaries and other assets	8	1,230	1,238	-	-	(6,757)	(5,519)
Net operating revenue	456,589	460,576	917,165	187,889	42,590	(76,827)	1,070,817
Operating expenses	235,497	229,809	465,306	58,578	24,746	13,165	561,795
Impairment for credit and financial assets (4)	(37,060)	(79,655)	(116,715)	(156,562)	1,178	18,983	(253,116)
Other impairments and provisions (5)	(7)	(67,042)	(67,049)	(1)	-	(31,190)	(98,240)
Net income / (loss) before income tax	184,025	84,070	268,095	(27,252)	19,022	(102,199)	157,666
Income tax	(56,307)	(35,579)	(91,886)	9,117	(4,908)	28,801	(58,876)
Income / (loss) after income tax from continuing operations	127,718	48,491	176,209	(18,135)	14,114	(73,398)	98,790
Net income / (loss) for the year	127,718	48,491	176,209	(18,135)	14,114	(73,398)	98,790
Non-controlling interests (6)	-	(22,620)	(22,620)	-	1	(213)	(22,832)
Net income / (loss) for the year attributable to Bank's Shareholders	127,718	25,871	153,589	(18,135)	14,115	(73,611)	75,958

(1) Includes the contribution associated with the investments held in Angola, in Banco Millennium Atlântico.
(2) Includes net fees and commissions income, other operating income / (loss), net gains from insurance activity and dividends from equity instruments.
(3) Includes results from financial operations at fair value through profit or loss, results from foreign exchange, results from hedge accounting operations, results from derecognition of financial assets and financial liabilities measured at amortised cost and results from derecognition of financial assets measured at fair value through other comprehensive income.
(4) Includes impairment of financial assets at amortised cost, for loans and advances of credit institutions, for loans to customers (net of recoveries - principal and accrual) and for debt instruments related to credit operations. It also includes impairment of financial assets (at fair value through other comprehensive income and at amortised cost not associated with credit operations).
(5) Includes impaiment of non current assets held for sale, investments in associated companies, goodwill, other assets and provisions.
(6) Includes the non-controlling interests of BIM Group related to SIM – Seguradora Internacional de Moçambique, SARL.

(Thousands of Euros)

	Retail in Portugal	Foreign business	Total	Companies, Corporate and Investment banking in Portugal	Private banking	Other	Consolidated
BALANCE SHEET							
Cash and Loans and advances to credit institutions	10,350,843	1,042,801	11,393,644	1,317,668	2,897,923	(9,870,403)	5,738,832
Loans and advances to customers (1)	22,955,068	16,673,664	39,628,732	13,035,242	560,986	499,396	53,724,356
Financial assets (2)	720,987	6,887,401	7,608,388	-	5,181	12,712,973	20,326,542
Other assets	169,982	723,389	893,371	40,830	28,347	5,804,148	6,766,696
Total Assets	34,196,880	25,327,255	59,524,135	14,393,740	3,492,437	9,146,114	86,556,426
Resources from other credit institutions (3)	522,702	386,884	909,586	4,790,053	487	3,355,100	9,055,226
Resources from customers (4)	31,100,702	20,981,991	52,082,693	8,290,076	2,913,546	178,083	63,464,398
Debt securities issued (5)	1,285,101	172,592	1,457,693	1,291	87,048	1,228,190	2,774,222
Other financial liabilities (6)	-	545,332	545,332	-	115	1,571,580	2,117,027
Other liabilities (7)	45,124	672,170	717,294	63,620	16,338	898,617	1,695,869
Total Liabilities	32,953,629	22,758,969	55,712,598	13,145,040	3,017,534	7,231,570	79,106,742
Equity and non-controlling interests	1,243,251	2,568,286	3,811,537	1,248,700	474,903	1,914,544	7,449,684
Total Liabilities, Equity and Non-controlling interests	34,196,880	25,327,255	59,524,135	14,393,740	3,492,437	9,146,114	86,556,426
Number of employees	4,547	10,929	15,476	605	236	1,853	18,170
Public subsidies received	-	-	-	-	-	-	-

(1) Includes loans to customers at amortised cost net of impairment, debt instruments at amortised cost associated to credit operations net of impairment and balance sheet amount of loans to customers at fair value through profit or loss.
(2) Includes debt instruments at amortised cost not associated with credit operations (net of impairment), financial assets at fair value through profit or loss (excluding the ones related to loans to customers), financial assets at fair value through other comprehensive income, assets with repurchase agreement and hedging derivatives.
(3) Includes resources and other financing from central banks and resources from other credit institutions.
(4) Corresponds to deposits and other resources from customers (including resources from customers at amortised cost and customer deposits at fair value through profit or loss).
(5) Includes non subordinated debt securities at amortized cost and financial liabilities at fair value through profit or loss (debt securities and certificates).
(6) Includes financial liabilities held for trading, subordinated debt and hedging derivatives.
(7) Includes provisions, current and deferred tax liabilities and other liabilities.

As at 30 June 2019, the net contribution of the major business segments, for the income statement, is analysed as follows:

(Thousands of Euros)

	Commercial banking: Retail in Portugal	Commercial banking: Foreign business [1]	Commercial banking: Total	Companies, Corporate and Investment banking in Portugal	Private banking	Other	Consolidated
INCOME STATEMENT							
Interest and similar income	241,720	469,663	711,383	165,084	12,374	64,014	952,855
Interest expense and similar charges	(13,664)	(134,036)	(147,700)	(24,584)	(3,829)	(36,669)	(212,782)
Net interest income	228,056	335,627	563,683	140,500	8,545	27,345	740,073
Commissions and other income	207,602	137,871	345,473	81,313	28,204	5,786	460,776
Commissions and other costs	(20,272)	(83,673)	(103,945)	(13,132)	(3,505)	(97,480)	(218,062)
Net commissions and other income [2]	187,330	54,198	241,528	68,181	24,699	(91,694)	242,714
Net gains arising from trading activity [3]	14,109	39,923	54,032	251	2,543	38,711	95,537
Share of profit of associates under the equity method	-	6,322	6,322	-	-	14,869	21,191
Gains / (losses) arising from the sale of subsidiaries and other assets	-	4,896	4,896	-	-	19,810	24,706
Net operating revenue	429,495	440,966	870,461	208,932	35,787	9,041	1,124,221
Operating expenses	236,043	199,703	435,746	67,064	22,953	22,418	548,181
Impairment for credit and financial assets [4]	(5,433)	(60,008)	(65,441)	(137,451)	1,434	1,293	(200,165)
Other impairments and provisions [5]	3	(1,692)	(1,689)	1	-	(41,271)	(42,959)
Net income / (loss) before income tax	188,022	179,563	367,585	4,418	14,268	(53,355)	332,916
Income tax	(58,300)	(45,426)	(103,726)	(990)	(3,702)	(12,670)	(121,088)
Income / (loss) after income tax from continuing operations	129,722	134,137	263,859	3,428	10,566	(66,025)	211,828
Income arising from discontinued operations	-	-	-	-	-	13,413	13,413
Net income / (loss) for the year	129,722	134,137	263,859	3,428	10,566	(52,612)	225,241
Non-controlling interests	-	(55,813)	(55,813)	-	-	351	(55,462)
Net income / (loss) for the year attributable to Bank's Shareholders	129,722	78,324	208,046	3,428	10,566	(52,261)	169,779

(1) Includes the contribution associated with the investments held in Angola, in Banco Millennium Atlântico.
(2) Includes net fees and commissions income, other operating income / (loss), net gains from insurance activity and dividends from equity instruments.
(3) Includes results from financial operations at fair value through profit or loss, results from foreign exchange, results from hedge accounting operations, results from derecognition of financial assets and financial liabilities measured at amortised cost and results from derecognition of financial assets measured at fair value through other comprehensive income.
(4) Includes impairment of financial assets at amortised cost, for loans and advances of credit institutions, for loans to customers (net of recoveries - principal and accrual) and for debt instruments related to credit operations. It also includes impairment of financial assets (at fair value through other comprehensive income and at amortised cost not associated with credit operations).
(5) Includes impairment of non current assets held for sale, investments in associated companies, goodwill, other assets and provisions.

As at 31 December 2019, the net contribution of the major operational segments, for the balance sheet, is analysed as follows:

(Thousands of Euros)

	Commercial banking: Retail in Portugal	Commercial banking: Foreign business [1]	Commercial banking: Total	Companies, Corporate and Investment banking in Portugal	Private banking	Other	Consolidated
BALANCE SHEET							
Cash and Loans and advances to credit institutions	9,488,042	1,425,056	10,913,098	1,678,262	2,706,079	(8,917,036)	6,380,403
Loans and advances to customers [1]	22,028,660	17,065,043	39,093,703	11,971,158	645,486	564,358	52,274,705
Financial assets [2]	384,926	6,220,579	6,605,505	-	5,389	9,725,291	16,336,185
Other assets	197,446	778,715	976,161	49,208	25,060	5,601,686	6,652,115
Total Assets	32,099,074	25,489,393	57,588,467	13,698,628	3,382,014	6,974,299	81,643,408
Resources from other credit institutions [3]	616,186	443,268	1,059,454	4,413,047	512	893,945	6,366,958
Resources from customers [4]	28,855,517	20,842,418	49,697,935	7,882,707	2,793,225	473,273	60,847,140
Debt securities issued [5]	1,399,948	278,290	1,678,238	1,797	94,973	1,300,890	3,075,898
Other financial liabilities [6]	-	546,892	546,892	-	67	1,604,603	2,151,562
Other liabilities [7]	46,786	688,540	735,326	67,409	18,811	999,050	1,820,596
Total Liabilities	30,918,437	22,799,408	53,717,845	12,364,960	2,907,588	5,271,761	74,262,154
Equity and non-controlling interests	1,180,637	2,689,985	3,870,622	1,333,668	474,426	1,702,538	7,381,254
Total Liabilities, Equity and Non-controlling interests	32,099,074	25,489,393	57,588,467	13,698,628	3,382,014	6,974,299	81,643,408
Number of employees [8]	4,635	11,295	15,930	597	230	1,828	18,585
Public subsidies received	-	-	-	-	-	-	-

(1) Includes loans to customers at amortised cost net of impairment, debt instruments at amortised cost associated to credit operations net of impairment and balance sheet amount of loans to customers at fair value through profit or loss.
(2) Includes debt instruments at amortised cost not associated with credit operations (net of impairment), financial assets at fair value through profit or loss (excluding the ones related to loans to customers), financial assets at fair value through other comprehensive income (net of impairment), assets with repurchase agreement and hedging derivatives.
(3) Includes resources and other financing from central banks and resources from other credit institutions.
(4) Corresponds to deposits and other resources from customers (including resources from customers at amortised cost and customer deposits at fair value through profit or loss).
(5) Includes non subordinated debt securities at amortized cost and financial liabilities at fair value through profit or loss (debt securities and certificates);
(6) Includes financial liabilities held for trading, subordinated debt and hedging derivatives.
(7) Includes provisions, current and deferred tax liabilities and other liabilities.
(8) Foreign Business segment considers 8,615 employees from Poland corresponding to 8,464 FTE - Full-time equivalent.

As at 30 June 2020, the net contribution of the major geographic segments, for the income statement and balance sheet, is analysed as follows:

(Thousands of Euros)

	Portugal								
	Retail banking	Companies, Corporate and Investment banking	Private banking	Other	Total	Poland	Mozambique	Other [1]	Consolidated
INCOME STATEMENT									
Interest and similar income	273,590	152,828	13,117	11,597	451,132	392,556	113,563	3,955	961,206
Interest expense and similar charges	(10,088)	(35,270)	(2,703)	(23,711)	(71,772)	(98,046)	(32,090)	(222)	(202,130)
Net interest income	263,502	117,558	10,414	(12,114)	379,360	294,510	81,473	3,733	759,076
Commissions and other income	201,601	82,356	13,618	5,876	303,451	116,688	28,746	16,823	465,708
Commissions and other costs	(20,714)	(12,202)	(887)	(94,657)	(128,460)	(91,005)	(8,036)	(3,444)	(230,945)
Net commissions and other income [2]	180,887	70,154	12,731	(88,781)	174,991	25,683	20,710	13,379	234,763
Net gains arising from trading activity [3]	12,192	177	371	(9,620)	3,120	28,412	6,267	1,801	39,600
Share of profit of associates under the equity method	-	-	-	40,445	40,445	-	-	2,452	42,897
Gains / (losses) arising from the sale of subsidiaries and other assets	8	-	-	(6,757)	(6,749)	1,144	86	-	(5,519)
Net operating revenue	456,589	187,889	23,516	(76,827)	591,167	349,749	108,536	21,365	1,070,817
Operating expenses	235,497	58,578	11,078	13,165	318,318	181,449	48,216	13,812	561,795
Impairment for credit and financial assets [4]	(37,060)	(156,562)	1,166	18,983	(173,473)	(72,464)	(7,191)	12	(253,116)
Other impairments and provisions [5]	(7)	(1)	-	(31,190)	(31,198)	(53,818)	(424)	(12,800)	(98,240)
Net income / (loss) before income tax	184,025	(27,252)	13,604	(102,199)	68,178	42,018	52,705	(5,235)	157,666
Income tax	(56,307)	9,117	(4,286)	28,801	(22,675)	(25,809)	(9,843)	(549)	(58,876)
Income / (loss) after income tax from continuing operations	127,718	(18,135)	9,318	(73,398)	45,503	16,209	42,862	(5,784)	98,790
Net income / (loss) for the year	127,718	(18,135)	9,318	(73,398)	45,503	16,209	42,862	(5,784)	98,790
Non-controlling interests [6]	-	-	-	(213)	(213)	(8,088)	(14,531)	-	(22,832)
Net income / (loss) for the year attributable to Bank's Shareholders	127,718	(18,135)	9,318	(73,611)	45,290	8,121	28,331	(5,784)	75,958

(1) Includes the contribution associated with the investments held in Angola, in Banco Millennium Atlântico.
(2) Includes net fees and commissions income, other operating income / (loss), net gains from insurance activity and dividends from equity instruments.
(3) Includes results from financial operations at fair value through profit or loss, results from foreign exchange, results from hedge accounting operations, results from derecognition of financial assets and financial liabilities measured at amortised cost and results from derecognition of financial assets measured at fair value through other comprehensive income.
(4) Includes impairment of financial assets at amortised cost, for loans and advances of credit institutions, for loans to customers (net of recoveries - principal and accrual) and for debt instruments related to credit operations. It also includes impairment of financial assets (at fair value through other comprehensive income and at amortised cost not associated with credit operations).
(5) Includes impaiment of non current assets held for sale, investments in associated companies, goodwill, other assets and provisions.
(6) Includes the non-controlling interests of BIM Group related to SIM – Seguradora Internacional de Moçambique, SARL.

(Thousands of Euros)

	Retail banking	Companies, Corporate and Investment banking	Private banking	Other	Total	Poland	Mozambique	Other	Consolidated
BALANCE SHEET									
Cash and Loans and advances to credit institutions	10,350,843	1,317,668	2,159,692	(9,870,403)	3,957,800	487,388	555,413	738,231	5,738,832
Loans and advances to customers [1]	22,955,068	13,035,242	268,444	499,396	36,758,150	16,090,513	583,151	292,542	53,724,356
Financial assets [2]	720,987	-	-	12,712,973	13,433,960	6,051,262	836,138	5,182	20,326,542
Other assets	169,982	40,830	10,776	5,804,148	6,025,736	452,819	191,322	96,819	6,766,696
Total Assets	34,196,880	14,393,740	2,438,912	9,146,114	60,175,646	23,081,982	2,166,024	1,132,774	86,556,426
Resources from other credit institutions [3]	522,702	4,790,053	-	3,355,100	8,667,855	321,721	45,084	20,566	9,055,226
Resources from customers [4]	31,100,702	8,290,076	2,278,309	178,083	41,847,170	19,408,796	1,573,195	635,237	63,464,398
Debt securities issued [5]	1,285,101	1,291	87,048	1,228,190	2,601,630	172,592	-	-	2,774,222
Other financial liabilities [6]	-	-	-	1,571,580	1,571,580	545,332	-	115	2,117,027
Other liabilities [7]	45,124	63,620	1,076	898,617	1,008,437	563,417	95,955	28,060	1,695,869
Total Liabilities	32,953,629	13,145,040	2,366,433	7,231,570	55,696,672	21,011,858	1,714,234	683,978	79,106,742
Equity and non-controlling interests	1,243,251	1,248,700	72,479	1,914,544	4,478,974	2,070,124	451,790	448,796	7,449,684
Total Liabilities, Equity and Non-controlling interests	34,196,880	14,393,740	2,438,912	9,146,114	60,175,646	23,081,982	2,166,024	1,132,774	86,556,426
Number of employees	4,547	605	149	1,853	7,154	8,283	2,646	87	18,170
Public subsidies received	-	-	-	-	-	-	-	-	-

(1) Includes loans to customers at amortised cost net of impairment, debt instruments at amortised cost associated to credit operations net of impairment and balance sheet amount of loans to customers at fair value through profit or loss.
(2) Includes debt instruments at amortised cost not associated with credit operations (net of impairment), financial assets at fair value through profit or loss (excluding the ones related to loans to customers), financial assets at fair value through other comprehensive income , assets with repurchase agreement and hedging derivatives.
(3) Includes resources and other financing from central banks and resources from other credit institutions.
(4) Corresponds to deposits and other resources from customers (including resources from customers at amortised cost and customer deposits at fair value through profit or loss).
(5) Includes non subordinated debt securities at amortized cost and financial liabilities at fair value through profit or loss (debt securities and certificates).
(6) Includes financial liabilities held for trading, subordinated debt and hedging derivatives.
(7) Includes provisions, current and deferred tax liabilities and other liabilities.

As at 30 June 2019, the net contribution of the major geographic segments, for the income statement, is analysed as follows:

(Thousands of Euros)

	Portugal								
	Retail banking	Companies, Corporate and Investment banking	Private banking	Other	Total	Poland	Mozambique	Other (1)	Consolidated
INCOME STATEMENT									
Interest and similar income	241,720	165,084	7,410	64,014	478,228	347,342	122,321	4,964	952,855
Interest expense and similar charges	(13,664)	(24,584)	(3,746)	(36,669)	(78,663)	(100,635)	(33,249)	(235)	(212,782)
Net interest income	228,056	140,500	3,664	27,345	399,565	246,707	89,072	4,729	740,073
Commissions and other income	207,602	81,313	12,893	5,786	307,594	108,742	29,129	15,311	460,776
Commissions and other costs	(20,272)	(13,132)	(691)	(97,480)	(131,575)	(74,951)	(8,721)	(2,815)	(218,062)
Net commissions and other income (2)	187,330	68,181	12,202	(91,694)	176,019	33,791	20,408	12,496	242,714
Net gains arising from trading activity (3)	14,109	251	403	38,711	53,474	32,734	7,188	2,141	95,537
Share of profit of associates under the equity method	-	-	-	14,869	14,869	-	-	6,322	21,191
Gains / (losses) arising from the sale of subsidiaries and other assets	-	-	-	19,810	19,810	(629)	5,525	-	24,706
Net operating revenue	429,495	208,932	16,269	9,041	663,737	312,603	122,193	25,688	1,124,221
Operating expenses	236,043	67,064	9,696	22,418	335,221	152,907	46,796	13,257	548,181
Impairment for credit and financial assets (4)	(5,433)	(137,451)	1,226	1,293	(140,365)	(50,769)	(9,239)	208	(200,165)
Other impairments and provisions (5)	3	1	-	(41,271)	(41,267)	165	(1,857)	-	(42,959)
Net income / (loss) before income tax	188,022	4,418	7,799	(53,355)	146,884	109,092	64,301	12,639	332,916
Income tax	(58,300)	(990)	(2,457)	(12,670)	(74,417)	(31,189)	(14,285)	(1,197)	(121,088)
Income / (loss) after income tax from continuing operations	129,722	3,428	5,342	(66,025)	72,467	77,903	50,016	11,442	211,828
Income arising from discontinued operations	-	-	-	13,413	13,413	-	-	-	13,413
Net income / (loss) for the year	129,722	3,428	5,342	(52,612)	85,880	77,903	50,016	11,442	225,241
Non-controlling interests	-	-	-	351	351	(38,873)	(16,940)	-	(55,462)
Net income / (loss) for the year attributable to Bank's Shareholders	129,722	3,428	5,342	(52,261)	86,231	39,030	33,076	11,442	169,779

(1) Includes the contribution associated with the investments held in Angola, in Banco Millennium Atlântico.
(2) Includes net fees and commissions income, other operating income / (loss), net gains from insurance activity and dividends from equity instruments.
(3) Includes results from financial operations at fair value through profit or loss, results from foreign exchange, results from hedge accounting operations, results from derecognition of financial assets and financial liabilities measured at amortised cost and results from derecognition of financial assets measured at fair value through other comprehensive income.
(4) Includes impairment of financial assets at amortised cost, for loans and advances of credit institutions, for loans to customers (net of recoveries - principal and accrual) and for debt instruments related to credit operations. It also includes impairment of financial assets (at fair value through other comprehensive income and at amortised cost not associated with credit operations).
(5) Includes impairment of non current assets held for sale, investments in associated companies, goodwill, other assets and provisions.

As at 31 December 2019, the net contribution of the major geographic segments, for the balance sheet, is analysed as follows:

(Thousands of Euros)

	Retail banking	Companies, Corporate and Investment banking	Private banking	Other	Total	Poland	Mozambique	Other (1)	Consolidated
BALANCE SHEET									
Cash and Loans and advances to credit institutions	9,488,042	1,678,262	2,075,021	(8,917,036)	4,324,289	724,030	701,026	631,058	6,380,403
Loans and advances to customers (1)	22,028,660	11,971,158	273,602	564,358	34,837,778	16,432,968	632,075	371,884	52,274,705
Financial assets (2)	384,926	-	-	9,725,291	10,110,217	5,436,994	783,585	5,389	16,336,185
Other assets	197,446	49,208	13,234	5,601,686	5,861,574	468,044	217,627	104,870	6,652,115
Total Assets	32,099,074	13,698,628	2,361,857	6,974,299	55,133,858	23,062,036	2,334,313	1,113,201	81,643,408
Resources from other credit institutions (3)	616,186	4,413,047	-	893,945	5,923,178	392,671	12,192	38,917	6,366,958
Resources from customers (4)	28,855,517	7,882,707	2,193,470	473,273	39,404,967	19,157,713	1,684,705	599,755	60,847,140
Debt securities issued (5)	1,399,948	1,797	94,973	1,300,890	2,797,608	278,290	-	-	3,075,898
Other financial liabilities (6)	-	-	-	1,604,603	1,604,603	546,892	-	67	2,151,562
Other liabilities (7)	46,786	67,409	1,060	999,050	1,114,305	583,474	105,066	17,751	1,820,596
Total Liabilities	30,918,437	12,364,960	2,289,503	5,271,761	50,844,661	20,959,040	1,801,963	656,490	74,262,154
Equity and non-controlling interests	1,180,637	1,333,668	72,354	1,702,538	4,289,197	2,102,996	532,350	456,711	7,381,254
Total Liabilities, Equity and Non-controlling interests	32,099,074	13,698,628	2,361,857	6,974,299	55,133,858	23,062,036	2,334,313	1,113,201	81,643,408
Number of employees	4,635	597	144	1,828	7,204	8,615	2,680	86	18,585
Public subsidies received	-	-	-	-	-	-	-	-	-

(1) Includes loans to customers at amortised cost net of impairment, debt instruments at amortised cost associated to credit operations net of impairment and balance sheet amount of loans to customers at fair value through profit or loss.
(2) Includes debt instruments at amortised cost not associated with credit operations (net of impairment), financial assets at fair value through profit or loss (excluding the ones related to loans to customers), financial assets at fair value through other comprehensive income (net of impairment), assets with repurchase agreement and hedging derivatives.
(3) Includes resources and other financing from central banks and resources from other credit institutions.
(4) Corresponds to deposits and other resources from customers (including resources from customers at amortised cost and customer deposits at fair value through profit or loss).
(5) Includes non subordinated debt securities at amortized cost and financial liabilities at fair value through profit or loss (debt securities and certificates).
(6) Includes financial liabilities held for trading, subordinated debt and hedging derivatives.
(7) Includes provisions, current and deferred tax liabilities and other liabilities.
(8) In Poland, the number of employees presented corresponds to 6,132 FTE - Full-time equivalent.

Reconciliation of net income of reportable segments with the net income attributable to shareholders

(Thousands of euros)

	30 June 2020	30 June 2019
Net contribution		
Retail banking in Portugal	127,718	129,722
Companies, Corporate and Investment banking	(18,135)	3,428
Private Banking	9,319	5,342
Foreign business (continuing operations)	53,286	139,361
Non-controlling interests (1)	(22,619)	(55,812)
	149,569	222,041
Amounts not allocated to segments		
Net interest income of the bond portfolio	(29,784)	7,696
Foreign exchange activity	48,727	379
Gains / (losses) arising from sales of subsidiaries and other assets	(6,757)	19,810
Equity accounted earnings	40,445	14,869
Impairment and other provisions (2)	(12,207)	(39,978)
Operational costs (3)	(13,165)	(22,419)
Gains on sale of Portuguese public debt	15,529	55,449
Mandatory contributions	(64,199)	(66,626)
Loans sale	(10,830)	(10,849)
Income from other financial assets not held for trading mandatorily at fair value through profit or loss (4)	(69,813)	(1,985)
Taxes (5)	28,801	(12,670)
Income from discontinued operations	-	13,413
Non-controlling interests (6)	(213)	351
Others (7)	(145)	(9,702)
Total not allocated to segments	(73,611)	(52,262)
Consolidated net income	75,958	169,779

(1) Corresponds mainly to the income attributable to third parties related to the subsidiaries in Poland, and in Mozambique.
(2) Includes impairments for non-current assets held for sale, impairments for other assets, provisions for administrative infractions, various contingencies and other impairments and/or provisions not allocated to business segments.
(3) Corresponds to revenues/costs related restructuring costs.
(4) Includes gains/(losses) from corporate restructuring funds.
(5) Includes deferred tax revenue, net of current non-segment tax expense, namely the tax effect associated with the impacts of the previous items, calculated based on a marginal tax rate.
(6) Includes the non-controlling interests of BIM Group related to SIM – Seguradora Internacional de Moçambique, SARL.
(7) It includes other operations not allocated previously namely funding for non-interest bearing assets and strategic financial investments, net commissions and other operating income / expenses and other income from financial operations.

52. Solvency

The Group's own funds are determined according to the established regulation, in particular, according to Directive 2013/36/EU and Regulation (EU) 575/2013, approved by the European Parliament and the Council (CRD IV / CRR).

Total capital includes tier 1 and tier 2. Tier 1 comprises common equity tier 1 (CET1) and additional tier 1.

Common equity tier 1 includes: (i) paid-up capital, share premium, reserves and retained earnings deducted anticipated dividends and non-controlling interests; ii) and deductions related to own shares and loans to finance the acquisition of shares of the Bank, the shortfall of value adjustments and provisions to expected losses concerning risk-weighted exposure amounts calculated according to the IRB approach and goodwill and other intangible assets. Reserves and retained earnings are adjusted by the reversal of unrealised gains and losses on cash-flow hedge transactions and on financial liabilities valued at fair value through profits and losses, to the extent related to own credit risk. The minority interests are only eligible up to the amount of the Group's capital requirements attributable to the minorities. In addition, the deferred tax assets arising from unused tax losses carried forward are deducted, as well as the deferred tax assets arising from temporary differences relying on the future profitability and the interests held in financial institutions and insurers of at least 10%, in this case only in the amount that exceeds the thresholds of 10% and 15% of the common equity tier 1, when analysed on an individual and aggregated basis, respectively. The additional value adjustments necessary for the prudent valuation requirements applied to all assets at fair value as well as the irrevocable payment commitments for the Deposits Guarantee Fund and the Single Resolution Fund , are also deducted.

Additional tier 1 comprises preference shares, hybrid instruments and perpetual bonds representing subordinated debt that are compliant with the issue conditions established in the Regulation and minority interests related to minimum level 1 additional capital requirements, of institutions that are not totally owned by the Group.

Tier 2 includes the subordinated debt that is compliant with the Regulation and the minority interests related to minimum total capital requirements of institutions that are not totally owned by the Group. Additionally, Tier 2 instruments held in financial institutions and insurers of at least 10% are deducted.

The legislation in force stipulates a transitional period between the own funds calculated under national law until 31 December 2013, and own funds estimated according to EU law, in order to exclude some elements previously considered (phase-out) and include new elements (phase-in). The transitional period was extended to the end of 2017 for most of the elements, except for the deferred tax already recorded on the balance sheet of 1 January 2014 and the subordinated debt and all the hybrid instruments not eligible to own funds, according to the new regulation, which period ends in 2023 and 2021, respectively.

With the IFRS9 introduction the Group has decided to gradually recognise the impacts, according to artº 473º-A of CRR.

CRD IV/CRR establishes Pilar 1 capital requirements for CET1, Tier 1 and Total Capital. However, under the scope of SREP , European Central Bank notified BCP about the need to comply with phased-in capital ratios, during 2019, including additional Pilar 2 requirements, O-SII and capital conservation buffer, as following:

2020 Minimum Capital Requirements								
		of which:				of which:		
BCP Consolidated	Phased-in	Pilar 1	Pilar 2	*Buffers*	Fully implemented	Pilar 1	Pilar 2	*Buffers*
CET1	8.83%	4.50%	1.27%	3.06%	9.27%	4.50%	1.27%	3.50%
T1	10.75%	6.00%	1.69%	3.06%	11.19%	6.00%	1.69%	3.50%
Total	13.31%	8.00%	2.25%	3.06%	13.75%	8.00%	2.25%	3.50%

The Bank meets all the requirements and other recommendations issued by the supervisor on this matter.

The Group has adopted the methodologies based on internal rating models (IRB) for the calculation of capital requirements for credit and counterparty risk, covering a substantial part of both its retail portfolio in Portugal and Poland and its corporate portfolio in Portugal. The Group has adopted the advanced approach (internal model) for the coverage of trading portfolio's general market risk and for exchange rate risks generated in exposures in the perimeter centrally managed from Portugal, and the standard method was used for the purposes of operational risk coverage. The capital requirements of the other portfolios/geographies were calculated using the standardised approach.

The own funds and the capital requirements determined according to the CRD IV/CRR (phased-in) methodologies previously referred, are the following:

(Thousands of euros)

	30 June 2020	31 December 2019
Common equity tier 1 (CET1)		
Share capital	4,725,000	4,725,000
Share Premium	16,471	16,471
Ordinary own shares	(70)	(102)
Reserves and retained earnings	1,078,247	926,877
Minority interests eligible to CET1	677,856	711,470
Regulatory adjustments to CET1	(894,602)	(871,226)
	5,602,902	5,508,490
Tier 1		
Capital Instruments	400,000	400,000
Minority interests eligible to AT1	133,914	103,949
	6,136,816	6,012,439
Tier 2		
Subordinated debt	790,155	821,704
Minority interests eligible to CET1	304,340	260,886
Other	(58,800)	(58,800)
	1,035,695	1,023,790
Total own funds	7,172,511	7,036,229
RWA - Risk weighted assets		
Credit risk	40,244,633	39,558,388
Market risk	1,830,414	1,301,134
Operational risk	4,058,072	4,058,072
CVA	95,337	113,884
	46,228,456	45,031,478
Capital ratios		
CET1	12.1%	12.2%
Tier 1	13.3%	13.4%
Tier 2	2.2%	2.3%
	15.5%	15.6%

The amounts relative to 2019 and 2020 include the accumulated net income of the year.

53. Risk Management

The Group is subject to several risks during the course of its business. The risks from different companies of the Group are managed centrally, in coordination with the local departments and considering the specific risks of each business.

The Group's risk-management policy is designed to permanently ensure an adequate relationship between its own funds and the business it develops, as well as the corresponding evaluation of the risk/return profile by business line. Under this scope, the monitoring and control of the main types of financial risks to which the Group's business is subject to – credit, market, liquidity and operational – is particularly relevant.

Main types ok risk

Credit – Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfil their obligations.

Market – Market risks consist of the potential losses that might occur in a given portfolio as a result of changes in interest or exchange rates and/or in the prices of the different financial instruments of the portfolio, considering not only the correlations that exist between those instruments but also their volatility.

Liquidity – Liquidity risk reflects the Group's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

Operational – Operational risk consists in the potential losses resulting from failures or inadequacies in internal procedures, persons or systems, and also in the potential losses resulting from external events.

Real Estate market – Real Estate market risk is related to the potential loss in which the Bank may incur due to changes in the prices of real estate assets owned by the Group.

Pension fund – Pension fund risk consists in the potential losses in which the Bank may incur due to risk related to the uncertainty about required contributions for defined benefit pension plans or to market rates fluctuations that might cause direct financial losses or indirect in the pension fund's assets.

Business and strategy – The risk related to business and strategy consists in the potential losses due to unpredictable changes in the economic and competitive framework in which the Group develops its activity, changes in the business strategy, risk of depreciation on strategic shareholdings that are out of the consolidation perimeter, and misalignment between IT's structure and the Bank's strategy.

Legal and compliance - Legal and compliance risk is related to losses that the Bank may incur as a result of violations or non-compliance with laws and regulations, encompassing the risk of financial crime (related to violations or non-conformities arising from obligations in matters prevention of money laundering and financing of terrorism), the risk of conduct (related to violations or non-compliance with applicable legislation and regulations in force originating, in particular, from fraud, negligent behaviour or design of products and services), the risk associated with non-compliance with personal data protection and the risk of litigation.

Risk of foreign currency loans' conversion in Poland – This risk is related to eventual losses for the Group due to approval of law regarding rules of conversion into zlotys of loans originally based in foreign currency.

Internal organisation

Banco Comercial Português Board of Directors is responsible for the definition of the risk policy, including the approval of the principles and rules of the highest level to be followed in risk management, as well as the guidelines dictating the allocation of capital to the business lines.

The Board of Directors, through the Audit Committee, ensures the existence of adequate risk control and of risk-management systems at Group level and for each entity. The Board of Directors also approves the risk-tolerance level acceptable to the Group, proposed by its Executive Committee.

The Risk Committee is responsible for monitoring the overall levels of risk incurred, ensuring that these are compatible with the goals and strategies approved for the business.

The Chief Risk Officer is responsible for the control of risks in all Group entities, for the identification of all risks to which the Group activity is exposed and for the proposal of measures to improve risks control. The Chief Risk Officer also ensures that risks are monitored on an overall basis and that there is alignment of concepts, practices and goals in risk management. The activity of every entity included within the Banco Comercial Português consolidation perimeter is governed by the principles and decisions established centrally by the Risk Committee and the main subsidiaries are provided with Risk Office structures which are established in accordance with the risks inherent to their particular business. A Risk Control Commission has been set up at each relevant subsidiary, responsible for the control of risks at local level, in which the Chief Risk Officer takes part.

The Group Head of Compliance is responsible for implementing systems for monitoring the compliance with legal obligations and responsibilities to which the Bank is subject, as well, the prevention, monitoring and reporting of risks in organizational processes, which include, among others, the prevention and repression of money laundering, combating financing of terrorism, prevention of conflicts of interest, issues related to abuse of market and compliance with the disclosure requirements to customers.

Risk assessment

Credit Risk

Credit granting is based on a prior classification of the customers' risk and on a thorough assessment of the level of protection provided by the underlying collateral. In order to do so, a single risk-notation system has been introduced, the Rating Master Scale, based on the expected probability of default, allowing greater discrimination in the assessment of the customers and better establishment of the hierarchies of the associated risk.

The Rating Master Scale also identifies those customers that show a worsening credit capacity and, in particular, those classified as being in default. All rating and scoring models used by the Group have been duly calibrated for the Rating Master Scale. The protection-level concept has been introduced as a crucial element of evaluation of the effectiveness of the collateral in credit-risk mitigation, leading to a more active collateralization of loans and to a better adequacy of pricing regarding the risk incurred.

The gross Group's exposure to credit risk (original exposure) is presented in the following table:

(Thousands of euros)

Risk items	30 June 2020	31 December 2019
Central Governments or Central Banks	18,922,818	15,734,930
Regional Governments or Local Authorities	1,130,052	818,986
Administrative and non-profit Organisations	312,701	301,479
Multilateral Development Banks	40,856	41,422
Other Credit Institutions	3,562,498	3,155,805
Retail and Corporate customers	68,768,642	66,252,288
Other items (*)	8,526,134	9,863,160
	101,263,701	96,168,070

Note: gross exposures of impairment and amortization, in accordance with the prudential consolidation perimeter. Includes securitization positions.

(*) In addition to positions in equity, collective investment and securitization, the Other items contain other assets subject to credit risk in accordance with Article 134 of the CRR.

The evaluation of the risk associated to the loan portfolio and quantification of the respective losses expected, considers the following methodological notes.

a) Collaterals and Guarantees

On the risk evaluation of an operation or of a group of operations, the mitigation elements of credit risk associated to those operations are considered in accordance with the rules and internal procedures that fulfil the requirements defined by the regulations in force, also reflecting the experience of the loans recovery areas and the Legal Department opinions with respect to the entailment of the various mitigation instruments.

The collaterals and the relevant guarantees can be aggregated in the following categories:

- financial collaterals, real estate collaterals or other collaterals;
- receivables;
- first demand guarantees, issued by banks or other entities with Risk Grade 7 or better on the Rating Master Scale;
- personal guarantees, when the persons are classified with Risk Grade 7 or better;
- credit derivatives.

The financial collaterals accepted are those that are traded in a recognised stock exchange, i.e., on an organized secondary market, liquid and transparent, with public bid-ask prices, located in countries of the European Union, United States, Japan, Canada, Hong Kong or Switzerland.

In this context, it is important to refer that the Bank's shares are not accepted as financial collaterals of new credit operations and are only accepted for the reinforcement of guarantees of existing credit operations, or in restructuring process associated to credit recoveries.

Regarding guarantees and credit derivatives, it can be applied the substitution principle by replacing the Risk Grade of the client by the Risk Grade of the guarantor, (if the Risk of Grade Degree of the guarantor is better than the client's), when the protection is formalized through:

- State, Financial Institutions or Mutual Guarantee Societies guarantees exist;
- personal guarantees (or, in the case of Leasing, there is a recovery agreement of the provider);
- Credit derivatives;
- Formalization of the clause of the contracting party in leasing contracts in which it is an entity that is in a relationship of dominion or group with the lessee.

An internal level of protection is attributed to all credit operations at the moment of the credit granting decision, considering the credit amount as well as the value and type of the collaterals involved. The protection level corresponds to the loss reduction in case of default that is linked to the various collateral types, considering their market value and the amount of the associated exposure.

In the case of financial collaterals, adjustments are made to the protection value by the use of a set of haircuts, in order to reflect the price volatility of the financial instruments.

In the case of real estate mortgages, the initial appraisal of the real estate value is done during the credit analysis and before decision process.

Either the initial evaluations or the subsequent reviews carried out are performed by external expert valuers and the ratification process is centralized in the Appraisals Unit, which is independent of the clients' areas.

In any case, they are the subject to a written report, in a standardized digital format, based on a group of predefined methods that are aligned with the sector practices – income, replacement cost and/or market comparative - mentioning the obtained value, for both the market value and for purposes of the mortgage guarantee, depending on the type of the real estate. The evaluations have a declaration/certification of an expert valuer since 2008, as requested by Regulation (EU) 575/2013 and Law 153/2015 of 14 September and are ratified by the Appraisals Unit.

Regarding residential real estate, after the initial valuation and in accordance with Notice n. 5/2006 of Bank of Portugal and e CRR 575/2013, the Bank monitors the respective values through market indexes. If the index is lower than 0.9, the Bank revaluates choosing one of the following two methods:

i) - depreciation of the property by direct application of the index, if the amount owed does not exceed Euros 300,000;
ii) - review of the property value by external valuators, depending on the value of the credit operation, and in accordance with the established standards from ECB and Bank of Portugal.

For all non-residential real estate, the Bank also monitors its values through market indexes and to the regular valuation reviews with the minimum periodicities in accordance with the Regulation (EU) 575/2013, in the case of offices, commercial spaces, warehouses and industrial premises.

For all real estate (residential or non-residential) for which the monitoring result in significant devaluation of the real estate value (more than 10%), a valuation review is subsequently carried out by an expert valuer, preserving the referred i) above.

For the remaining real estate (land or country side buildings for example) there are no market indexes available for the monitoring of appraisal values, after the initial valuations. Therefore, for these cases and in accordance with the minimum periodicity established for the monitoring and reviewing of this type of real estate, valuation reviews are carried out by expert valuers.

The indexes currently used are supplied to the Bank by an external specialized entity that, for more than a decade, has been collecting and processing the data upon which the indexes are built.

In the case of financial collaterals, their market value is daily and automatically updated, through the IT connection between the collaterals management system and the relevant financial markets data.

b) Risk grades

Credit granting is based on the previous risk assessment of clients and also on a rigorous assessment of the protection level provided by the underlying collaterals. For this purpose, a single risk grading system is used - the Rating Master Scale - based on Probability of Default (PD), allowing for a greater discriminating power in clients' assessment and for a better hierarchy of the associated risk. The Rating Master Scale also allows to identify clients that show signs of degradation in their credit capacity and, in particular, those that are classified in a default situation. All rating systems and models used by the Group were calibrated for the Rating Master Scale.

Aiming at an adequate assessment of credit risk, the Group defined a set of macro segments and segments which are treated through different rating systems and models that relate the internal risk grades and the clients' PD, ensuring a risk assessment that considers the clients' specific features in terms of their respectively risk profiles.

The assessment made by these rating systems and models result in the risk grades of the Master Scale, that has fifteen grades, where the last three correspond to relevant downgrades of the clients' credit quality and are referred to by "procedural risk grades": 13, 14 and 15, that correspond, in this order, to situations of increased severity in terms default, as risk grade 15 is a Default situation.

The non-procedural risk grades are attributed by the rating systems through automatic decision models or by the Rating Division – a unit which is independent from the credit analysis and decision areas and bodies- and are reviewed/updated periodically or whenever this is justified by events.

The models within the various rating systems are regularly subject to validation, made by the Models Validation and Monitoring Office, which is independent from the units that are responsible for the development and maintenance of the rating models.

The conclusions of the validations by the Models Validation and Monitoring Office, as well the respective recommendations and proposal for changes and/or improvements, are analysed and ratified by a specific Validation Committee, composed in accordance to the type of model analysed. The proposals for models' changes originated by the Validation Committee are submitted to the approval of the Risk Committee.

The following table lists the recognised External Credit Assessment Institutions (ECAI) and the external ratings equivalence to the Rating Master Scale of the Group:

	External ratings			
Internal risk grade	Fitch	S&P	Moody's	DBRS
1	AAA	AAA	Aaa	AAA
1	AA+	AA+	Aa1	AA (high)
2	AA	AA	Aa2	AA
2	AA-	AA-	Aa3	AA (low)
3	A+	A+	A1	A (high)
3	A	A	A2	A
4	A-	A-	A3	A (low)
4	BBB+	BBB+	Baa1	BBB (high)
5	BBB	BBB	Baa2	BBB
6	BBB-	BBB-	Baa3	BBB (low)
7	BB+	BB+	Ba1	BB (high)
8	BB	BB	Ba2	BB
9	BB-	BB-	Ba3	BB (low)
10	B+	B+	B1	B (high)
11	B	B	B2	B
12	≤ B-	≤ B-	≤ B3	≤ B-

c) Impairment and Write-offs

The credit impairment calculation as at 30 June 2020 and 31 December 2019 integrates the general principles defined in International Financial Reporting Standards (IFRS 9) and the guidelines issued by the Bank of Portugal through Circular Letter CC/2018/00000062, in order to align the calculation process used in the Group with the best international practices in this area.

As at 30 June 2020, the financial instruments subject to impairment requirements under IFRS 9, (do not include equity instruments as accounting policy 1 C1.1.2), analysed by stage, are detailed in the following tables:

(Thousands of euros)

	30 June 2020				
	Gross exposure				
Category	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	1,087,007	767	-	-	1,087,774
Loans and advances to customers (note 21)	42,745,671	6,847,303	3,786,572	100,100	53,479,646
Debt instruments (note 22)	5,684,448	71,836	9,549	-	5,765,833
Debt instruments at fair value					
through other comprehensive income (note 23) (*)	13,253,173	-	1,126	-	13,254,299
Guarantees and other commitments (note 45)	13,172,820	1,571,342	504,689	149	15,249,000
Total	75,943,119	8,491,248	4,301,936	100,249	88,836,552

The gross exposure to guarantees and other commitments includes the balances of guarantees granted, irrevocable credit lines and revocable commitments, as detailed in note 45.

(Thousands of euros)

	30 June 2020				
	Impairment losses				
Category	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	1,729	75	-	-	1,804
Loans and advances to customers (note 21)	151,401	201,645	1,866,455	11,839	2,231,340
Debt instruments (note 22)	12,924	957	9,480	-	23,361
Debt instruments at fair value					
through other comprehensive income (note 23) (*)	-	-	1,126	-	1,126
Guarantees and other commitments (note 38)	12,843	7,583	89,456	3	109,885
Total	178,897	210,260	1,966,517	11,842	2,367,516

(Thousands of euros)

	30 June 2020				
	Net exposure				
Category	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	1,085,278	692	-	-	1,085,970
Loans and advances to customers (note 21)	42,594,270	6,645,658	1,920,117	88,261	51,248,306
Debt instruments (note 22)	5,671,524	70,879	69	-	5,742,472
Debt instruments at fair value					
through other comprehensive income (note 23) (*)	13,253,173	-	-	-	13,253,173
Guarantees and other commitments (note 45)	13,159,977	1,563,759	415,233	146	15,139,115
Total	75,764,222	8,280,988	2,335,419	88,407	86,469,036

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 C1.5.1.2.

As at 31 December 2019, the financial instruments subject to impairment requirements under IFRS 9 (do not include equity instruments as accounting policy 1 C1.1.2), analysed by stage, are detailed in the following tables:

(Thousands of euros)

	31 December 2019				
	Gross Exposure				
Category	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	890,357	3,006	-	-	893,363
Loans and advances to customers (note 21)	40,864,110	7,220,484	4,058,116	122,141	52,264,851
Debt instruments (note 22)	3,116,343	74,515	9,549	-	3,200,407
Debt instruments at fair value					
through other comprehensive income (note 23) (*)	13,179,281	-	1,177	-	13,180,458
Guarantees and other commitments (note 45)	12,022,296	1,793,631	483,094	123	14,299,144
Total	70,072,387	9,091,636	4,551,936	122,264	83,838,223

(Thousands of euros)

	31 December 2019				
	Impairment losses				
Category	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	161	207	-	-	368
Loans and advances to customers (note 21)	94,766	190,878	2,117,756	13,622	2,417,022
Debt instruments (note 22)	4,669	382	9,480	-	14,531
Guarantees and other commitments (note 38)	10,329	6,330	99,899	2	116,560
Total	109,925	197,797	2,227,135	13,624	2,548,481

(Thousands of euros)

	31 December 2019				
	Net exposure				
Category	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	890,196	2,799	-	-	892,995
Loans and advances to customers (note 21)	40,769,344	7,029,606	1,940,360	108,519	49,847,829
Debt instruments (note 22)	3,111,674	74,133	69	-	3,185,876
Debt instruments at fair value					
through other comprehensive income (note 23) (*)	13,179,281	-	1,177	-	13,180,458
Guarantees and other commitments (note 45)	12,011,967	1,787,301	383,195	121	14,182,584
Total	69,962,462	8,893,839	2,324,801	108,640	81,289,742

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 C1.5.1.2.

The maximum exposure to credit risk of financial assets not subject to impairment requirements is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Financial assets held for trading (note 23)		
Debt instruments	1,765,013	255,313
Derivatives	648,268	763,611
Financial assets designated at fair value through profit or loss - Debt instruments (note 23)	-	31,496
Financial assets not held for trading mandatorily at fair value through profit or loss		
Debt instruments (note 23)	957,205	1,037,480
Hedging derivatives (note 24)	290,161	87,677
Total	3,370,486	2,087,900

- In the case of financial assets, excluding derivatives, it is considered that its credit risk exposure is equal to its book value;
- In the case of derivatives, the maximum exposure to credit risk is its market value, plus its potential risk ("add-on").

During the first semester of 2020, the changes occurred in Loans and advances to customers - gross amount are as follows:

(Thousands of euros)

	30 June 2020				
	Financial assets at amortised cost - Loans and advances to customers (gross)				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross amount as at 1 January	40,864,110	7,220,484	4,058,116	122,141	52,264,851
Changes in gross book value:					
Transfers from stage 1 to stage 2	(1,249,705)	1,249,705	-	-	-
Transfers from stage 1 to stage 3	(185,276)	-	185,276	-	-
Transfers from stage 2 to stage 1	1,311,046	(1,311,046)	-	-	-
Transfers from stage 2 to stage 3	-	(379,852)	379,852	-	-
Transfers from stage 3 to stage 1	34,037	-	(34,037)	-	-
Transfers from stage 3 to stage 2	-	124,930	(124,930)	-	-
Write-offs	(441)	(1,208)	(109,708)	-	(111,357)
Net balance of new financial assets and derecognised financial assets and other variations	1,971,900	(55,710)	(567,997)	(22,041)	1,326,152
Gross amount at the end of the period	42,745,671	6,847,303	3,786,572	100,100	53,479,646

During the first semester of 2020, the changes occurred in Loans and advances to customers - impairment are as follows:

(Thousands of euros)

	30 June 2020				
	Financial assets at amortised cost - Loans and advances to customers impairment				
	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment losses as at 1 January	94,766	190,878	2,117,756	13,622	2,417,022
Change in impairment losses:					
Transfer to Stage 1	41,616	(25,913)	(15,703)	-	-
Transfer to Stage 2	(5,144)	21,324	(16,180)	-	-
Transfer to Stage 3	(1,991)	(25,530)	27,521	-	-
Changes occurred due to changes in credit risk	(10,001)	36,145	181,485	(190)	207,439
Write-offs	(262)	(1,208)	(109,708)	-	(111,178)
Changes due to new financial assets and derecognised financial assets and other variations	32,417	5,949	(318,716)	(1,593)	(281,943)
Impairment losses at the end of the period	151,401	201,645	1,866,455	11,839	2,231,340

During 2019, the changes occurred in Loans and advances to customers - gross amount are as follows:

(Thousands of euros)

	31 December 2019				
	Financial assets at amortised cost - Loans and advances to customers (gross)				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross amount as at 1 January	35,658,333	7,235,837	5,518,658	4	48,412,832
Changes in gross book value					
Transfer from Stage 1 to Stage 2	(1,580,942)	1,580,942	-	-	-
Transfer from Stage 1 to Stage 3	(144,179)	-	144,179	-	-
Transfer from Stage 2 to Stage 1	1,713,624	(1,713,624)	-	-	-
Transfer from Stage 2 to Stage 3	-	(334,639)	334,639	-	-
Transfer from Stage 3 to Stage 1	46,668	-	(46,668)	-	-
Transfer from Stage 3 to Stage 2	-	407,346	(407,346)	-	-
Write-offs	(899)	(3,376)	(674,059)	-	(678,334)
Impact of acquisition/merger of Euro Bank	2,610,511	74,423	46,962	120,733	2,852,629
Net balance of new financial assets and derecognised financial assets and other changes	2,560,994	(26,425)	(858,249)	1,404	1,677,724
Gross amount at the end of the period	40,864,110	7,220,484	4,058,116	122,141	52,264,851

During 2019, the changes occurred in Loans and advances to customers - impairment are as follows:

(Thousands of euros)

	31 December 2019				
	Financial assets at amortised cost - Loans and advances to customers impairment				
	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment losses as at 1 January	94,542	183,932	2,573,432	-	2,851,906
Changes in impairment losses					
Transfer to Stage 1	39,801	(35,498)	(4,303)	-	-
Transfer to Stage 2	(7,291)	47,833	(40,542)	-	-
Transfer to Stage 3	(1,712)	(18,508)	20,220	-	-
Changes occurred due to changes in credit risk	(52,163)	(18,260)	105,185	-	34,762
Write-offs	(719)	(3,376)	(674,059)	-	(678,154)
Impact of acquisition/merger of Euro Bank	12,769	8,455	18,564	13,109	52,897
Changes due to new financial assets and derecognised					-
financial assets and other variations	9,539	26,300	119,259	513	155,611
Impairment losses at the end of the period	94,766	190,878	2,117,756	13,622	2,417,022

Financial assets modified during the period that have not resulted in derecognition (with impairment losses based on expected lifetime losses) are analysed as follows:

(Thousands of euros)

Financial assets modified	30 June 2020	31 December 2019
Amortised cost before changes	249,409	669,892
Impairment losses before changes	(35,738)	(270,074)
Net amortised cost before changes	213,671	399,818
Net gain / (loss) arising on changes	(9,437)	(8,979)
Net amortised cost after changes	204,234	390,839

The financial assets changed since the initial recognition at a time when the impairment loss was measured based on the expected credit losses lifetime, are analysed as follows:

(Thousands of euros)

Financial assets changed	30 June 2020	31 December 2019
Amortised cost of financial assets for which credit losses expected to go from "lifetime" to 12 months	33,714	56,947

As at 30 June 2020, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments, analysed by segment and stage, are as follows:

(Thousands of euros)

	30 June 2020									
		Stage 2				Stage 3				
Segment	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Individuals-Mortgage	22,551,433	2,389,012	120,626	76,215	2,585,853	254,299	306,994	561,293	16,353	25,714,932
Individuals-Other	7,700,700	796,755	63,510	43,999	904,264	275,604	400,459	676,063	83,875	9,364,902
Financial Companies	3,262,794	320,977	40	8	321,025	168,400	125,786	294,186	-	3,878,005
Non-financial comp. - Corporate	8,821,443	922,054	1,468	1,302	924,824	361,830	639,685	1,001,515	-	10,747,782
Non-financial comp.- SME-Corporate	10,835,465	2,210,040	11,107	3,334	2,224,481	860,476	257,817	1,118,293	-	14,178,239
Non-financial comp. -SME-Retail	5,167,138	1,156,942	19,040	10,032	1,186,014	412,126	178,239	590,365	21	6,943,538
Non-financial comp.-Other	394,223	87,585	2	-	87,587	219	58,865	59,084	-	540,894
Other loans	3,956,750	257,170	30	-	257,200	10	1	11	-	4,213,961
Total	62,689,946	8,140,535	215,823	134,890	8,491,248	2,332,964	1,967,846	4,300,810	100,249	75,582,253
Impairment										
Individuals-Mortgage	6,986	14,649	1,721	3,728	20,098	23,028	60,918	83,946	663	111,693
Individuals-Other	54,997	24,038	7,748	10,246	42,032	109,001	222,969	331,970	11,174	440,173
Financial Companies	5,919	7,456	3	1	7,460	125,043	84,322	209,365	-	222,744
Non-financial comp. - Corporate	35,204	24,027	45	169	24,241	185,890	419,683	605,573	-	665,018
Non-financial comp.- SME-Corporate	54,775	78,301	814	368	79,483	282,851	133,988	416,839	-	551,097
Non-financial comp. -SME-Retail	14,935	30,800	1,936	605	33,341	196,086	86,654	282,740	5	331,021
Non-financial comp.-Other	211	118	-	-	118	84	34,874	34,958	-	35,287
Other loans	5,870	3,486	-	-	3,486	-	-	-	-	9,356
Total	178,897	182,875	12,267	15,118	210,260	921,983	1,043,408	1,965,391	11,842	2,366,390
Net exposure										
Individuals-Mortgage	22,544,447	2,374,363	118,905	72,487	2,565,755	231,271	246,076	477,347	15,690	25,603,239
Individuals-Other	7,645,703	772,717	55,762	33,753	862,232	166,603	177,490	344,093	72,701	8,924,729
Financial Companies	3,256,875	313,521	37	7	313,565	43,357	41,464	84,821	-	3,655,261
Non-financial comp. - Corporate	8,786,239	898,027	1,423	1,133	900,583	175,940	220,002	395,942	-	10,082,764
Non-financial comp.- SME-Corporate	10,780,690	2,131,739	10,293	2,966	2,144,998	577,625	123,829	701,454	-	13,627,142
Non-financial comp. -SME-Retail	5,152,203	1,126,142	17,104	9,427	1,152,673	216,040	91,585	307,625	16	6,612,517
Non-financial comp.-Other	394,012	87,467	2	-	87,469	135	23,991	24,126	-	505,607
Other loans	3,950,880	253,684	30	-	253,714	10	1	11	-	4,204,605
Total	62,511,049	7,957,660	203,556	119,772	8,280,988	1,410,981	924,438	2,335,419	88,407	73,215,863
% of impairment coverage										
Individuals-Mortgage	0.03%	0.61%	1.43%	4.89%	0.78%	9.06%	19.84%	14.96%	4.05%	0.43%
Individuals-Other	0.71%	3.02%	12.20%	23.29%	4.65%	39.55%	55.68%	49.10%	13.32%	4.70%
Financial Companies	0.18%	2.32%	7.50%	16.96%	2.32%	74.25%	67.04%	71.17%	0.00%	5.74%
Non-financial comp. - Corporate	0.40%	2.61%	3.07%	12.98%	2.62%	51.37%	65.61%	60.47%	0.00%	6.19%
Non-financial comp.- SME-Corporate	0.51%	3.54%	7.33%	11.04%	3.57%	32.87%	51.97%	37.27%	0.00%	3.89%
Non-financial comp. -SME-Retail	0.29%	2.66%	10.17%	6.03%	2.81%	47.58%	48.62%	47.89%	23.81%	4.77%
Non-financial comp.-Other	0.05%	0.13%	0.00%	0.00%	0.13%	38.36%	59.24%	59.17%	0.00%	6.52%
Other loans	0.15%	1.36%	0.00%	0.00%	1.36%	0.00%	0.00%	0.00%	0.00%	0.22%
Total	0.29%	2.25%	5.68%	11.21%	2.48%	39.52%	53.02%	45.70%	11.81%	3.13%

As at 30 June 2020, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments, analysed by sector of activity and stage, are as follows:

(Thousands of euros)

	30 June 2020									
		Stage 2				Stage 3				
Sector of activity	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Loans to individuals	30,252,133	3,185,767	184,136	120,214	3,490,117	529,903	707,453	1,237,356	100,228	35,079,834
Non-financial comp.- Trade	5,345,255	643,615	5,567	2,307	651,489	174,469	96,360	270,829	5	6,267,578
Non-financial comp.- Construction	2,011,750	655,282	3,777	229	659,288	435,642	102,554	538,196	7	3,209,241
Non finan. comp.- Manufacturing indust.	5,612,374	584,337	10,600	3,570	598,507	157,052	170,542	327,594	-	6,538,475
Non-financial comp.-Other activities	1,666,181	383,524	430	1,405	385,359	181,990	41,877	223,867	-	2,275,407
Non-financial comp.- Other services	10,582,709	2,109,863	11,243	7,157	2,128,263	685,498	723,273	1,408,771	9	14,119,752
Other Services /Other activities	7,219,544	578,147	70	8	578,225	168,410	125,787	294,197	-	8,091,966
Total	62,689,946	8,140,535	215,823	134,890	8,491,248	2,332,964	1,967,846	4,300,810	100,249	75,582,253
Impairment										
Loans to individuals	61,983	38,687	9,469	13,975	62,131	132,029	283,887	415,916	11,837	551,867
Non-financial comp.- Trade	22,055	18,647	699	220	19,566	79,500	55,841	135,341	1	176,963
Non-financial comp.- Construction	9,352	10,702	543	37	11,282	92,176	51,522	143,698	1	164,333
Non-financial comp.- Manufacturing indu	26,329	16,483	646	376	17,505	58,017	68,881	126,898	-	170,732
Non-financial comp.-Other activities	6,554	11,151	53	107	11,311	81,456	11,063	92,519	-	110,384
Non-financial comp.- Other services	40,835	76,263	854	402	77,519	353,762	487,892	841,654	3	960,011
Other Services /Other activities	11,789	10,942	3	1	10,946	125,043	84,322	209,365	-	232,100
Total	178,897	182,875	12,267	15,118	210,260	921,983	1,043,408	1,965,391	11,842	2,366,390
Net exposure										
Loans to individuals	30,190,150	3,147,080	174,667	106,239	3,427,986	397,874	423,566	821,440	88,391	34,527,967
Non-financial comp.- Trade	5,323,200	624,968	4,868	2,087	631,923	94,969	40,519	135,488	4	6,090,615
Non-financial comp.- Construction	2,002,398	644,580	3,234	192	648,006	343,466	51,032	394,498	6	3,044,908
Non finan. comp.- Manufacturing indust.	5,586,045	567,854	9,954	3,194	581,002	99,035	101,661	200,696	-	6,367,743
Non-financial comp.-Other activities	1,659,627	372,373	377	1,298	374,048	100,534	30,814	131,348	-	2,165,023
Non-financial comp.- Other services	10,541,874	2,033,600	10,389	6,755	2,050,744	331,736	235,381	567,117	6	13,159,741
Other Services /Other activities	7,207,755	567,205	67	7	567,279	43,367	41,465	84,832	-	7,859,866
Total	62,511,049	7,957,660	203,556	119,772	8,280,988	1,410,981	924,438	2,335,419	88,407	73,215,863
% of impairment coverage										
Loans to individuals	0.20%	1.21%	5.14%	11.63%	1.78%	24.92%	40.13%	33.61%	11.81%	1.57%
Non-financial comp.- Trade	0.41%	2.90%	12.56%	9.54%	3.00%	45.57%	57.95%	49.97%	20.00%	2.82%
Non-financial comp.- Construction	0.46%	1.63%	14.38%	16.16%	1.71%	21.16%	50.24%	26.70%	14.29%	5.12%
Non finan. comp.- Manufacturing indust.	0.47%	2.82%	6.09%	10.53%	2.92%	36.94%	40.39%	38.74%	0.00%	2.61%
Non-financial comp.-Other activities	0.39%	2.91%	12.33%	7.62%	2.94%	44.76%	26.42%	41.33%	0.00%	4.85%
Non-financial comp.- Other services	0.39%	3.61%	7.60%	5.62%	3.64%	51.61%	67.46%	59.74%	33.33%	6.80%
Other Services /Other activities	0.16%	1.89%	4.29%	12.50%	1.89%	74.25%	67.04%	71.16%	0.00%	2.87%
Total	0.29%	2.25%	5.68%	11.21%	2.48%	39.52%	53.02%	45.70%	11.81%	3.13%

As at 30 June 2020, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments, analysed by geography and stage, are as follows:

(Thousands of euros)

	30 June 2020									
		Stage 2				Stage 3				
Geography	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Portugal	43,129,568	6,931,019	158,781	86,391	7,176,191	2,006,204	1,398,441	3,404,645	-	53,710,404
Poland	17,727,228	760,726	52,735	46,500	859,961	301,760	408,588	710,348	100,249	19,397,786
Mozambique	1,300,454	448,790	4,307	1,999	455,096	21,430	160,817	182,247	-	1,937,797
Switzerland	532,696	-	-	-	-	3,570	-	3,570	-	536,266
Total	62,689,946	8,140,535	215,823	134,890	8,491,248	2,332,964	1,967,846	4,300,810	100,249	75,582,253
Impairment										
Portugal	79,495	148,278	4,880	3,230	156,388	785,514	726,277	1,511,791	-	1,747,674
Poland	90,670	28,389	6,628	11,355	46,372	128,872	240,881	369,753	11,842	518,637
Mozambique	8,348	6,208	759	533	7,500	4,027	76,250	80,277	-	96,125
Switzerland	384	-	-	-	-	3,570	-	3,570	-	3,954
Total	178,897	182,875	12,267	15,118	210,260	921,983	1,043,408	1,965,391	11,842	2,366,390
Net exposure										
Portugal	43,050,073	6,782,741	153,901	83,161	7,019,803	1,220,690	672,164	1,892,854	-	51,962,730
Poland	17,636,558	732,337	46,107	35,145	813,589	172,888	167,707	340,595	88,407	18,879,149
Mozambique	1,292,106	442,582	3,548	1,466	447,596	17,403	84,567	101,970	-	1,841,672
Switzerland	532,312	-	-	-	-	-	-	-	-	532,312
Total	62,511,049	7,957,660	203,556	119,772	8,280,988	1,410,981	924,438	2,335,419	88,407	73,215,863
% of impairment coverage										
Portugal	0.18%	2.14%	3.07%	3.74%	2.18%	39.15%	51.93%	44.40%	0.00%	3.25%
Poland	0.51%	3.73%	12.57%	24.42%	5.39%	42.71%	58.95%	52.05%	11.81%	2.67%
Mozambique	0.64%	1.38%	17.62%	26.66%	1.65%	18.79%	47.41%	44.05%	0.00%	4.96%
Switzerland	0.07%	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	100.00%	0.00%	0.74%
Total	0.29%	2.25%	5.68%	11.21%	2.48%	39.52%	53.02%	45.70%	11.81%	3.13%

As at 30 June 2020, the gross exposure, by type of financial instrument, internal rating (attributed in Portugal and in Poland) and stage, is analysed as follows:

(Thousands of euros)

	30 June 2020							
	Gross Exposure							
	Higher quality (GR 1-6)	Average quality (GR 7-9)	Lower quality (GR 10-12)	Procedural (GR 13/14/15)	Not classified (without risk grade)	Total	Impairment losses	Net exposure
Financial assets at amortised cost								
stage 1	33,263,379	10,110,466	3,326,453	20,557	1,169,481	47,890,336	158,135	47,732,201
stage 2	1,127,944	1,477,030	3,106,695	348,274	504,799	6,564,742	195,729	6,369,013
stage 3	445	1,752	13,646	3,597,879	5,965	3,619,687	1,792,491	1,827,196
POCI	1,351	2,633	1,274	94,281	561	100,100	11,841	88,259
	34,393,119	11,591,881	6,448,068	4,060,991	1,680,806	58,174,865	2,158,196	56,016,669
Debt instruments at fair value through other comprehensive income (*)								
stage 1	12,976,696	95,434	33	-	84,080	13,156,243	-	13,156,243
stage 2	-	-	-	-	-	-	-	-
stage 3	-	-	-	-	1,126	1,126	1,126	-
	12,976,696	95,434	33	-	85,206	13,157,369	1,126	13,156,243
Guarantees and other commitments								
stage 1	7,965,704	3,467,585	1,116,310	211	416,650	12,966,460	12,030	12,954,430
stage 2	208,667	348,165	552,520	51,095	310,963	1,471,410	7,031	1,464,379
stage 3	-	1	-	495,305	-	495,306	89,053	406,253
	8,174,371	3,815,751	1,668,830	546,611	727,613	14,933,176	108,114	14,825,062
Total	55,544,186	15,503,066	8,116,931	4,607,602	2,493,625	86,265,410	2,267,436	83,997,974

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 C1.5.1.2.

The gross exposure includes the guarantees granted, irrevocable credit lines and revocable commitments, as detailed in note 45.

As at 31 December 2019, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments, analysed by segment and stage, are as follows:

(Thousands of euros)

	31 December 2019									
		Stage 2				Stage 3				
Segment	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Individuals-Mortgage	22,353,466	2,409,116	153,136	53,818	2,616,070	290,423	336,520	626,943	21,869	25,618,348
Individuals-Other	7,915,090	722,034	108,364	63,299	893,697	243,799	333,221	577,020	100,373	9,486,180
Financial Companies	3,142,152	436,539	87	9	436,635	217,568	253,927	471,495	-	4,050,282
Non-financial comp. - Corporate	8,062,174	994,988	515	448	995,951	443,269	630,343	1,073,612	-	10,131,737
Non-financial comp.- SME-Corporate	9,541,235	2,369,242	22,412	4,655	2,396,309	793,661	323,413	1,117,074	-	13,054,618
Non-financial comp. -SME-Retail	4,091,815	1,232,296	36,575	13,744	1,282,615	409,553	207,741	617,294	22	5,991,746
Non-financial comp.-Other	463,226	122,636	14	-	122,650	9,677	57,553	67,230	-	653,106
Other loans	1,323,948	347,709	-	-	347,709	90	1	91	-	1,671,748
Total	56,893,106	8,634,560	321,103	135,973	9,091,636	2,408,040	2,142,719	4,550,759	122,264	70,657,765
Impairment										
Individuals-Mortgage	5,926	10,390	2,875	3,531	16,796	28,620	71,542	100,162	416	123,300
Individuals-Other	36,710	16,884	11,416	11,523	39,823	94,004	187,494	281,498	13,203	371,234
Financial Companies	1,976	5,198	10	1	5,209	142,056	203,236	345,292	-	352,477
Non-financial comp. - Corporate	22,635	19,230	3	34	19,267	269,938	386,084	656,022	-	697,924
Non-financial comp.- SME-Corporate	32,913	78,768	2,213	615	81,596	260,117	232,087	492,204	-	606,713
Non-financial comp. -SME-Retail	7,767	27,831	2,036	1,178	31,045	194,031	124,383	318,414	5	357,231
Non-financial comp.-Other	239	370	-	-	370	1,314	32,229	33,543	-	34,152
Other loans	1,759	3,691	-	-	3,691	-	-	-	-	5,450
Total	109,925	162,362	18,553	16,882	197,797	990,080	1,237,055	2,227,135	13,624	2,548,481
Net exposure										
Individuals-Mortgage	22,347,540	2,398,726	150,261	50,287	2,599,274	261,803	264,978	526,781	21,453	25,495,048
Individuals-Other	7,878,380	705,150	96,948	51,776	853,874	149,795	145,727	295,522	87,170	9,114,946
Financial Companies	3,140,176	431,341	77	8	431,426	75,512	50,691	126,203	-	3,697,805
Non-financial comp. - Corporate	8,039,539	975,758	512	414	976,684	173,331	244,259	417,590	-	9,433,813
Non-financial comp.- SME-Corporate	9,508,322	2,290,474	20,199	4,040	2,314,713	533,544	91,326	624,870	-	12,447,905
Non-financial comp. -SME-Retail	4,084,048	1,204,465	34,539	12,566	1,251,570	215,522	83,358	298,880	17	5,634,515
Non-financial comp.-Other	462,987	122,266	14	-	122,280	8,363	25,324	33,687	-	618,954
Other loans	1,322,189	344,018	-	-	344,018	90	1	91	-	1,666,298
Total	56,783,181	8,472,198	302,550	119,091	8,893,839	1,417,960	905,664	2,323,624	108,640	68,109,284
% of impairment coverage										
Individuals-Mortgage	0.03%	0.43%	1.88%	6.56%	0.64%	9.85%	21.26%	15.98%	1.90%	0.48%
Individuals-Other	0.46%	2.34%	10.54%	18.20%	4.46%	38.56%	56.27%	48.78%	13.15%	3.91%
Financial Companies	0.06%	1.19%	11.49%	10.79%	1.19%	65.29%	80.04%	73.23%	0.00%	8.70%
Non-financial comp. - Corporate	0.28%	1.93%	0.63%	7.55%	1.93%	60.90%	61.25%	61.10%	0.00%	6.89%
Non-financial comp.- SME-Corporate	0.34%	3.32%	9.88%	13.22%	3.41%	32.77%	71.76%	44.06%	0.00%	4.65%
Non-financial comp. -SME-Retail	0.19%	2.26%	5.57%	8.57%	2.42%	47.38%	59.87%	51.58%	24.69%	5.96%
Non-financial comp.-Other	0.05%	0.30%	0.32%	0.16%	0.30%	13.58%	56.00%	49.89%	0.00%	5.23%
Other loans	0.13%	1.06%	0.00%	86.57%	1.06%	0.34%	25.74%	0.65%	0.00%	0.33%
Total	0.19%	1.88%	5.78%	12.42%	2.18%	41.12%	57.73%	48.94%	11.14%	3.61%

As at 31 December 2019, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments, analysed by sector of activity and stage, are as follows:

(Thousands of euros)

	31 December 2019									
		Stage 2				Stage 3				
Sector of activity	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Loans to individuals	30,268,556	3,131,150	261,500	117,117	3,509,767	534,222	669,741	1,203,963	122,242	35,104,528
Non-financial comp.- Trade	4,582,666	699,541	15,539	2,875	717,955	162,472	90,839	253,311	5	5,553,937
Non-financial comp.- Construction	1,818,997	661,929	5,314	1,413	668,656	497,493	223,261	720,754	7	3,208,414
Non finan. comp.- Manufacturing indust.	4,923,011	776,824	12,375	5,430	794,629	144,757	127,568	272,325	-	5,989,965
Non-financial comp.-Other activities	1,430,987	406,038	4,623	917	411,578	162,545	11,707	174,252	-	2,016,817
Non-financial comp.- Other services	9,402,789	2,174,830	21,665	8,212	2,204,707	688,893	765,675	1,454,568	10	13,062,074
Other Services /Other activities	4,466,100	784,248	87	9	784,344	217,658	253,928	471,586	-	5,722,030
Total	56,893,106	8,634,560	321,103	135,973	9,091,636	2,408,040	2,142,719	4,550,759	122,264	70,657,765
Impairment										
Loans to individuals	42,636	27,274	14,291	15,054	56,619	122,624	259,036	381,660	13,619	494,534
Non-financial comp.- Trade	14,704	12,532	935	378	13,845	77,103	50,035	127,138	1	155,688
Non-financial comp.- Construction	5,965	8,362	616	90	9,068	135,666	168,096	303,762	1	318,796
Non-financial comp.- Manufacturing indu:	16,042	17,799	1,021	759	19,579	51,759	52,406	104,165	-	139,786
Non-financial comp.-Other activities	3,162	11,014	76	121	11,211	75,129	4,224	79,353	-	93,726
Non-financial comp.- Other services	23,681	76,492	1,604	479	78,575	385,743	500,022	885,765	3	988,024
Other Services /Other activities	3,735	8,889	10	1	8,900	142,056	203,236	345,292	-	357,927
Total	109,925	162,362	18,553	16,882	197,797	990,080	1,237,055	2,227,135	13,624	2,548,481
Net exposure										
Loans to individuals	30,225,920	3,103,876	247,209	102,063	3,453,148	411,598	410,705	822,303	108,623	34,609,994
Non-financial comp.- Trade	4,567,962	687,009	14,604	2,497	704,110	85,369	40,804	126,173	4	5,398,249
Non-financial comp.- Construction	1,813,032	653,567	4,698	1,323	659,588	361,827	55,165	416,992	6	2,889,618
Non finan. comp.- Manufacturing indust.	4,906,969	759,025	11,354	4,671	775,050	92,998	75,162	168,160	-	5,850,179
Non-financial comp.-Other activities	1,427,825	395,024	4,547	796	400,367	87,416	7,483	94,899	-	1,923,091
Non-financial comp.- Other services	9,379,108	2,098,338	20,061	7,733	2,126,132	303,150	265,653	568,803	7	12,074,050
Other Services /Other activities	4,462,365	775,359	77	8	775,444	75,602	50,692	126,294	-	5,364,103
Total	56,783,181	8,472,198	302,550	119,091	8,893,839	1,417,960	905,664	2,323,624	108,640	68,109,284
% of impairment coverage										
Loans to individuals	0.14%	0.87%	5.47%	12.85%	1.61%	22.95%	38.68%	31.70%	11.14%	1.41%
Non-financial comp.- Trade	0.32%	1.79%	6.02%	13.16%	1.93%	47.46%	55.08%	50.19%	19.52%	2.80%
Non-financial comp.- Construction	0.33%	1.26%	11.59%	6.39%	1.36%	27.27%	75.29%	42.15%	17.98%	9.94%
Non finan. comp.- Manufacturing indust.	0.33%	2.29%	8.25%	13.97%	2.46%	35.76%	41.08%	38.25%	0.00%	2.33%
Non-financial comp.-Other activities	0.22%	2.71%	1.63%	13.20%	2.72%	46.22%	36.08%	45.54%	0.00%	4.65%
Non-financial comp.- Other services	0.25%	3.52%	7.41%	5.83%	3.56%	55.99%	65.30%	60.90%	32.25%	7.56%
Other Services /Other activities	0.08%	1.13%	11.49%	12.31%	1.13%	65.27%	80.04%	73.22%	0.00%	6.26%
Total	0.19%	1.88%	5.78%	12.42%	2.18%	41.12%	57.73%	48.94%	11.14%	3.61%

As at 31 December 2019, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments, analysed by geography and stage, are as follows:

(Thousands of euros)

	31 December 2019									
		Stage 2				Stage 3				
Geography	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Portugal	37,360,242	7,539,145	213,859	50,683	7,803,687	2,091,146	1,634,199	3,725,345	4	48,889,278
Poland	17,805,331	637,164	103,279	83,608	824,051	280,998	375,142	656,140	122,260	19,407,782
Mozambique	1,223,817	458,251	3,965	1,682	463,898	32,342	133,378	165,720	-	1,853,435
Switzerland	503,716	-	-	-	-	3,554	-	3,554	-	507,270
Total	56,893,106	8,634,560	321,103	135,973	9,091,636	2,408,040	2,142,719	4,550,759	122,264	70,657,765
Impairment										
Portugal	29,491	135,225	6,309	2,365	143,899	862,601	946,988	1,809,589	-	1,982,979
Poland	76,111	20,991	11,359	14,078	46,428	115,442	222,327	337,769	13,624	473,932
Mozambique	3,966	6,146	885	439	7,470	8,488	67,740	76,228	-	87,664
Switzerland	357	-	-	-	-	3,549	-	3,549	-	3,906
Total	109,925	162,362	18,553	16,882	197,797	990,080	1,237,055	2,227,135	13,624	2,548,481
Net exposure										
Portugal	37,330,751	7,403,920	207,550	48,318	7,659,788	1,228,545	687,211	1,915,756	4	46,906,299
Poland	17,729,220	616,173	91,920	69,530	777,623	165,556	152,815	318,371	108,636	18,933,850
Mozambique	1,219,851	452,105	3,080	1,243	456,428	23,854	65,638	89,492	-	1,765,771
Switzerland	503,359	-	-	-	-	5	-	5	-	503,364
Total	56,783,181	8,472,198	302,550	119,091	8,893,839	1,417,960	905,664	2,323,624	108,640	68,109,284
% of impairment coverage										
Portugal	0.08%	1.79%	2.95%	4.67%	1.84%	41.25%	57.95%	48.58%	0.00%	4.06%
Poland	0.43%	3.29%	11.00%	16.84%	5.63%	41.08%	59.26%	51.48%	11.14%	2.44%
Mozambique	0.32%	1.34%	22.33%	26.10%	1.61%	26.25%	50.79%	46.00%	0.00%	4.73%
Switzerland	0.07%	0.00%	0.00%	0.00%	0.00%	99.87%	0.00%	99.87%	0.00%	0.77%
Total	0.19%	1.88%	5.78%	12.42%	2.18%	41.12%	57.73%	48.94%	11.14%	3.61%

As at 31 December 2019, the gross exposure, by type of financial instrument, internal rating (attributed in Portugal and in Poland) and stage, is analysed as follows:

(Thousands of euros)

	31 December 2019							
	Gross Exposure							
	Higher quality (GR 1-6)	Average quality (GR 7-9)	Lower quality (GR 10-12)	Procedural (GR 13/14/15)	Not classified (without risk grade)	Total	Impairment losses	Net exposure
Financial assets at amortised cost								
stage 1	27,229,156	9,199,924	3,325,337	24,978	3,593,623	43,373,018	96,281	43,276,737
stage 2	1,156,108	1,649,110	2,999,799	498,649	615,424	6,919,090	184,280	6,734,810
stage 3	1,054	3,425	66,159	3,757,614	75,746	3,903,998	2,048,079	1,855,919
POCI	434	536	456	112,054	8,662	122,142	13,622	108,520
	28,386,752	10,852,995	6,391,751	4,393,295	4,293,455	54,318,248	2,342,262	51,975,986
Debt instruments at fair value through other comprehensive income (*)								
stage 1	12,732,509	88,792	184	-	276,641	13,098,126	-	13,098,126
stage 3	-	-	-	-	-	-	-	-
	12,732,509	88,792	184	-	276,641	13,098,126	-	13,098,126
Guarantees and other commitments								
stage 1	7,431,539	2,938,347	940,101	235	482,333	11,792,555	9,321	11,783,234
stage 2	206,446	342,793	640,031	65,466	453,912	1,708,648	6,047	1,702,601
stage 3	9	9	18,415	457,458	1,596	477,487	99,279	378,208
	7,637,994	3,281,151	1,598,549	523,238	937,881	13,978,813	114,649	13,864,043
Total	48,757,255	14,222,938	7,990,484	4,916,533	5,507,977	81,395,187	2,456,911	78,938,155

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 C1.5.1.2.

The gross exposure includes the guarantees granted, irrevocable credit lines and revocable commitments, as detailed in note 45.

As at 30 June 2020, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments subject to individual and collective impairment, by segment, by sector of activity and by geography, are presented in the following tables:

(Thousands of euros)

	30 June 2020					
	Gross Exposure			Impairment losses		
Segment	Individual	Collective	Total	Individual	Collective	Total
Individuals-Mortgage	30,153	25,684,779	25,714,932	10,411	101,282	111,693
Individuals-Other	120,182	9,244,720	9,364,902	31,593	408,580	440,173
Financial Companies	279,968	3,598,037	3,878,005	208,841	13,903	222,744
Non-financial comp. - Corporate	936,527	9,811,255	10,747,782	599,338	65,680	665,018
Non-financial comp.- SME-Corporate	883,255	13,294,984	14,178,239	368,647	182,450	551,097
Non-financial comp. -SME-Retail	373,469	6,570,069	6,943,538	209,928	121,093	331,021
Non-financial comp.-Other	59,045	481,849	540,894	34,931	356	35,287
Other loans	-	4,213,961	4,213,961	-	9,357	9,357
Total	2,682,599	72,899,654	75,582,253	1,463,689	902,701	2,366,390

(Thousands of euros)

	30 June 2020					
	Gross Exposure			Impairment losses		
Sector of activity	Individual	Collective	Total	Individual	Collective	Total
Loans to individuals	150,335	34,929,499	35,079,834	42,004	509,863	551,867
Non-financial comp.- Trade	172,557	6,095,021	6,267,578	102,530	74,433	176,963
Non-financial comp.- Construction	413,499	2,795,742	3,209,241	120,800	43,533	164,333
Non finan. comp.- Manufacturing indust.	212,082	6,326,393	6,538,475	102,585	68,147	170,732
Non-financial comp.-Other activities	182,466	2,092,941	2,275,407	82,327	28,057	110,384
Non-financial comp.- Other services	1,271,692	12,848,060	14,119,752	804,602	155,409	960,011
Other Services /Other activities	279,968	7,811,998	8,091,966	208,841	23,259	232,100
Total	2,682,599	72,899,654	75,582,253	1,463,689	902,701	2,366,390

(Thousands of euros)

	30 June 2020					
	Gross Exposure			Impairment losses		
Geography	Individual	Collective	Total	Individual	Collective	Total
Portugal	2,345,638	51,364,766	53,710,404	1,310,616	437,058	1,747,674
Poland	186,845	19,210,941	19,397,786	84,307	434,330	518,637
Mozambique	146,546	1,791,251	1,937,797	65,196	30,929	96,125
Switzerland	3,570	532,696	536,266	3,570	384	3,954
Total	2,682,599	72,899,654	75,582,253	1,463,689	902,701	2,366,390

The balances Gross Exposure and Collective Impairment include the loans subject to individual analysis for which the Group has concluded that there is no objective evidence of impairment.

As at 31 December 2019, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments subject to individual and collective impairment, by segment, by sector of activity and by geography, are presented in the following tables:

(Thousands of euros)

	31 December 2019					
	Gross Exposure			Impairment losses		
Segment	Individual	Collective	Total	Individual	Collective	Total
Individuals-Mortgage	29,015	25,589,333	25,618,348	10,216	113,084	123,300
Individuals-Other	115,704	9,370,476	9,486,180	29,834	341,400	371,234
Financial Companies	458,198	3,592,084	4,050,282	344,870	7,607	352,477
Non-financial comp. - Corporate	1,044,443	9,087,294	10,131,737	649,682	48,242	697,924
Non-financial comp.- SME-Corporate	902,774	12,151,844	13,054,618	452,958	153,755	606,713
Non-financial comp. -SME-Retail	438,601	5,553,145	5,991,746	255,339	101,892	357,231
Non-financial comp.-Other	61,862	591,244	653,106	33,358	794	34,152
Other loans	-	1,671,748	1,671,748	-	5,450	5,450
Total	3,050,597	67,607,168	70,657,765	1,776,257	772,224	2,548,481

(Thousands of euros)

	31 December 2019					
	Gross Exposure			Impairment losses		
Sector of activity	Individual	Collective	Total	Individual	Collective	Total
Loans to individuals	144,718	34,959,810	35,104,528	40,050	454,484	494,534
Non-financial comp.- Trade	167,971	5,385,966	5,553,937	98,054	57,634	155,688
Non-financial comp.- Construction	605,188	2,603,226	3,208,414	281,705	37,091	318,796
Non finan. comp.- Manufacturing indust.	170,689	5,819,276	5,989,965	82,803	56,983	139,786
Non-financial comp.-Other activities	152,241	1,864,576	2,016,817	75,203	18,523	93,726
Non-financial comp.- Other services	1,351,591	11,710,483	13,062,074	853,573	134,451	988,024
Other Services /Other activities	458,199	5,263,831	5,722,030	344,869	13,058	357,927
Total	3,050,597	67,607,168	70,657,765	1,776,257	772,224	2,548,481

(Thousands of euros)

	31 December 2019					
	Gross Exposure			Impairment losses		
Geography	Individual	Collective	Total	Individual	Collective	Total
Portugal	2,732,595	46,156,683	48,889,278	1,626,492	356,487	1,982,979
Poland	181,361	19,226,421	19,407,782	83,898	390,034	473,932
Mozambique	133,087	1,720,348	1,853,435	62,318	25,346	87,664
Switzerland	3,554	503,716	507,270	3,549	357	3,906
Total	3,050,597	67,607,168	70,657,765	1,776,257	772,224	2,548,481

The balances Gross Exposure and Collective Impairment include the loans subject to individual analysis for which the Group has concluded that there is no objective evidence of impairment.

As at 30 June 2020, the following table includes the loans portfolio by segment and by year of production (date of the beginning of the operations, in the portfolio at the date of balance sheet - it does not include restructured loans):

	30 June 2020					
Year of production	Construction and CRE	Companies - Oth. Activities	Mortgage loans	Individuals - Other	Other loans	Total
2009 and previous						
Number of operations	17,884	28,758	335,437	690,614	485	1,073,178
Value (Euros '000)	1,095,728	4,031,232	13,617,490	1,164,943	74,338	19,983,731
Impairment constituted (Euros '000)	68,659	108,527	108,239	22,442	1,067	308,934
2010						
Number of operations	1,599	4,157	14,666	110,240	20	130,682
Value (Euros '000)	73,522	358,577	602,493	178,790	5,027	1,218,409
Impairment constituted (Euros '000)	8,339	14,414	4,109	4,634	50	31,546
2011						
Number of operations	1,457	4,659	12,823	117,177	175	136,291
Value (Euros '000)	92,890	289,254	485,941	160,418	10,672	1,039,175
Impairment constituted (Euros '000)	4,145	16,907	5,251	5,941	660	32,904
2012						
Number of operations	2,110	6,202	12,845	134,412	42	155,611
Value (Euros '000)	100,873	785,329	538,031	178,451	67,900	1,670,584
Impairment constituted (Euros '000)	5,961	38,128	6,205	9,279	42,678	102,251
2013						
Number of operations	2,239	8,419	11,133	155,306	110	177,207
Value (Euros '000)	121,475	808,539	512,703	217,310	216,766	1,876,793
Impairment constituted (Euros '000)	8,448	49,787	4,757	15,810	774	79,576
2014						
Number of operations	3,345	13,187	13,543	230,693	208	260,976
Value (Euros '000)	170,187	1,224,399	710,057	369,355	96,592	2,570,590
Impairment constituted (Euros '000)	6,179	53,201	3,842	32,568	7,078	102,868
2015						
Number of operations	3,868	18,565	15,437	257,016	179	295,065
Value (Euros '000)	253,889	1,849,869	850,307	561,418	80,443	3,595,926
Impairment constituted (Euros '000)	12,529	122,871	3,520	41,565	2,547	183,032
2016						
Number of operations	4,944	24,007	25,157	277,524	231	331,863
Value (Euros '000)	436,008	2,213,340	1,653,750	683,482	108,518	5,095,098
Impairment constituted (Euros '000)	14,535	45,718	4,492	43,068	2,494	110,307
2017						
Number of operations	8,644	37,127	32,580	495,763	380	574,494
Value (Euros '000)	1,220,820	3,674,898	2,482,181	1,365,683	470,692	9,214,274
Impairment constituted (Euros '000)	12,811	64,555	3,167	63,445	6,630	150,608
2018						
Number of operations	12,654	43,234	36,370	991,635	597	1,084,490
Value (Euros '000)	1,444,092	3,946,337	2,957,230	2,373,883	325,547	11,047,089
Impairment constituted (Euros '000)	13,585	106,211	2,179	71,284	2,264	195,523
2019						
Number of operations	11,397	88,513	19,192	434,899	3,663	557,664
Value (Euros '000)	1,314,669	6,749,329	1,583,152	1,113,887	313,109	11,074,146
Impairment constituted (Euros '000)	14,315	66,816	5,481	20,500	1,077	108,189
Total						
Number of operations	70,141	276,828	529,183	3,895,279	6,090	4,777,521
Value (Euros '000)	6,324,153	25,931,103	25,993,335	8,367,620	1,769,604	68,385,815
Impairment constituted (Euros '000)	169,506	687,135	151,242	330,536	67,319	1,405,738

In the year of the current production, are included operations that, by their nature, are contractually subject to renewals. In these cases, the date of the last renewal is considered, namely for overdraft operations, secured current account and factoring operations.

As at 31 December 2019, the following table includes the loans portfolio by segment and by year of production (date of the beginning of the operations, in the portfolio at the date of balance sheet - it does not include restructured loans):

	31 December 2019					
Year of production	Construction and CRE	Companies - Oth. Activities	Mortgage loans	Individuals - Other	Other loans	Total
2008 and previous						
Number of operations	17,070	27,744	324,486	611,691	385	981,376
Value (Euros '000)	1,098,178	3,889,372	13,295,414	1,053,292	22,035	19,358,291
Impairment constituted (Euros '000)	104,226	130,808	105,157	18,205	182	358,578
2009						
Number of operations	1,675	3,557	21,269	98,942	42	125,485
Value (Euros '000)	155,253	385,822	979,221	177,869	6,340	1,704,505
Impairment constituted (Euros '000)	10,486	12,877	5,437	2,869	370	32,039
2010						
Number of operations	1,725	4,645	15,104	112,267	19	133,760
Value (Euros '000)	78,994	411,266	650,922	185,559	1,312	1,328,053
Impairment constituted (Euros '000)	9,134	14,440	3,869	4,264	12	31,719
2011						
Number of operations	1,629	5,250	13,289	120,107	209	140,484
Value (Euros '000)	98,151	318,169	530,220	167,261	15,625	1,129,426
Impairment constituted (Euros '000)	4,763	16,965	5,676	6,264	663	34,331
2012						
Number of operations	2,331	6,893	13,349	142,202	44	164,819
Value (Euros '000)	125,157	864,816	584,262	192,277	74,566	1,841,078
Impairment constituted (Euros '000)	13,095	49,704	7,744	10,635	37,955	119,133
2013						
Number of operations	2,446	9,630	11,529	166,901	114	190,620
Value (Euros '000)	137,239	924,371	555,774	246,849	223,382	2,087,615
Impairment constituted (Euros '000)	8,951	49,380	6,418	17,301	694	82,744
2014						
Number of operations	3,791	15,509	13,989	255,641	248	289,178
Value (Euros '000)	205,091	1,377,949	760,503	484,927	118,968	2,947,438
Impairment constituted (Euros '000)	22,617	64,782	4,524	33,907	7,293	133,123
2015						
Number of operations	4,352	21,555	15,876	272,966	204	314,953
Value (Euros '000)	296,587	2,108,876	904,586	674,725	112,707	4,097,481
Impairment constituted (Euros '000)	16,843	102,965	4,418	40,701	2,702	167,629
2016						
Number of operations	5,514	27,110	25,886	300,210	279	358,999
Value (Euros '000)	561,497	2,446,356	1,763,007	830,302	164,562	5,765,724
Impairment constituted (Euros '000)	42,394	84,823	5,317	40,748	3,229	176,511
2017						
Number of operations	9,199	39,431	33,391	556,652	508	639,181
Value (Euros '000)	1,375,058	4,168,601	2,626,272	1,607,824	578,385	10,356,140
Impairment constituted (Euros '000)	13,609	59,314	3,537	50,647	8,488	135,595
2018						
Number of operations	18,526	180,431	36,975	1,253,320	4,142	1,493,394
Value (Euros '000)	1,775,386	7,322,607	3,095,865	2,983,482	459,630	15,636,970
Impairment constituted (Euros '000)	14,784	122,409	4,174	46,290	1,770	189,427
Total						
Number of operations	68,258	341,755	525,143	3,890,899	6,194	4,832,249
Value (Euros '000)	5,906,591	24,218,205	25,746,046	8,604,367	1,777,512	66,252,721
Impairment constituted (Euros '000)	260,902	708,467	156,271	271,831	63,358	1,460,829

In the year of the current production, are included operations that, by their nature, are contractually subject to renewals. In these cases, the date of the last renewal is considered, namely for overdraft operations, secured current account and factoring operations.

As at 30 June 2020, the following table includes the fair value of the collaterals (not limited by the value of the collateral) associated to the loans portfolio by segments Construction and CRE, Companies - Other Activities and Mortgage loans:

	30 June 2020					
	Construction and CRE		Companies - Other Activities		Mortgage loans	
Fair Value	Real Estate	Other real Collateral (*)	Real Estate	Other real Collateral (*)	Real Estate	Other real Collateral (*)
< 0.5 M€						
Number	6,813	10,320	10,269	73,248	457,357	405
Value (Euros '000)	916,764	246,681	1,513,437	1,514,694	52,439,517	21,793
>= 0.5 M€ and < 1 M€						
Number	716	60	1,335	269	4,229	4
Value (Euros '000)	499,099	39,158	931,189	184,539	2,742,751	2,422
>= 1 M€ and < 5 M€						
Number	570	69	1,082	208	588	1
Value (Euros '000)	1,150,018	127,510	2,136,206	400,239	874,567	1,872
>= 5 M€ and < 10 M€						
Number	87	4	115	21	6	-
Value (Euros '000)	567,744	28,935	784,612	139,310	40,676	-
>= 10 M€ and < 20 M€						
Number	46	1	58	16	-	-
Value (Euros '000)	602,949	15,352	780,770	225,814	-	-
>= 20 M€ and < 50 M€						
Number	31	1	27	1	-	-
Value (Euros '000)	915,497	26,826	798,058	35,799	-	-
>= 50 M€						
Number	3	-	14	4	-	-
Value (Euros '000)	181,142	-	1,117,186	863,177	-	-
Total						
Number	8,266	10,455	12,900	73,767	462,180	410
Value (Euros '000)	4,833,213	484,462	8,061,458	3,363,572	56,097,511	26,087

(*) Includes, namely, securities, deposits and fixed assets pledges.

As at 31 December 2019, the following table includes the fair value of the collaterals (not limited by the value of the collateral) associated to the loans portfolio by segments Construction and CRE, Companies - Other Activities and Mortgage loans:

	31 December 2019					
	Construction and CRE		Companies - Other Activities		Mortgage loans	
Fair Value	Real Estate	Other real Collateral (*)	Real Estate	Other real Collateral (*)	Real Estate	Other real Collateral (*)
< 0.5 M€						
Number	6,437	9,745	10,791	74,567	453,331	413
Value (Euros '000)	833,563	228,720	1,526,932	1,608,063	52,185,423	22,193
>= 0.5 M€ and < 1 M€						
Number	685	46	1,366	279	4,234	6
Value (Euros '000)	476,576	29,484	952,816	192,906	2,747,545	3,487
>= 1 M€ and < 5 M€						
Number	910	895	1,104	276	848	12
Value (Euros '000)	1,274,189	240,034	2,146,890	422,576	845,945	3,606
>= 5 M€ and < 10 M€						
Number	86	8	126	24	6	-
Value (Euros '000)	588,600	62,474	850,782	157,821	39,768	-
>= 10 M€ and < 20 M€						
Number	42	4	60	16	-	-
Value (Euros '000)	576,221	50,642	803,455	240,773	-	-
>= 20 M€ and < 50 M€						
Number	33	4	24	3	-	-
Value (Euros '000)	869,417	73,324	709,533	96,262	-	-
>= 50 M€						
Number	3	-	12	4	-	-
Value (Euros '000)	171,131	-	924,316	863,177	-	-
Total						
Number	8,196	10,702	13,483	75,169	458,419	431
Value (Euros '000)	4,789,697	684,678	7,914,724	3,581,578	55,818,681	29,286

(*) Includes, namely, securities, deposits and fixed assets pledges.

As at 30 June 2020, the following table includes the LTV ratio by segments Construction and Commercial Real Estate (CRE), Companies - Other Activities and Mortgage loans:

(Thousands of euros)

	30 June 2020				
Segment/Ratio	Number of properties	Stage 1	Stage 2	Stage 3	Impairment
Construction and CRE					
Without associated collateral	n.a.	2,537,737	713,292	392,196	134,029
<60%	19,030	600,332	255,261	60,634	16,932
>=60% and <80%	3,262	710,078	93,642	68,613	18,385
>=80% and <100%	1,616	216,534	53,166	79,272	27,008
>=100%	9,543	548,721	239,016	184,258	89,533
Companies - Other Activities					
Without associated collateral	n.a.	18,097,369	1,981,892	1,216,758	935,891
<60%	51,121	1,534,460	461,478	249,552	114,896
>=60% and <80%	17,264	1,069,663	460,708	98,830	35,552
>=80% and <100%	12,883	763,319	154,165	177,312	87,730
>=100%	5,649	777,367	373,674	416,995	293,501
Mortgage loans					
Without associated collateral	n.a.	379,875	31,998	17,051	10,567
<60%	321,966	10,345,035	1,084,333	192,172	38,139
>=60% and <80%	144,770	7,742,327	904,074	177,432	32,571
>=80% and <100%	59,967	3,494,729	453,036	135,713	23,417
>=100%	19,832	1,190,246	136,640	171,048	56,321

As at 31 December 2019, the following table includes the LTV ratio by segments Construction and Commercial Real Estate (CRE), Companies - Other Activities and Mortgage loans:

(Thousands of euros)

	31 December 2019				
Segment/Ratio	Number of properties	Stage 1	Stage 2	Stage 3	Impairment
Construction and CRE					
Without associated collateral	n.a.	2,086,625	768,657	442,944	202,585
<60%	17,242	558,709	241,261	63,333	15,699
>=60% and <80%	3,389	675,660	97,461	26,694	10,938
>=80% and <100%	1,538	163,759	85,336	112,415	26,182
>=100%	8,068	436,551	190,209	370,532	195,285
Companies - Other Activities					
Without associated collateral	n.a.	14,681,508	2,224,191	1,597,121	1,045,994
<60%	47,980	1,374,701	447,465	233,219	80,416
>=60% and <80%	16,575	902,710	244,641	151,310	51,077
>=80% and <100%	13,894	709,089	202,621	143,773	70,388
>=100%	8,657	1,115,491	357,817	723,141	487,563
Mortgage loans					
Without associated collateral	n.a.	231,962	5,098	10,469	7,999
<60%	272,952	8,057,885	952,664	201,100	30,362
>=60% and <80%	145,013	7,210,271	1,031,242	236,650	29,324
>=80% and <100%	67,132	3,286,948	616,158	251,569	29,570
>=100%	28,216	1,343,396	219,650	375,142	115,204

As at 30 June 2020, the following table includes the fair value and the net book value of the properties classified as Non-current assets held for sale (note 26), by type of asset:

(Thousands of euros)

	30 June 2020					
	Assets arising from recovered loans results (note 26)		Assets belong to investments funds and real estate companies (note 26)		Total	
Asset	Appraised value	Book value	Appraised value	Book value	Appraised value	Book value
Land						
Urban	451,971	353,168	250,767	250,767	702,738	603,935
Rural	18,833	14,553	3,440	3,440	22,273	17,993
Buildings in development						
Commercials	-	-	34,882	34,882	34,882	34,882
Other	55	55	-	-	55	55
Constructed buildings						
Commercials	267,611	213,864	20,440	20,440	288,051	234,304
Mortgage loans	268,063	216,463	2,689	2,689	270,752	219,152
Other	5,740	5,536	2,644	2,644	8,384	8,180
Other assets	3,480	3,480	-	-	3,480	3,480
	1,015,753	807,119	314,862	314,862	1,330,615	1,121,981

As at 31 December 2019, the following table includes the fair value and the net book value of the properties classified as Non-current assets held for sale (note 26), by type of asset:

(Thousands of euros)

	31 December 2019					
	Assets arising from recovered loans results (note 26)		Assets belong to investments funds and real estate companies (note 26)		Total	
Asset	Appraised value	Book value	Appraised value	Book value	Appraised value	Book value
Land						
Urban	462,441	367,128	252,190	252,190	714,631	619,318
Rural	20,104	15,065	3,398	3,398	23,502	18,463
Buildings in development						
Commercials	1,468	767	34,176	34,176	35,644	34,943
Mortgage loans	4,000	3,043	-	-	4,000	3,043
Other	61	61	-	-	61	61
Constructed buildings						
Commercials	288,983	233,049	21,467	21,467	310,450	254,516
Mortgage loans	312,807	251,777	2,948	2,948	315,755	254,725
Other	6,827	6,502	2,659	2,659	9,486	9,161
Other assets	3,894	3,894	-	-	3,894	3,894
	1,100,585	881,286	316,838	316,838	1,417,423	1,198,124

Credit concentration risk

The Group's policy relating to the identification, measurement and evaluation of the concentration risk in credit risk is defined and described in the document *Credit Principles and Guidelines*, approved by the Bank's management body. This policy applies to all Group entities by the transposition of the respective definitions and requirements into the internal rulings of each entity. Through the document mentioned above, the Group defined the following guidelines relating to the control and management of credit concentration risk:

The monitoring of the concentration risk and the follow-up of major risks is made, at Group level, based on the concept of "Economic Groups" and "Customer Groups" - sets of connected Customers (individual persons or companies), which represent a single entity from a credit risk perspective, such that if one of them is affected by financial problems, one or all of the others, will probably face difficulties to fulfil their debtor obligations. The Customer connections that originate a Customer group include the formal participation on the same economic group, the evidence that a direct or indirect control relationship exists, including the control by an individual Customer (criteria of capacity of control) of a company or the existence of a strong commercial interdependency or common sources of funding that cannot be replaced on a short term (criteria of economic dependency).The identification of connected clients is an integral part of the credit granting and monitoring processes of each entity.

For the control of credit concentration risk and limit the exposure to this risk, there are limits defined for:

1) Exposures to Sovereigns;
2) Exposures to Institutions (Banks/financial institutions);
3) Single-name exposures (Large Corporate exposures);
4) Geographic concentration (country risk);
5) Exposure to sectors of activity.

These limits apply to the 'Net exposures' at stake(*), relating either to a counterparty or a group of counterparties – cases for 1), 2) and 3) – or to the set of exposures to an activity sector or to a country (the counterparty country of residence) – cases for 4) and 5). The measurement of geographic concentration excludes the countries in which the Group operates (Portugal, Poland and Mozambique).

Except for exposure to sectors of activity, the concentration limits are established by taking into consideration the credit worthiness of the debtors at stake in what concerns their rating grades/probability of Default (PD) (internal or external ratings; country rating in the case of geographic concentration).

The concentration limits for Corporate single-name exposures apply only to non-NPE positions, since the NPE(**) positions are covered by the NPE reduction Plan.

The limits in force as at 31 December 2019, for the exposure to Sovereigns, Institutions, Single-name and geographical (for a given Customer/Group of Customers in the second and third cases) are the following, in terms of the Net Exposure weight over the Consolidated Own Funds:

		Limit = Max. % of Net Exposure over the Consolidated Own Funds		
Risk quality	**Risk grades**	**Sovereigns**	**Institutions**	**Countries (geog.)**
1st Tier	1 - 3	25.0%	10.0%	40.0%
2nd Tier	4 - 6	10.0%	5.0%	20.0%
3rd Tier	7 - 12	7.5%	2.5%	10.0%

Risk quality	**Risk grade**	***Single-name***
High quality	1 - 5	7.0%
Average/good quality	6 - 7	4.5%
Average low/quality	8 - 9	3.0%
Low quality	10 - 11	0.7%
Restricted credit	12 - 13	0.3%

(*) Net exposure = EAD x LGD, considering LGD=45% whenever own estimates for LGD are not available or applicable. EAD = Exposure at default ; LGD = Loss given Default;

(**) NPE = Non-performing exposures

As at 31 December 2019:

- There were no exposure excesses to Sovereigns, Institutions or countries;
- There were 3 Economic Groups with net exposure above the established Single-name limits for their respective risk grade, the same number as by the end of 2018. For each client with an exposure excess a specific plan is prepared, aiming at reducing the exposure and bringing it within the established limits.

It should also be referred that the assessment of the Single-name concentration is also performed within the Group RAS (Risk Appetite Statement) scope.

In what concerns the limit for exposure to sectors of activity, in force on 31 December 2019, this is defined as a maximum of 40% per sector of activity, in terms of the weight of the Net Exposure for each sector of activity over the Own Funds of each Group Entity. As of 31 December 2019, there was no excess over this limit.

The Bank's management body and the Risk Assessment Committee are regularly informed on the evolution of the credit concentration risk metrics (against the mentioned limits) and on major risks, which are assessed by measuring the weights of the net exposure values in question in terms of the consolidated Own Funds level. For such measurements, the Risk Office uses a database on credit exposures (the Risk Office Datamart), monthly updated by the Group's systems, which also feeds a simulation tool for supporting the analysis of the impact on changes on the Customers exposures in the consumption of the respective concentration limits, used by the Credit Division within the scope of credit analysis for large clients.

Market risk

Market risks consist of the potential losses that might occur in a given portfolio as a result of changes in interest or exchange rates and/or in the prices of the different financial instruments of the portfolio, considering not only the correlations that exist between those instruments but also their volatility.

For purposes of profitability analysis and market risks quantification and control, the following management areas are defined for each entity of the Group:

- Trading - Management of positions whose objective is the achievement of short term gains, through sale or revaluation. These positions are actively managed, tradable without restriction and may be valued frequently and accurately. The positions in question include securities and derivatives of sales activities;
- Funding - Management of institutional funding (wholesale funding) and money market positions;
Investment - Management of all the positions in securities to be held to maturity (or for a longer period of time) or positions which are not tradable on liquid markets;
- Commercial - Management of positions arising from commercial activity with Customers;
- Structural - Management of balance sheet items or operations which, due to their nature, are not directly related to any of the management areas referred to above; and
- ALM - Assets and Liabilities Management.

The definition of these areas allows for an effective management separation of the trading and banking books, as well as for the correct allocation of each operation to the most suitable management area, according to its respective context and strategy.

In order to ensure that the risk levels incurred in the different portfolios of the Group comply with the predefined levels of tolerance to risk, various market risks limits are established, at least yearly, being applicable to all portfolios of the risk management areas over which the risks are incident. These limits are monitored on a daily basis (or intra-daily, in the case of financial markets) by the Risk Office.

Stop Loss limits are also defined for the financial markets areas, based on multiples of the risk limits defined for those areas, aimed at limiting the maximum losses that might occur. When these limits are reached, a review of the strategy and of the assumptions relative to the management of the positions in question is mandatory.

Trading book market risks (Positions allocated to the Trading Management Area and not, specifically, to the accounting Trading Book)

The Group uses an integrated market risk measurement that allows for the monitoring all of the risk subtypes that are considered relevant. This measurement includes the assessment of the general risk, specific risk, non-linear risk and commodity risk. Each risk subtype is measured individually using an appropriate risk model and the integrated measurement is built from the measurements of each subtype without considering any kind of diversification between the four subtypes (worst-case scenario approach).

For the daily measurement of general market risk - including interest rate risk, exchange rate risk, equity risk and price risk of credit default swaps (indexes) - a VaR (value-at-risk) model is used, considering a time horizon of 10 business days and a significance level of 99%.

For non-linear risk, an internally-developed methodology is applied, replicating the effect that the main non-linear elements of options might have in P&L results of the different portfolios in which these are included, similarly to what is considered by the VaR methodology, using the same time horizon and significance level.

Specific and commodity risks are measured through standard methodologies defined in the applicable regulations, with an appropriate change of the time horizon considered.

The table below presents the amounts at risk for the Trading Book, between 30 June 2019 and 30 June 2020, measured by the methodologies referred to above:

(Thousands of euros)

	30 June 2020	Max of global risk in the period	Min of global risk in the period	30 June 2019
Generic Risk (VaR)	2,244	4,894	826	4,865
Interest Rate Risk	772	4,954	800	4,967
FX Risk	1,972	220	183	232
Equity Risk	63	20	91	15
Diversification effects	*(563)*	*(299)*	*(249)*	*(350)*
Specific Risk	84	23	10	17
Non-Linear Risk	0	0	0	0
Commodities Risk	-	3	3	3
Global Risk	2,328	4,920	839	4,884

In order to check the appropriateness of the internal VaR model to the assessment of the risks involved in the positions held, several validations are conducted over time, of different scopes and frequency, which include back testing, the estimation of the effects of diversification and the analysis of the comprehensiveness of the risk factors.

As a complement to the VaR assessment, the Group continuously tests a broad range of stress scenarios analysing the respective results with a view to identifying risk concentrations that have not been captured by the VaR model and, also, to test for other possible dimensions of loss.

Interest rate risk

The evaluation of interest rate risk derived from Banking Book operations is assessed through a process of risk sensitivity analysis, undertaken every month, covering all the operations included in the Group's consolidated Balance Sheet and discriminated by exposure currency.

Variations of market interest rates influence the Group's net interest income, both in the short term and medium/long term, affecting its economic value in a long term perspective. The main risk factors arise from the repricing mismatch of portfolio positions (repricing risk) and from the risk of variation in market interest rates (yield curve risk). Besides this, although with less impact, there is the risk of unequal variations in different reference rates with the same repricing period (basis risk).

In order to identify the exposure of the Group's banking book to these risks, the monitoring of the interest rate risk takes into consideration the financial characteristics of each of the relevant contracts, with the respective expected cash-flows (principal and interest, without the spread component but including costs for liquidity, capital, operational and other) being projected according to the repricing dates, thus calculating the impact on economic value resulting from alternative scenarios of change of market interest rate curves.

The interest rate sensitivity of the balance sheet, by currency, is calculated as the difference between the present value of the interest rate mismatch discounted at market interest rates and the discounted value of the same cash flows simulating parallel shifts of the market interest rates.

The following tables show the expected impact on the banking book economic value of parallel shifts of the yield curve by +/- 100 and +/- 200 basis points, for each of the main currencies in which the Group holds material positions:

(Thousands of euros)

	30 June 2020			
Currency	- 200 bp (*)	- 100 bp (*)	+ 100 bp	+ 200 bp
CHF	2,459	2,459	4,612	9,785
EUR	40,251	39,324	96,554	189,070
PLN	25,834	25,825	(44,121)	(85,627)
USD	(3,445)	(3,445)	12,412	24,387
	65,099	64,163	69,457	137,615

(*) Decrease in rates scenario, limited to non-negative rates (which implies effective variations of lesser amplitude than 100 bp, especially in shorter periods).

(Thousands of euros)

	31 December 2019			
Currency	- 200 bp (*)	- 100 bp (*)	+ 100 bp	+ 200 bp
CHF	2,075	2,075	2,906	6,406
EUR	67,754	66,915	8,699	27,583
PLN	69,034	37,128	(34,785)	(67,405)
USD	(21,837)	(12,593)	12,160	23,930
	117,026	93,525	(11,020)	(9,486)

(*) Decrease in rates scenario, limited to non-negative rates (which implies effective variations of lesser amplitude than 100 bp, especially in shorter periods).

As described in accounting policy 1 B), the financial statements of the Group's subsidiaries and associates placed abroad are prepared in their functional currency and translated into Euros at the end of each financial period. The exchange rates used for the conversion of balance sheet foreign currency amounts are the ECB reference rates at the end of each period. In foreign currency conversion of results, are calculated average exchange rates according to the closing exchange rates of each month of the year. The rates used by the Group are as follows:

	Closing exchange rates (Balance sheet)		Average exchange rates (Income statement)	
Currency	30 June 2020	31 December 2019	30 June 2020	30 June 2019
AOA	652.7470	541.2770	588.7477	363.4397
BRL	6.1649	4.5114	5.4688	4.3138
CHF	1.0640	1.0872	1.0641	1.1297
MOP	8.9639	9.0080	8.8289	9.1392
MZN	78.4050	70.0750	73.7413	70.9250
PLN	4.4441	4.2518	4.4251	4.2825
USD	1.1229	1.1225	1.1043	1.1312

Foreign exchange and equity risk in the banking book

The exchange rate risk of the banking book is transferred internally to the Trading area, in accordance with the risk specialization model followed by the Group for the management of the exchange rate risk of the Balance Sheet. The exposures to exchange rate risk that are not included in this transfer – the financial holdings in subsidiaries, in foreign currency - are hedged on a case-by-case basis through market operations, taking into consideration the defined policy and the conditions and availability of instruments.

As at 31 December 2019, the Group's investments in convertible foreign currencies were fully hedged. On a consolidated basis, these hedges are identified, in accounting terms, as 'Net investment hedges', in accordance with the IFRS nomenclature. On an individual basis, hedge accounting is also carried out, in this case through a 'Fair Value Hedge' methodology.

Regarding equity risk, the Group maintains a set of positions of small size and low risk equity positions, essentially in the investment portfolio, which are not held for trading purposes. The management of these positions is carried out by a specific area of the Group, with the respective risk being controlled on a daily basis, through the indicators and limits defined for market risks' control.

As at 31 December 2019, the information of net investments, considered by the Group in total or partial hedging strategies on subsidiaries and on hedging instruments used, is as follows:

		30 June 2020			
		Net Investment	Hedging instruments	Net Investment	Hedging instruments
Company	Currency	Currency '000	Currency '000	Euros '000	Euros '000
Banque Privée BCP (Suisse) S.A.	CHF	77,652	77,652	72,984	72,984
Bank Millennium, S.A.	PLN	2,570,017	2,570,017	578,299	578,299

The information on the gains and losses in exchange rates on the loans to cover the investments in foreign institutions, accounted for as exchange differences, is presented in the statement of changes in equity. These hedging relationships were considered effective during the first semester of 2020 and the financial year of 2019, as referred in the accounting policy 1 C4.

The transfer to Portugal of funds, including dividends, which are owed by BCP's subsidiaries or associates in third countries, particularly outside the European Union, are, by their nature, subject to the exchange restrictions and controls that are in force at any time in the country of subsidiaries or associates. In particular, as regards Angola and Mozambique, countries in which the Group holds a minority investment in Banco Millennium Angola and a majority investment in BIM - Banco Internacional de Moçambique, being the case of, export of foreign currency requires prior authorization of the competent authorities, which depends, namely, on the availability of foreign exchange by the central bank of each country. At the date of preparation of this report, there are no outstanding amounts due to the aforementioned requirements.

Liquidity risk

The evaluation of the Group's liquidity risk is carried out using indicators defined by the supervisory authorities on a regular basis and other internal metrics for which exposure limits are also defined.

The monitoring of the liquidity position of the Group's operations in short-term time horizons (up to 3 months) is based on two internally defined indicators (immediate liquidity and quarterly liquidity). These indicators are calculated on a daily basis, taking into account the impact in the liquidity buffers available to discount with the respective central banks at the reference date of future estimated cash flows for each of the respective time horizon (3 days or 3 months) considering the set of transactions intermediated by the market areas, including in this context transactions with clients of the Corporate and Private networks, which, due to their size, must be quoted by the Trading Room. The remaining buffer in each time bucket is then compared to the amount of customer deposits, being the indicators assessed against exposure limits defined in the Bank's regulations.

In parallel, the evolution of the Group's liquidity position is calculated on a regular basis identifying all the factors that justify the variations that occur. This analysis is submitted to the Capital and Assets and Liabilities Committee (CALCO) for appraisal, in order to enable the decision making that leads to the maintenance of financing conditions adequate to the continuation of the business.

In addition, the Risk Commission is responsible for controlling the liquidity risk. This control is reinforced through the monthly execution of stress tests, to characterize the Bank's risk profile and to ensure that the Group and each of its subsidiaries fulfil its obligations in the event of a liquidity crisis. These tests are also used to support the liquidity contingency plan and management decisions.

In the first half of 2020, an increase of Euro 3,043,826,000 in net wholesale financing needs was observed in consolidated terms, attributable to the increase of Euro 3,118,767,000 in the Portuguese operation and the reduction of Euro 74,491,000 in Bank Millennium. In Portugal, the variation was mainly due to the impact of the increase of Euro 3,260,323,000 in investments in sovereign and private debt.

The composition of the medium and long-term financing structure at the end of the first half of 2020 was influenced by decisions taken by the Bank following the change in context resulting from the COVID19. Although the extent of the implications of the pandemic is not yet fully known, the global recession it has generated will have an adverse impact on the banking system and conditions for access to the capital market. For this reason, and in response to the crisis, Central Banks and Supervisors have implemented several actions and measures to mitigate negative impacts for banks, involving the provision of additional liquidity to the banking system through the so-called "Targeted longer-term refinancing operations III "(" TLTRO III ") and the introduction of flexibility measures for collateral eligible for discount with the ECB.

As part of the response to the crisis, the Bank decided to adjust its financing policy. With regard to the use of ECB financing, and considering the deterioration of market conditions in March and April and the uncertainty and volatility observed in the capital market, BCP decided to increase its participation in TLTRO III to Euro 7,550,070,000, which occurred on the same date as the refinancing of Euro 4,000,000,000 TLTRO II in its maturity and that of other Euro 1,500,000,000 borrowings made in April, already in the context of reaction to the crisis. On the other hand, taking advantage of its comfortable liquidity position, the Bank also opted for early repayment, also at the end of the first half of 2020, of collateralized long-term loans with the EIB in the amount of Euro 750,000,000, at the same time having reinforced its collateral pool eligible for discount at the ECB by issuing iown mortgage bonds in the amount of Euro 1,701,798,000 after haircuts.

After these operations, facing December 2019, the increase in the liquidity needs of the operation in Portugal was reflected in increases in ECB net funding (of Euro 3,999,447,000, to Euro 4,282,832,000) and money market instruments (Euro 20,236,000, in this case related to the interbank market, the repos remaining unchanged with a zero balance) and a decrease of Euro 900,917,000 in long-term loans (most of them collateralized with the EIB).

The liquidity impacts of the COVID-19 crisis have been monitored in the main operations of the Group through the indicators and limits defined in the internal liquidity risk management framework and also through daily reporting required by the Supervisor. In this context, the evolution of the liquidity buffers discountable with central banks showed a favorable evolution in the first half of 2020 in the three main operations of the Group, assuming in any case a very comfortable dimension compared to the total of customer deposits, a measure internally used by the Group to assess the resilience of the liquidity buffer to a financial stress scenario.

In Portugal, and as a result of the aforementioned factors, the liquidity buffer with the ECB increased by Euro 422,280,000 compared to December 2019, to Euro 17,199,027,000. Bank Millennium and Bim, also showing a high stability of their deposit bases, in particular of the respective retail components, reached respectively a growth of Euro 417,267,000 (to Euro 5,505,286,000) and Euro 46,607,000 (to Euro 838,440,000) in their liquidity buffers with central banks.

In consolidated terms, the future refinancing needs of medium and long-term instruments remain low over the next five years, exceeding Euro 1,000,000,000 only in 2022. Even in this case, it will involve the payment of a mortgage bond issue in the amount of Euro 1,000,000,000, the collateral of which will be integrated into the ECB's discounted liquidity buffer after repayment, thus meaning a minor loss of liquidity.

The pool of eligible assets for funding operations in the European Central Bank and other central banks, after haircuts, is detailed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
European Central Bank	9,557,606	7,328,153
Other Central Banks	6,343,725	5,973,066
	15,901,331	13,301,219

As at 30 June 2020 the amount discounted with the European Central Bank amounts to Euro 7,550,070,000 (31 December 2019: Euro 4,000,000,000). On 30 June 2020 the amount discounted with the Bank of Mozambique was Euro 1.951.000 (Euro 2,426,000 as of 31 December 2019). There were no discounted amounts with other central banks. The amount of assets eligible for discount with the European Central Bank includes securities issued by the SPE from securitization operations whose assets have not been derecognised in the Group's consolidated view, so that the securities are not recognized in the securities portfolio.

The evolution of the ECB's Monetary Policy Pool, the net borrows at the ECB and liquidity buffer is analysed as follows:

(Thousands of euros)

	30 June 2020	31 December 2019
Collateral eligible for ECB, after haircuts:		
The pool of ECB monetary policy (i)	9,557,606	7,328,153
Outside the pool of ECB monetary policy	11,924,253	9,731,980
	21,481,859	17,060,133
Net borrowing at the ECB (ii)	4,282,832	283,385
Liquidity buffer (iii)	17,199,027	16,776,748

i) Corresponds to the amount reported in COLMS (Bank of Portugal application).
ii) Includes, as at 30 June 2020, the value of funding with ECB, deposits with the Bank of Portugal and other liquidity of the Eurosystem (Euros 3,665,072,000), plus the minimum cash reserves (Euros 397,834,000).
iii) Collateral eligible for ECB, after haircuts, less net financing at the ECB.

Loans to deposits ratio

The BCP Group structurally improved its liquidity profile by recording a credit transformation ratio on deposits calculated in accordance with Bank of Portugal Instruction No. 16/2004 on 30 June 2020 of 85% (current version) and on 31 December 2019 this ratio was set at 86% (according to the current version of the Instruction as at 31 December 2019).

Liquidity coverage ratio

The Basel Committee published the definition of the Liquidity Coverage Ratio (LCR) in 2014, and the Delegated Act by the European Commission was adopted in early October 2015, which introduced, in relation to CRD IV / CRR, new metrics and calculation criteria implemented in the European Union. The adoption of the new framework defines a minimum requirement of 100% as at 1 January 2018. The LCR ratio of the BCP Group comfortably stood above the regulamentar limit indicating 249% at the end of June 2020 (31 December 2019: 216%), supported by highly liquid asset portfolios of value compatible with prudent management of the Group's short-term liquidity.

Net stable funding ratio

The definition of the Net Stable Funding Ratio (NSFR) was approved by the Basel Committee in October 2014. The Group has a stable financing base, obtained by the high weight of customer deposits in the funding structure, collateralised financing, medium and long-term instruments and a strengthened regulatory capital structure, that allow to adequately support the stable financing requirements of the medium and long-term business model, including tangible and intangible assets, customers loans and the securities portfolio that partly serves the purpose of maintaining a highly liquid assets buffer to cover liquidity outflows in adverse situations. The NFSR stood at 137% as at 30 June 2020 (which compares to 135% by 31 December 2019).

Encumbered and Unencumbered assets

Within the scope of the European Banking Authority's guidance on the disclosure of encumbered assets and unencumbered assets, taking into account the recommendation made by the European Systemic Risk Committee, the following information is presented in accordance with Commission Delegated Regulation (EU) 2017/2295 of 4 September 2017 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets.

(Thousands of euros)

	30 June 2020 (1)							
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA (2)		of which notionally eligible EHQLA and HQLA (2)		of which EHQLA and HQLA (2)		of which EHQLA and HQLA (2)
Assets of the reporting institution	10,224,478	1,192,379	n/a	n/a	71,655,088	16,904,210	n/a	n/a
Equity instruments	-	-	n/a	n/a	82,579	-	n/a	n/a
Debt securities	1,192,379	1,192,379	1,195,084	1,195,084	18,172,307	12,857,481	18,140,624	12,824,664
of which:								
issued by general governments	1,031,025	1,031,025	1,034,583	1,034,583	12,336,472	11,956,550	12,310,328	11,925,579
issued by financial corporations	1,614	1,614	1,614	1,614	2,005,279	61,183	1,998,352	61,183
issued by non-financial corporations	148,170	148,170	147,312	147,312	2,971,643	616,237	2,971,353	614,392
Other assets of which:	9,032,099	-	n/a	n/a	53,400,202	4,046,729	n/a	n/a
Loans on demand	-	-	n/a	n/a	3,817,196	3,499,175	n/a	n/a
Loans and advances other than loans on demand	8,679,941	-	n/a	n/a	42,388,951	-	n/a	n/a
Other	352,158	-	n/a	n/a	7,194,055	547,554	n/a	n/a

(1) Table's figures are calculated by the median of the values disclosed in the regulatory information for the 4 quarters of the year.
(2) Disclosure of encumbered and unencumbered assets (E) HQLA is presented in accordance with the liquidity criterion defined in Commission Delegated Regulation (EU) 2015/61, which differs from regulatory reporting by pointing to an operational criterion - central bank's eligible.

(Thousands of euros)

	31 December 2019 (1)							
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA (2)		of which notionally eligible EHQLA and HQLA (2)		of which EHQLA and HQLA (2)		of which EHQLA and HQLA (2)
Assets of the reporting institution	10,459,171	1,043,266	n/a	n/a	70,539,049	16,449,753	n/a	n/a
Equity instruments	-	-	n/a	n/a	86,033	-	n/a	n/a
Debt securities	1,137,566	1,043,266	1,136,379	1,042,273	17,762,092	12,773,551	17,764,516	12,774,818
of which:								
issued by general governments	765,468	666,166	765,468	666,166	12,312,751	11,902,959	12,319,695	11,905,154
issued by financial corporations	32,938	32,938	32,938	32,938	1,975,150	23,492	1,970,819	23,492
issued by non-financial corporations	336,757	336,757	336,064	336,064	2,726,570	496,101	2,726,817	495,520
Other assets of which:	9,321,605	-	n/a	n/a	52,690,924	3,676,202	n/a	n/a
Loans on demand	-	-	n/a	n/a	3,430,440	3,130,931	n/a	n/a
Loans and advances other than loans on demand	9,061,854	-	n/a	n/a	41,740,048	-	n/a	n/a
Other	259,751	-	n/a	n/a	7,520,436	545,271	n/a	n/a

(1) Table's figures are calculated by the median of the values disclosed in the regulatory information for the 4 quarters of the year.
(2) Disclosure of encumbered and unencumbered assets EHQLA and HQLA is presented in accordance with the liquidity criterion defined in Commission Delegated Regulation (EU) 2015/61, which differs from regulatory reporting by pointing to an operational criterion - central bank eligibility.

(Thousands of euros)

	30 June 2020 [1]			
	Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA [2]		of which EHQLA and HQLA [2]
Collateral received by the reporting institution	-	-	20,281	20,281
Debt securities	-	-	20,281	20,281
of which:				
issued by general governments	-	-	20,281	20,281
Own covered bonds and asset-backed securities issued and not yet pledged	n/a	n/a	4,069,625	4,069,625
Total assets, Collateral Received and Own Debt Securities Issued	10,224,478	1,192,379	n/a	n/a

(1) Table's figures are calculated by the median of the values disclosed in the regulatory information for the the previous 4 quarters.
(2) Disclosure of encumbered and unencumbered assets (E) HQLA is presented in accordance with the liquidity criterion defined in Commission Delegated Regulation (EU) 2015/61, which differs from regulatory reporting by pointing to an operational criterion - central bank's eligible.

(Thousands of euros)

	31 December 2019 (1)			
	Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA [2]		of which EHQLA and HQLA [2]
Collateral received by the reporting institution	-	-	32,476	32,476
Debt securities	-	-	32,476	32,476
of which:				
issued by general governments	-	-	32,476	32,476
Own covered bonds and asset-backed securities issued and not yet pledged	n/a	n/a	3,616,373	3,616,373
Total assets, Collateral Received and Own Debt Securities Issued	10,459,171	1,043,266	n/a	n/a

(1) Table's figures are calculated by the median of the values disclosed in the regulatory information for the 4 quarters of the year.
(2) Disclosure of encumbered and unencumbered assets EHQLA and HQLA is presented in accordance with the liquidity criterion defined in Commission Delegated Regulation (EU) 2015/61, which differs from regulatory reporting by pointing to an operational criterion - central bank eligibility.

(Thousands of euros)

Sources of encumbrance	Matching liabilities, contingent liabilities or securities lent		Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	
	30 June 2020 (1)	31 December 2019 (1)	30 June 2020 (1)	31 December 2019 (1)
Carrying amount of selected financial liabilities	6,636,225	6,768,487	9,945,025	10,056,710

(1) Table's figures are calculated by the median of the values disclosed in the regulatory information for the 4 quarters of the year.

At the end of first semester of 2020, and according to the EBA methodology, the total encumbered assets represents 17% of the Group's total balance sheet assets. The encumbered Loans to customers represents 88%, while Debt securities represents 8%.

The encumbered assets are mostly related with the Group's funding operations - namely with the ECB and via REPO operations - through the issuance of mortgage bonds and securitisation programs. The type of assets used as collateral for these financing transactions are different Loans to Customers' portfolios, supporting securitisation programs and mortgage bonds issues, either placed outside of the Group or intended to reinforce the collateral pool with the ECB and to collateralise REPO operations from the money markets. Another part of the collateralisation of operations of the latter type, as well as financing from the European Investment Bank, is obtained though sovereign debt eligible for central banks, together with bonds issued by public sector companies.

On 30 June 2020, the Other assets: Other in the amount of Euros 7,194,055.000, although not encumbered, are mostly related to the Group's activity, namely, to: investments in associated companies and subsidiaries, tangible assets and investment properties, intangible assets, assets associated with derivatives and current and deferred taxes.

On 30 June 2020, the Group has an Euros 12.5 billion BCP Covered Bond Programme ("BCP Programme") with Euros 10.2 billion of covered bonds outstanding. The BCP Programme is backed by a Euros 11.8 billion portfolio of residential mortgages, providing an overcollateralization ("OC") of 15.7% that is above the minimum of 14% currently required by rating agencies.

The Portuguese covered bond legislation ensures covered bond holders benefit from a dual-recourse over the issuer together with a special preferential claim over the Cover Pool, the latter having precedence over any other creditor in case of issuer insolvency, which is the extent the covered bond law supersedes the general bankruptcy regulation. Residential mortgages in a cover pool are subject to certain eligibility criteria inscribed in the Portuguese covered bond legislation, among them a maximum LTV (Loan-to-value) of 80%, delinquency of no more than 90 days, and them being first lien mortgages (or, if otherwise, all preceding liens being in the cover pool) over properties located in the EU. The BCP's Programme documentation limits property location to Portugal only.

Operational Risk

The operational risk management system adopts the “3 Lines of Defence” model and is based on an integrated structure of end-to-end processes, considering that a vision which is transversal to the functional units of the organisational structure is the most suitable approach for the perception of risks and to estimate the effects of the corrective measures introduced for their mitigation. Furthermore, these processes model also underlies other strategic initiatives related to the management of this risk such as the actions to improve operating efficiency and the management of business continuity. Hence, the most relevant Group subsidiaries have their own processes structure, which is periodically adjusted according to business evolution, in order to ensure suitable coverage of the business activities (or business support activities) developed, ensuring thus, the replication of the 3 Lines of Defence model in the management of operational risk.

The responsibility for the day-to-day processes' management lies with the 1st Line of Defence: the process owners (seconded by process managers), whose mission is to characterise the operational losses captured under their processes, to monitor the respective Key Risk Indicators (KRI), to perform the Risks Self-Assessment (RSA) exercises, as well as to identify and implement suitable actions to mitigate operational risk exposures, thus contributing to the strengthening of control mechanisms and the improvement of the internal control environment. The periodic revision of the main processes in each geography is ensured by local structure units.

The risk management system (SGR) – role of Risk Management (Risk Office) and Compliance (Compliance Office) – represents the 2nd Line of Defence and is responsible for implementing the risk policy defined for the Group, proposing and developing approaches for managing this risk, supervising their implementation and challenging the 1st Line of Defence regarding the risk levels incurred.

In 2019, the usual operational risk management activities continued to be carried out by the various players involved in the management of this risk, aiming at an efficient and systematic identification, evaluation, mitigation and control of exposures, as well as at the appropriate reporting tasks, either to the Group's management bodies or within regulatory duties. The results of the RSA exercises evidence a robust control environment, demonstrating the Group's commitment to operational risk management through the continuous development of improvement actions that help mitigate exposures to this risk. Regarding the operational losses registered, it should be highlighted that their pattern was not different from what is usual and expected, with a higher frequency of losses of low amounts, without concentration in significant amounts. It should also be noted that the average ratio between gross losses and the relevant indicator for TSA (gross income) has consistently presented values below 1%, which compares very favourably with international benchmarking and attests the robustness of the operational control environment of the Group. The monitoring of KRI has allowed to identify opportunities for improvement that, together with the RSA exercises and the process of identification and registration of losses, provide for an effective management of this risk.

The Bank's mobilization to reinvent the banking experience, based on the digitization and use of new technologies, entails relevant challenges in the management of operational risk, which include the reinforcement of the security of digital banking channels, the reinforcement of mechanisms for the prevention and detection of potential fraud, proper management of personal data and compliance with the information duties legally provided for in sales through digital banking channels. In order to strengthen mechanisms for more efficient control of operational risk, several initiatives were launched, of which we highlight:

- Integrated assessment of operational risks and conduct risks in the analysis and approval of new products and services;
- The strengthening of the monitoring of the risk of conflicts of interest and the evaluation and monitoring of service provision contracts under an outsourcing regime considered critical;
- Conducting a new IT Risk self-assessment exercise;
- Redesign of the operational risk self-assessment methodology, to include aspects and quantitative indicators monitored by internal controls on compliance and conduct risks;
- Reinforcement of the weight of operational risk indicators in the RAS metrics, namely in the monitoring of digital channels;
- Improvement of the rules for validating the quality of regulatory reports related to Operational Risk.

Covenants

The contractual terms of instruments of wholesale funding encompass obligations assumed by entities belonging to the Group as debtors or issuers, concerning general duties of societary conduct, maintenance of banking activity and the inexistence of special guarantees constituted for the benefit of other creditors (“negative pledge”). These terms reflect essentially the standards internationally adopted for each type of instrument.

The terms of the Group's participation in securitization operations involving its own assets are subject to mandatory changes in case the Group stops respecting certain rating criteria. The criteria established in each transaction results mainly from the existing risk analysis at the moment that the transaction was set, being these methodologies usually applied by each rating agency in a standardised way to all the securitization transactions involving the same type of assets.

Regarding the Covered Bond Programs of Banco Comercial Português, there are no relevant covenants related to a possible downgrade of BCP.

Hedge accounting

As at 30 June 2020, the table below includes the detail of the hedging instruments used in the Group's hedging strategies and accounted at the Balance sheet item - Hedging derivatives:

(Thousands of euros)

	30 June 2020			
	Hedging instruments			
		Book value		
Type of hedging	Notional	Assets	Liabilities	Change in fair value (A)
Fair value hedge				
Interest rate risk				
Interest rate swaps	6,874,074	22,021	90,782	(41,296)
Foreign exchange risk				
Currency and interest rate swap	268,067	115	46	(47)
	7,142,141	22,136	90,828	(41,343)
Cash flows hedging				
Interest rate risk				
Interest rate swaps	11,776,897	76,150	24,004	117,897
Foreign exchange risk				
Forward exchange contract	7,332	33	-	-
Currency swap	439,554	-	4,220	3,739
Currency and interest rate swap	3,522,920	19,526	144,320	(741)
	15,746,703	95,709	172,544	120,895
Hedging of net investments in foreign entities				
Foreign exchange risk				
Currency and interest rate swap	593,711	15,745	2,075	26,155
	593,711	15,745	2,075	26,155
Total	23,482,555	133,590	265,447	105,707

(A) Changes in fair value used to calculate the ineffectiveness of the hedge

As at 31 December 2019, the table below includes the detail of the hedging instruments used in the Group's hedging strategies and accounted at the Balance sheet item - Hedging derivatives:

(Thousands of euros)

	31 December 2019			
	Hedging instruments			
		Book value		
Type of hedging	Notional	Assets	Liabilities	Change in fair value (A)
Fair value hedge				
Interest rate risk				
Interest rate swaps	4,536,385	17,131	46,122	(106,219)
	4,536,385	17,131	46,122	(106,219)
Cash flows hedging				
Interest rate risk				
Interest rate swaps	11,883,933	18,972	77,272	(123,578)
Foreign exchange risk				
Currency swap	83,090	185	172	48
Currency and interest rate swap	3,005,625	8,853	98,300	4,019
	14,972,648	28,010	175,744	(119,511)
Hedging of net investments in foreign entities				
Foreign exchange risk				
Currency and interest rate swap	598,795	-	8,057	(6,303)
	598,795	-	8,057	(6,303)
Total	20,107,828	45,141	229,923	(232,033)

(A) Changes in fair value used to calculate the ineffectiveness of the hedge

As at 30 June 2020, the table below includes the detail of the hedged items:

(Thousands of euros)

		30 June 2020						
		Hedged items						
		Book value		Cumulative value of the adjustments			Cash flow hedge reserve / Currency translation reserve	
Type of hedging	Balance sheet item	Assets	Liabilities	Assets	Liabilities	Change in fair value (A)	Hedging relationships in effect	Hedging relationships discontinued
Fair value hedge								
Interest rate risk								
Interest rate swaps	(B)	456,641	-	8,228	-	3,125	n.a.	n.a.
	(H)	1,664,022	-	20,839	-	19,982	n.a.	n.a.
	(C)	4,143,816	-	(42,180)	-	24,364	n.a.	n.a.
	(D)	-	260,000	-	12,765	(2,815)	n.a.	n.a.
	(E)	-	180,650	-	3,682	1,468	n.a.	n.a.
	(F)	-	2,545	-	45	9	n.a.	n.a.
	(G)	-	447,496	-	(905)	(6,069)	n.a.	n.a.
Foreign exchange risk								
Currency and interest rate swap		-	268,068	-	37	(33)	n.a.	n.a.
		6,264,479	1,158,759	(13,113)	15,624	40,031	n.a.	n.a.
Cash flows hedging								
Interest rate risk								
Interest rate swaps	(B)	11,883,933	-	-	-	(117,897)	57,525	208,615
Foreign exchange risk								
Currency and interest rate swap	(B)	2,837,312	-	-	-	(2,998)	(1,884)	(816)
		14,721,245	-	-	-	(120,895)	55,641	207,799
Hedging of net investments in foreign entities								
Foreign exchange risk								
- Bank Millennium, S.A.		n.a.	n.a.	n.a.	n.a.	(26,155)	26,155	-
Total		20,985,724	1,158,759	(13,113)	15,624	(107,019)	81,796	207,799

(A) Fair value changes used to calculate the ineffectiveness of the hedge

(B) Financial assets at amortised cost - Loans and advances to customers

(C) Financial assets at fair value through other comprehensive income

(D) Financial liabilities at amortised cost - Resources from credit institutions

(E) Financial liabilities at amortised cost - Resources from customers

(F) Financial liabilities at amortised cost - Non subordinated debt securities issued

(G) Financial liabilities at amortised cost - Subordinated debt

(H) Debt securities held not associated with credit operations

As at 31 December 2019, the table below includes the detail of the hedged items:

(Thousands of euros)

		31 December 2019						
		Hedged items						
		Book value		Cumulative value of the adjustments			Cash flow hedge reserve / Currency translation reserve	
Type of hedging	Balance sheet item	Assets	Liabilities	Assets	Liabilities	Change in fair value (A)	Hedging relationships in effect	Hedging relationships discontinued
Fair value hedge								
Interest rate risk								
Interest rate swaps	(B)	449,137	-	5,102	-	623	n.a.	n.a.
	(H)	89,953	-	856	-	856	n.a.	n.a.
	(C)	2,217,744	-	(26,417)	-	105,005	n.a.	n.a.
	(D)	-	260,000	-	9,950	1,470	n.a.	n.a.
	(E)	-	180,650	-	5,149	(6,407)	n.a.	n.a.
	(F)	-	2,554	-	54	(43)	n.a.	n.a.
	(G)	-	441,389	-	(6,974)	6,974	n.a.	n.a.
		2,756,834	884,593	(20,459)	8,179	108,478	n.a.	n.a.
Cash flows hedging								
Interest rate risk								
Interest rate swaps	(B)	11,883,933	-	-	-	123,592	(60,371)	217,308
Foreign exchange risk								
Currency and interest rate swap	(B)	3,181,707	-	-	-	(4,067)	(10,302)	(2,598)
		15,065,640	-	-	-	119,525	(70,673)	214,710
Hedging of net investments in foreign entities								
Foreign exchange risk								
Bank Millennium, S.A.		n.a.	n.a.	n.a.	n.a.	6,303	(6,303)	n.a.
Total		17,822,474	884,593	(20,459)	8,179	234,306	(76,976)	214,710

(A) Changes in fair value used to calculate the ineffectiveness of the hedge
(B) Financial assets at amortised cost - Loans and advances to customers
(C) Financial assets at fair value through other comprehensive income
(D) Financial liabilities at amortised cost - Resources from credit institutions
(E) Financial liabilities at amortised cost - Resources from customers
(F) Financial liabilities at amortised cost - Non subordinated debt securities issued
(G) Financial liabilities at amortised cost - Subordinated debt
(H) Debt securities held not associated with credit operations

The reconciliation of each equity component and an analysis of other comprehensive income attributable to hedge accounting, with reference to 30 June 2020 and 31 December 2019, is as follows:

(Thousands of euros)

	Cash flow hedge reserve		Exchange differences	
	30 junho 2020	31 December 2019	30 junho 2020	30 junho 2019
Balance as at 1 January	(6,585)	(16,126)	15,480	21,783
Amounts recognised in other comprehensive income:				
Hedging cash flows - foreign exchange risk				
Changes in fair value of currency swaps	(738)	4,067	-	-
Foreign exchange changes	285	(170)	-	-
Ineffectiveness of coverage recognised in results	1,670	4,514	-	-
Others	(2,922)	1,130	-	-
Hedging of net investments - foreign exchange risk				
Reclassified to the income statement	-	-	26,155	(6,303)
Balance at the end of the year	(8,290)	(6,585)	41,635	15,480

The table below includes information on the effectiveness of hedging relationships, as well as impacts on results and other comprehensive income, with reference to 30 June 2020:

(Thousands of euros)

	30 June 2020					
				Amounts reclassified from reserves to results for the following reasons:		
Type of hedging	Income statement item (A)	Gains / (losses) recognised in Other comprehensive income	Hedging ineffectiveness recognised in Income statement (A)	Income statement item (B)	Cash flows that were being hedged (C)	Hedged item with an impact on results
Fair value hedge						
Interest rate risk						
Interest rate swaps	(D)	n.a.	(1,232)		n.a.	n.a.
Foreign exchange risk						
Currency and interest rate swap		n.a.	(80)		n.a.	n.a.
		n.a.	(1,312)		n.a.	n.a.
Cash flows hedging						
Interest rate risk						
Interest rate swaps	(D)	(3,749)	(13)	(E)	35,827	-
Foreign exchange risk						
Currency and interest rate swap	(D)	2,998	(1,670)		-	-
		(751)	(1,683)		35,827	-
Hedging of net investments in foreign entities						
Foreign exchange risk						
Currency and interest rate swap	(F)	26,155	-		-	-
		26,155	-		-	-
Total		25,404	(2,995)		35,827	-

The table below includes information on the effectiveness of hedging relationships, as well as impacts on results and other comprehensive income, with reference to 31 December 2019:

(Thousands of euros)

	31 December 2019					
				Amounts reclassified from reserves to results for the following reasons:		
Type of hedging	Income statement item (A)	Gains / (losses) recognised in Other comprehensive income	Hedging ineffectiveness recognised in Income statement (A)	Income statement item (B)	Cash flows that were being hedged (C)	Hedged item with an impact on results
Fair value hedge						
Interest rate risk						
Interest rate swaps	(D)	n.a.	2,259		n.a.	n.a.
		n.a.	2,259		n.a.	n.a.
Cash flows hedging						
Interest rate risk						
Interest rate swaps	(D)	(62)	(129)	(E)	44,882	-
Foreign exchange risk						
Currency and interest rate swap	(D)	6,020	(4,514)		-	-
		5,958	(4,643)		44,882	-
Hedging of net investments in foreign entities						
Foreign exchange risk						
Currency and interest rate swap	(F)	(6,303)	-	-	-	-
		(6,303)	-		-	-
Total		(345)	(2,384)		44,882	-

(A) Income Statement item in which the ineffectiveness of the hedge was recognised
(B) Income Statement item in which the reclassified amount was recognised
(C) but which are no longer expected to occur
(D) Net gains / (losses) from hedge accounting operations
(E) Interest income
(F) Net gains / (losses) from foreign exchange

The table below shows the detail of hedging instruments, as at 30 June 2020, by maturity:

(Thousands of euros)

	30 June 2020					
	Remaining period				Fair value	
Type of hedging	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities
Fair value hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps						
Notional	312,450	187,058	6,374,566	6,874,074	22,021	90,782
Fixed interest rate (average)	0.70%	2.81%	0.11%	0.21%		
Fair value hedging derivatives related to currency risk changes						
OTC Market:						
Currency and interest rate swap	121,120	146,947	-	268,067	115	46
Cash flow hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps	21,377	40,503	11,715,017	11,776,897	76,150	24,004
Cash flow hedging derivatives related to currency risk changes:						
OTC Market:						
Forward exchange contract	3,666	3,666	-	7,332	33	-
Currency swap	65,008	374,546	-	439,554	-	4,220
Currency and interest rate swap	245,888	1,300,916	1,976,116	3,522,920	19,526	144,320
Hedging derivatives related to net investment in foreign operations:						
OTC Market:						
Currency and interest rate swap	57,937	477,634	58,140	593,711	15,745	2,075
Total derivatives traded by OTC Market:	827,446	2,531,270	20,123,839	23,482,555	133,590	265,447

The table below shows the detail of hedging instruments, as at 31 December 2019, by maturity:

(Thousands of euros)

	31 December					
	Remaining period				Fair value	
Type of hedging	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities
Fair value hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps						
Notional	52,919	1,420,269	3,063,197	4,536,385	17,131	46,122
Fixed interest rate (average)	1.98%	-0.05%	1.19%	0.81%		
Cash flow hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps	65,854	111,717	11,706,362	11,883,933	18,972	77,272
Cash flow hedging derivatives related to currency risk changes:						
OTC Market:						
Currency swap	83,090	-	-	83,090	185	172
Foreign exchange rate and interest rate swap	469,804	930,004	1,605,817	3,005,625	8,853	98,300
Hedging derivatives related to net investment in foreign operations:						
OTC Market:						
Currency and interest rate swap	-	462,072	136,723	598,795	-	8,057
Total derivatives traded by OTC Market:	671,667	2,924,062	16,512,099	20,107,828	45,141	229,923

54. Mozambique's sovereign debt

Following a period of deceleration in economic activity and increase of inflation, reduction of Republic of Mozambique rating, depreciation of metical and decrease in foreign direct investment, the Bank of Mozambique has adopted a restrictive policy, with increases in the reference rate since December 2015, as well as increasing the reserve ratio. This set of factors constrained commercial banking in Mozambique, pushing it to pursue a strict liquidity management, emphasis on raising funds, despite contributing to the improvement of net interest income.

According to an International Monetary Fund (IMF) statement dated 23 April 2016, existing debt guaranteed by the State of Mozambique in an amount over USD 1 billion that had not been disclosed to the IMF. Following this disclosure, the economic program supported by the IMF was suspended. According to an IMF statement dated 13 December 2016, discussions were initiated on a possible new agreement with the Government of Mozambique and the terms of reference for an external audit were agreed.

In June 2017, the Attorney General's Office of the Republic of Mozambique published an Executive Summary regarding the above-mentioned external audit. On 24 June 2017, the IMF released in a statement that due to the existence of information gaps in this audit, an IMF mission would visit the country to discuss audit results and possible follow-up measures. Following this visit, the IMF requested the Government of Mozambique to obtain additional information on the use of the funds.

On 14 December 2017, in a statement from the IMF staff, after the end of the mission held between 30 November and 13 December 2017, it was reiterated the need for the Mozambican State to provide missing information. In the statement of the Mozambican Attorney General's Office dated 29 January 2018, it is mentioned, among other things, that the Public Prosecutor submitted to the Administrative Court, on 26 January 2018, a complaint regarding the financial responsibility of public managers and companies participated by the State, participants in the execution and management of contracts for financing, supplying and providing services related to debts not disclosed to the IMF.

In the statements dated of 16 January 2017 and 17 July 2017, the Ministry of Economy and Finance of Mozambique informed the holders of bonds issued by the Republic of Mozambique specifically "US$726.524 million, 10.5%, repayable securities in 2023" that the interest payment due on 18 January 2017 and 18 July 2017, would not be paid by the Republic of Mozambique. In November 2018, the Ministry of Economy and Finance of the Republic of Mozambique announced that it has reached an agreement in principle on the key commercial terms of a proposed restructuring transaction related to this debt securities with four members of the Global Group of Mozambique Bondholders. The Bondholders currently own or control approximately 60% of the outstanding Bonds. The agreement in principle reached by the parties, and the support of the Bondholders for the proposed restructuring, is conditional on the parties reaching an agreement on mutually satisfactory documentation setting out the detailed terms of the restructuring including implementation, and the mentioned Ministry obtaining all necessary approvals, including Parliamentary and government approvals of Mozambique. Additionally, on June 3, 2019, the Constitutional Council of the Republic of Mozambique issued a Judgment, within the framework of a successive abstract review of constitutionality, declaring the nullity of the acts inherent to the loan contracted by the entity that originated this debt, and the respective sovereign guarantee granted by the Government in 2013. On 6 September 2019, the Ministry of Economy and Finance of the Republic of Mozambique announced the approval by 99.95% of the Bondholders of a written decision containing the terms and conditions of the restructuring proposal. The Group has no exposure to this debt.

As at 30 June 2020, considering the 66.7% indirect investment in BIM, the Group's interest in BIM's equity amounted to Euros 301,278,000, with the exchange translation reserve associated with this participation, accounted in Group's consolidated equity, in a negative amount of Euros 150,976,000. BIM's contribution to consolidated net income for 2019, attributable to the shareholders of the Bank, amounts to Euros 28,330,000.

On this date, the subsidiary BIM's exposure to the State of Mozambique includes public debt securities denominated in metical classified as Financial assets measured at amortised cost - Debt instruments in the gross amount of Euros 738,564,000 and Financial assets at fair value through other comprehensive income in the gross amount of Euros 96,927,000.

As at 30 June 2020, the Group has also registered in the balance Loans and advances to customers, a direct gross exposure to the Mozambican State in the amount of Euros 297,366,000 (of which Euros 297,364,000 are denominated in metical and Euros 2,000 denominated in USD) and an indirect exposure resulting from sovereign guarantees received in the amount of Euros 164,289,000 denominated in USD and in the balance Guarantees granted revocable and irrevocable commitments, an amount of Euros 66,257,000 (of which Euros 161,000 are denominated in euros, Euros 2,253,000 are denominated in metical, Euros 63,736,000 denominated in USD and Euros 107,000 denominated in Rands).

According to public information provided by IMF, there are credits granted in default to Mozambican companies, non-state, guaranteed by the Mozambican State. The ongoing dialogue between the Government of Mozambique, IMF and creditors has the objective of finding a solution to the debt guaranteed by the State of Mozambique that had not previously been disclosed to the IMF referred to above. Nevertheless, the Ministry of Economy and Finance of the Republic of Mozambique has presented in November 2018 new proposals regarding this matter, a solution has not yet been approved to change the current Group's expectations reflected in the financial statements as at 31 December 2019, regarding the capacity of the Government of Mozambique and public companies to repay their debts and the development of the activity of its subsidiary Banco Internacional de Moçambique (BIM).

55. Contingent liabilities and other commitments

In accordance with accounting policy 1.V3, the main contingent liabilities and other commitments under IAS 37 are the following:

1. In 2012, the Portuguese Competition Authority (PCA) initiated an administrative proceeding relating to competition restrictive practices (no. PRC 2012/9). On 6 March 2013, unannounced inspections were conducted in the premises of Banco Comercial Português, S.A. ('BCP' or 'Bank') and other credit institutions, where documentation was seized to investigate allegations of a commercially sensitive information exchange between credit institutions in the Portuguese banking market.

The administrative proceeding was subject to judicial secrecy by the PCA, as the publicity of the process would not be compatible with the interests of the investigation and with the rights of the investigated companies. On 2 June 2015, the Bank was notified of the PCA's statement of objections (SO) in connection with the administrative offence no. 2012/9, in which the Bank is accused of participating in a commercially sensitive information exchange between other 14 banks related to retail credit products, namely mortgage, consumer and small and medium enterprises credit products. The notification of a SO does not constitute a final decision in relation to the accusation of the PCA.

The proceedings, including the deadline to submit a response to the SO, were suspended for several months between 2015 and 2017, following the appeals lodged by some defendants (including the Bank) before the Portuguese Competition, Regulation and Supervision Court (Competition Court) on procedural grounds (namely, on the right to have access to confidential documents which were not used as evidence by the PCA – for several months, the PCA denied the Defendant's right to have access to confidential documents not used as evidence). In the end of June 2017, the suspension on the deadline to reply to the SO was lifted.

On 27 September 2017, BCP submitted its reply to the SO. A non-confidential version of the Bank's defence was sent to the PCA, at the latter's request, on 30 October 2017. The witnesses indicated by the Bank were interrogated by the PCA in December 2017.

On 23 October 2018, BCP was notified of the non-confidential versions of the oral hearing of the defendants Santander Totta and Unión de Créditos (which took place in December 2017). On 7 December 2018, the Bank requested the PCA to have access to the confidential version of these oral hearings.

In May 2018, the PCA refused the Bank's application for confidential treatment of some of the information in the Bank's reply to the SO, having also imposed that the Bank protects the confidential information of the co-defendants (providing a summary of the information). On 1 June 2018, the Bank filed an appeal with the Competition Court, which, upholding the appeal, concluded that the PCA infringed on the right to a prior hearing. Complying with the judgment, in November 2018 the PCA notified the Bank of its intention to refuse the application for confidential treatment of some of the information included in the Bank's defence, restating its arguments. The Bank submitted a non-confidential revised version of its reply but reaffirmed that it is not the Bank that must protect the confidential information of the co-defendants. On 25 January 2019, the PCA granted the Bank a 10-business day period to provide summaries for the co-defendants' confidential information. On 4 February 2019, the Bank filed an appeal before the Competition Court and, on 11 February 2019, submitted a reply to the PCA (although restated its opposition to the PCA's request).

On 9 September 2019, the PCA adopted its final decision on this proceeding, fining BCP in Euros 60 million for its alleged participation in a confidential information exchange system with its competitors in the mortgage, consumer and small and medium enterprises credit segments. The Bank considers that this decision contains serious factual and legal errors, having filed an appeal on 21 October 2019 before the Competition Court requesting the annulation of the decision and the suspensive effect of the appeal.

On 11 May 2020, the Bank's appeal to the Competition Court was accepted and a court decision is pending.

2. On 3 January 2018, Bank Millennium S.A. (Bank Millennium) was notified of the decision of President of the Office of Competition and Consumer Protection (UOKIK), in which the President of UOKIK found infringement by Bank Millennium of the rights of consumers. In the opinion of the President of UOKIK, the essence of the violation is that Bank Millennium informed consumers (regarding 78 agreements), in response to their complaints, that the court verdict stating the abusiveness of the loan agreements' clauses regarding exchange rates did not apply to them. According to the position of the President of UOKIK, the abusiveness of agreements' clauses determined by the court, in the course of abstract control, is constitutive and effective for every agreement from the beginning.

As a result of the decision, Bank Millennium was obliged to:

1) send information about the UOKIK's decision to the referred 78 clients;
2) place information about the decision and the decision itself on its website and on Twitter;
3) pay a fine amounting to PLN 20.7 million (Euros 4.66 million).

Bank Millennium filed an appeal within the statutory time limit.

On 7 January 2020, the court of first instance dismissed Bank Millennium's appeal in its entirety. The court presented the view that the judgment issued in the course of control of a contractual template (in the course of abstract control), recognizing the provisions of the template as abusive, determines the existence of provisions of similar nature in previously concluded agreements. Therefore, the information provided to consumers was incorrect and misleading.

According to Bank Millennium's assessment, the court should not assess Bank Millennium’s behaviour in 2015 from the perspective of today's case-law on the importance of abstract control (it was not until January 2016 that the Supreme Court's resolution supporting the view of the President of UOKIK was published), nor should it impose penalties for these behaviours using current policy. This constitutes a significant argument against the validity of the judgment and supports the appeal which Bank Millennium submitted to the court of second instance.

The verdict issued on 7 January 2020 is not final. Bank Millennium appealed to the court of second instance and the case is pending. According to current estimates of the risk of losing the dispute, Bank Millennium has not created a provision related to this matter.

In addition, Bank Millennium, alongside other banks, takes part in a litigation brought up by UOKIK, in which the President of UOKIK recognizes anti-competitive practices through an agreement aimed at jointly setting interchange fee rates charged on transactions made with Visa and Mastercard cards. On 29 December 2009, it was imposed a fine on Bank Millennium in the amount of PLN 12.2 million (Euros 2.75 million). The case is currently pending. Bank Millennium has created a provision in the same amount of the penalty imposed.

3. Bank Millennium is a defendant in three court proceedings in which the subject of the dispute is the amount of the interchange fee. In two of the abovementioned cases, Bank Millennium was sued jointly and severally with another bank, and in the third one with another bank and card organizations.

The total amount of the claims submitted in these cases is PLN 729,580,027 (Euros 164,168,229). The proceeding with the highest value of the submitted claim is brought by PKN Orlen, S.A., in which the plaintiff demands payment of PLN 635,681,381 (Euros 143,039,396). The plaintiff in this proceeding alleges that the banks acted under an agreement restricting competition on the acquiring services market, by jointly setting the level of the national interchange fee during the years 2006-2014. In the other two cases, the charges are similar with those raised in the case brought by PKN Orlen, S.A., while the period of the alleged agreement is indicated for the years 2008-2014. According to current estimates of the risk of losing a dispute in these matters, Bank Millennium did not create a provision.

In addition, we point out that Bank Millennium participates as a side intervener in two other proceedings regarding the interchange fee. Other banks are the defendant. Plaintiffs in these cases also accuse the banks of acting as part of an agreement restricting competition on the acquiring services market by jointly setting the level of the national interchange fee during the years 2008-2014.

4. On 5 April 2016, Bank Millennium was notified of a case brought up by Europejska Fundacja Współpracy Polsko-Belgijskiej/European Foundation for Polish-Belgian Cooperation (EFWP-B) against Bank Millennium, worth of the dispute of PLN 521.9 million (Euros 117.44 million), with statutory interest from 5 April 2016 until the day of payment.

The plaintiff filed the lawsuit on 23 October 2015 in the Regional Court in Warsaw; the lawsuit was presented to Bank Millennium on 4 April 2016. According to the plaintiff, the basis of the claim is damage caused to their assets due to actions taken by Bank Millennium, consisting in the wrong interpretation of the agreement for a working capital loan between Bank Millennium and PCZ S.A., which resulted in placing the loan on demand.

In the case brought by EFWP-B, the plaintiff set the claim in the amount of PLN 250 million (Euros 56.25 million). The petition was dismissed on 5 September 2016, with legal validity by the Appeal Court. Bank Millennium is requesting complete dismissal of the lawsuit, stating disagreement with the charges raised in the claim. Supporting the position of Bank Millennium, Bank Millennium’s attorney submitted a binding copy of the final verdict of Wrocław Court of Appeal, which was favourable to Bank Millennium, issued in the same legal state of the action brought by PCZ S.A. against Bank Millennium.

Currently, the court of first instance is conducting evidence proceedings.

5. On 19 January 2018, Bank Millennium received a lawsuit petition by First Data Polska S.A., requesting the payment of PLN 186.8 million (Euros 42.03 million). First Data Polska S.A. claims a share in an amount which Bank Millennium received in connection with the Visa Europe takeover transaction by Visa Inc. The plaintiff based its lawsuit on an existing agreement with Bank Millennium related to co-operation in scope of acceptance and settlement of operations conducted using Visa cards. Bank Millennium did not accept the claim and filed the response to the lawsuit petition within the legal deadline. In accordance with the judgment issued on 13 June 2019, Bank Millennium won the case before the court of first instance. The case is currently awaiting verdict before the court of second instance. According to current estimates of the risk of losing the dispute, Bank Millennium has not created a provision related to this matter.

6. Regarding mortgage loans indexed to swiss francs (CHF) granted by Bank Millennium, there are risks related to verdicts issued by polish courts in individual lawsuits against banks (including Bank Millennium) raised by borrowers of FX-indexed mortgage loans.

Vast majority of verdicts in lawsuits concerning Bank Millennium have been favourable to the Bank so far. However, it should be noted that there is a significant risk that such favourable verdicts may change, as a result of which pending lawsuits’ verdicts may not be taken in accordance with the Bank’s expectation.

If such risk materializes, it may have a significant negative impact on Bank Millennium. Among other factors which are relevant for the assessment of risk related to disputes concerning CHF-indexed mortgage loans, the judgment of the Court of Justice of the European Union (CJEU) on Case C-260/18 should be considered.

On 3 October 2019, the CJEU issued a judgment on Case C-260/18, in connection with the preliminary questions formulated by the District Court of Warsaw in the lawsuit against Raiffeisen Bank International AG. The judgment of CJEU, combined with the interpretation of European Union Law, is binding on domestic courts.

The referred judgment was based on the interpretation of Article 6 of Directive 93/13, of the European Union, to formulate the answers to the preliminary questions. In the light of the subject matter in question, Article 6 of Directive 93/13 must be interpreted as following: (i) the national court may, based on national law, conclude that a loan agreement cannot continue to exist if the removal of terms that alter the nature of the main subject matter of the agreement occurs; (ii) the effects on the consumer's situation resulting from the cancellation of the contract as a whole must be assessed in the light of the circumstances existing or foreseeable at the time when the dispute arose, and that the will of the consumer is decisive as to whether he wishes to maintain the contract and avoid those effects; (iii) Article 6 precludes the filling of gaps in the contract caused by the removal of abusive terms from it based on national law (even if the non-filling of those gaps would result in the contract annulment to the detriment of the consumer), which provides that the effects expressed in the content of a legal act are to be supplemented, in particular, by principles arising from equality rules or established customs; and, (iv) Article 6 precludes the maintenance of abusive terms in the contract (even if their removal would result in the contract annulment to the detriment of the consumer), if the consumer has not consented to the maintenance of such terms.

CJEU's judgment concerns only the situations where the national court has previously found the contract terms to be abusive. It is the exclusive competence of the national courts to assess, in the course of judicial proceedings, whether a particular contract term can be identified as abusive in the circumstances of the lawsuit.

It can be reasonably assumed that the legal issues relating to FX-indexed mortgage loans will be further examined by the national courts within the framework of the disputes considered, which could possibly result in the emergence of further interpretations relevant for the assessment of the risks associated with subject matter proceedings. This circumstance indicates the need for constant analysis of these matters. Further requests for clarification and ruling addressed to the CJEU and the Supreme Court of Poland with potential impact on the outcome of the court cases may also be filed.

As at the end of the first half of 2020, Bank Millennium had 3,339 loan agreements and, additionally, 351 loan agreements from former Euro Bank, S.A. (3,625 loan agreements before the court of first instance and 65 loans agreements before the court of second instance) under individual litigations concerning indexation clauses of FX-indexed mortgage loans, submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 385.9 million (Euros 86.83 million) and CHF 17.5 million (Euros 16.45 million). Until 30 June 2020, only 37 cases had been finally resolved. The claims formulated by the clients in individual proceedings primarily concern the declaration of invalidity of the contract or the payment for reimbursement of allegedly undue performance, due to the abusive nature of indexation clauses. The pushy advertising campaign observed in the public domais affects the number of court disputes.

On 21 October 2014, a class action was presented to Bank Millennium, in which a group of Bank Millennium's borrowers, represented by the Municipal Consumer Ombudsman in Olsztyn, seek the ascertainment that Bank Millennium is liable for unjust enrichment in connection with the CHF-indexed mortgage loans. The members of the group claim that Bank Millennium unduly collected excessive amounts from them for the repayment of loans. This is not a payment dispute. The judgment in these proceedings will not grant any amounts to the group members. The number of loan agreements covered by these proceedings is 3,281. The date of the first hearing scheduled for 20 March 2020 was canceled due to the situation related to COVID-19. The next date of the hearing was set for 26 October 2020.

According to the Polish Bank Association (ZBP), data gathered from all banks with FX-indexed mortgage loans shows that vast majority of disputes were resolved in favour of the banks until the year of 2019. However, after the CJEU judgment regarding Case C-260/18 issued on 3 October 2019, the proportion has adversely changed and, hence, there is a risk that the so far mostly positive for banks line of verdicts in court may change.

Considering the increased legal risk related to FX-indexed mortgages, Bank Millennium created in the year of 2019 a provision in the amount of PLN 223 million (Euros 50.18 million) and in the first half of 2020 a provision in the amount of PLN 168 million (Euros 37.80 million) for legal risk. The methodology developed by Bank Millennium is based on the following main parameters: (i) the number of current (including class actions) and potential future court cases that will appear within a specified (three-year) time horizon; (ii) the amount of Bank Millennium's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account); and, (iii) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector in Poland and legal opinions obtained. Variation in the level of provisions or concrete losses will depend on the final court decisions about each case and on the number of court cases.

Bank Millennium undertakes a number of actions at different levels towards different stakeholders in order to mitigate legal and litigation risk regarding the FX-indexed mortgage loans portfolio. Bank Millennium is open to negotiate case-by-case favourable conditions for early repayment (partial or total) or the conversion of loans to PLN. On the other hand, Bank Millennium will continue to take all possible actions to protect its interests in courts while, at the same time, being open to find settlement with customers in the court under reasonable conditions.

In this context, taking into consideration the recent negative evolution of the court verdicts regarding FX-indexed mortgage loans, and if such trend continues, Bank Millennium will have to regularly review the provisions allocated to court litigations and it may need to constitute new provisions reinforcements.

Finally, it should be mentioned that Bank Millennium, as at 30 June 2020, has to maintain additional own funds for the coverage of additional capital requirements related to the FX-indexed mortgage portfolio risks (Pillar II FX buffer) in the amount of 4.87 p.p. at the Group level, part of which is allocated to operational/legal risk.

7. On 3 December 2015, a class action against Bank Millennium was filed by a group of Bank Millennium's debtors (454 borrowers party to 275 loan agreements), which is represented by the Municipal Consumer Ombudsman in Olsztyn. The plaintiffs demanded payment of the amount of PLN 3.5 million (Euros 0.79 million), claiming that the clauses of the agreements of the low-down payment insurance, pertaining to CHF-indexed mortgage loans, are unfair and, thus, not binding. The plaintiff extended the group in the court letter filed on 4 April 2018 and, consequently, the claims increased from PLN 3.5 million (Euros 0.79 million) to over PLN 5 million (Euros 1.13 million).

On 1 October 2018, the group's representative corrected the total amount of claims subject in the proceedings and submitted a revised list of all group members, covering the total of 697 borrowers – 432 loan agreements. The value of the subject of the dispute, as updated by the claimant, is PLN 7,371,107.94 (Euros 1,658,627.84).

On 1 April 2020, a decision was issued to determine the composition of the group by the court. This decision was delivered to the Bank's attorney on 7 July 2020. The Bank filed an appeal, as provided by law.

As at 30 June 2020, there are also 551 individual court cases regarding loan-to-value (LTV) insurance.

8. On 1 October 2015, a set of entities connected to a group with past due loans to the Bank amounting to Euros 170 million, resulting from a loan agreement signed in 2009 - debts already fully provisioned in the Bank's accounts -, filed against the Bank, after receiving the Bank's notice for mandatory payment, a lawsuit aiming that:

a) the court declares that two of the defendants are mere fiduciary owners of 340,265,616 BCP shares, since they acted pursuant to a request made by the Bank for the making of the respective purchases, and also that the court orders the cancellation of the registration of those shares in the name of those companies;
b) the court declares the nullity of the financing agreement established between the plaintiffs and the Bank, due to relative simulation;
c) the court sentences the Bank, in accordance with the legal regime of the mandate without representation, to become liable for the amounts due to the institution, abstaining from requesting those amounts to the plaintiffs and to refund them the cost they incurred while complying with that mandate, namely, Euros 90,483,816.83 regarding Banco Espírito Santo, S.A. (BES) and Euros 52,021,558.11 regarding Caixa Geral de Depósitos, S.A. (CGD), plus default interests;
d) the amount of the lawsuit determined by the plaintiffs is Euros 317,200,644.90;
e) the Bank opposed and presented a counter claim, wherein it requests the conviction, namely, of a plaintiff company in the amount of Euros 185,169,149.23 for the loans granted, plus default interests and stamp tax.

The court issued a curative act and already ascertained the factual basis proven and that must be proven. Currently, the Bank is waiting for the designation of an expert, requested by the plaintiffs, and each one of the parties must, afterwards, indicate an expert and the court shall indicate a third expert.

9. Resolution Fund

Resolution measure of Banco Espírito Santo, S.A.

On 3 August 2014, with the purpose of safeguarding the stability of the financial system, Bank of Portugal applied a resolution measure to Banco Espírito Santo, S.A. (BES) in accordance with the Article 145-C (1.b) of the Legal Framework of Credit Institutions and Financial Companies (RGICSF), namely by the partial transfer of assets, liabilities, off-balance sheet items and assets under management into a transition bank, Novo Banco, S.A. (Novo Banco), incorporated on that date by a decision issued by the Bank of Portugal. Within the scope of this process, the Resolution Fund made a capital contribution to Novo Banco amounting to Euros 4,900 million, becoming, on that date, the sole shareholder.

Within this context, the Resolution Fund borrowed Euros 4,600 million, of which Euros 3,900 million were granted by the State and Euros 700 million by a group of credit institutions, including the Bank.

As announced on 29 December 2015, Bank of Portugal transferred to the Resolution Fund the liabilities emerging from the *"eventual negative effects of future decisions regarding the resolution process that may result in liabilities or contingencies"*.

On 7 July 2016, the Resolution Fund declared that it would analyse and evaluate the diligences to be taken, following the publication of the report on the result of the independent evaluation, made to estimate the level of credit recovery for each category of creditors under a hypothetical scenario of a normal insolvency process of BES on 3 August 2014.

In accordance with the applicable law, when the BES liquidation process is over, if it is verified that the creditors, whose credits were not transferred to Novo Banco, would take on a higher loss than the one they would hypothetically take if BES had gone into liquidation right before the application of the resolution measure, such creditors shall be entitled to receive the difference from the Resolution Fund.

On 31 May 2019, the Liquidation Committee of BES presented a list of all the acknowledged and a list of the non-acknowledged creditors before the court and the subsequent terms of the proceedings. This list details that the total of the acknowledge credits, including capital, remunerative and default interest amounts to Euros 5,056,814,588, of which Euros 2,221,549,499 are common credits and Euros 2,835,265,089 are subordinated claims, there being no guaranteed or privileged claims. Both the total number of acknowledged creditors and the total value of the acknowledged credits and their ranking will only be ultimately determined with the definitive judicial judgment of the verification and ranking of credits to be given in the liquidation proceedings.

Following the resolution measure of BES, a significant number of lawsuits against the Resolution Fund was filed and is underway. According to note 20 of the Resolution Fund's annual report of 2019, *"Legal actions related to the application of resolution measures have no legal precedents, which make it impossible to use case law in their evaluation, as well as a reliable estimate of the associated contingent financial impact. (...) The Board of Directors supported by lawyers opinion, which sponsored these actions, and in the light of the legal and procedural information available so far, considers that there is no evidence to cast doubt on their belief that the probability of success is higher than the probability of failure"*.

On 31 March 2017, Bank of Portugal communicated the sale of Novo Banco, where it states the following: *"Banco of Portugal today selected Lone Star to complete the sale of Novo Banco. The Resolution Fund has consequently signed the contractual documents of the transaction. Under the terms of the agreement, Lone Star will inject a total of Euros 1,000 million in Novo Banco, of which Euros 750 million at completion and Euros 250 million within a period of up to 3 years. Through the capital injection, Lone Star will hold 75% of the share capital of Novo Banco and the Resolution Fund will maintain 25% of the share capital".*

The terms agreed also include a Contingent Capital Agreement, under which the Resolution Fund, as a shareholder, undertakes to make capital injections if certain cumulative conditions are to be met related to the performance of a specific portfolio of assets and to the capital ratios of Novo Banco going forward.

If these conditions are met, the Resolution Fund may be called upon to make a payment to Novo Banco for the lesser of the accumulated losses in the covered assets and the amount necessary to restore the capital ratios at the agreed levels. Any capital injections to be carried out pursuant to this contingent mechanism are limited to an absolute cap. The terms agreed also provide for mechanisms to safeguard the interests of the Resolution Fund, to align incentives as well as monitoring mechanisms, notwithstanding the limitations arising from State Aid rules.

On 18 October 2017, following the resolution of the Council of Ministers no. 151-A/2017 of 2 October 2017, the Bank of Portugal communicated the conclusion of the sale of Novo Banco to Lone Star, with an injection by the new shareholder of Euros 750 million, followed by a further capital increase of Euros 250 million by the end of 2017. Upon completion of the transaction, the status of Novo Banco as a bridge institution ceased, fully complying with the purposes of the resolution of Banco Espírito Santo.

On 26 February 2018, the European Commission published the non-confidential version of its decision regarding the approval of State aid underlying Novo Banco's sale process. This statement identifies the three support measures by the Resolution Fund and the State that are part of the sale agreement associated with a total gross book value of around Euros [10-20] billion (*) that revealed significant uncertainties regarding adequacy in provisioning (**):

(i) Contingent Capital Agreement (CCA) which allows Lone Star to reclaim, from the Resolution Fund, funding costs, realised losses and provisions related to an ex-ante agreed portfolio of existing loan stock, up to a maximum of Euros 3.89 billion, subject to a capital ratio trigger (CET1 below 8%-13%) as well as to some additional conditions (*) (**) (***);

(ii) underwriting by the Resolution Fund of a Tier 2 instrument to be issued by Novo Banco up to the amount necessary (but no more than Euros 400 million). The amount that can be reclaimed by the Resolution Fund under the Contingent Capital Agreement is subject to the cap of Euros 3.89 billion (**);

(iii) in case the Supervisory Review and Evaluation Process ("SREP") total capital ratio of Novo Banco falls below the SREP total capital requirement, the State will provide additional capital in certain conditions and through different instruments (**).

According to the 2018 Resolution Fund's annual report, the Resolution Fund and Novo Banco have agreed that a Verification Agent - an independent entity which is essentially responsible to clarify any differences that may exist between Novo Banco and the Resolution Fund regarding the set of calculations inherent to the Contingent Capital Agreement or regarding the practical application of the principles stipulated in the contract - is in charge of confirming that the perimeter of the mechanism is correct and that the balance sheet values of Novo Banco are being correctly reflected in the mechanism, as well as verifying the underlying set of calculations, namely by confirming the correct calculation of losses and the reference value of the assets. According to the 2019 Resolution Fund's annual report, the work carried out by the Verification Agent continues to be followed.

In its 2019 annual report, the Resolution Fund states that *"Regarding future periods, a significant uncertainty as to the relevant parameters for the calculation of future liabilities is deemed to exist, either for their increase or reduction, under the terms of the agreement on the Contingent Capital Agreement with Novo Banco"*.

(*) Exact value not disclosed by the European Commission for confidentiality reasons
(**) As referred to in the respective European Commission Decision
(***) According to 2018 Novo Banco's earnings institutional presentation, the "minimum capital condition" is (i) CET1 or Tier 1 < CET1 or Tier 1 SREP requirement plus a buffer for the first three years (2017-2019); (ii) CET1 < 12%

The Resolution Fund disclosed on 17 June 2019 a set of clarifications related to the payment due in 2019 under the CCA with Novo Banco, namely:

- For payments from the Resolution Fund to be made (limited to a maximum of Euros 3,890 million over the lifetime of the mechanism), losses on the assets under the contingent mechanism should be incurred and the capital ratios of Novo Banco should stand below the agreed reference thresholds;

- The payment to be made by the Resolution Fund corresponds to the lower of the accumulated losses on the assets covered and the amount necessary to restore the capital ratios above the minimum reference threshold;

- The reference capital ratios are, in 2017, 2018 and 2019, linked to the regulatory requirements applicable to Novo Banco (CET1 ratio of 11.25% and Tier 1 ratio of 12.75%), but, as from 2020, the reference ratio will correspond to a CET1 ratio of 12%;

- The initial reference value of the portfolio comprising the contingent capitalization agreement was, as of 30 June 2016, Euros 7,838 million (book value of the associated assets, net of impairments);

- The value of the portfolio, as of 31 December 2019, amounted to approximately Euros 3 billion (book value, net of impairments), according to Novo Banco's 2019 annual report.

According to the 2019 Resolution Fund's annual report, "in 24 May 2019, the Fund paid Novo Banco Euros 791,695 million, with reference to 2017, under the Contingent Capital Agreement signed in the process of the sale of Novo Banco. The Resolution Fund used its available financial resources from banking contributions (direct or indirect) complemented by a State loan of Euros 430 million. The Resolution Fund paid to Novo Banco on 6 May 2019 the calculated value relative to the 2018 exercise, of Euros 1,149 million under the Contingent Capital Agreement signed in the process of the sale of Novo Banco. For this purpose, the Resolution Fund used its own resources from banking contributions (direct or indirect) and also resorted to a State loan of Euros 850 million".

Regarding payments to be made in 2020 under the Contingent Capital Agreement, the following reference is made in the Resolution Fund's 2019 annual report: "Novo Banco's 2019 annual accounts, as publicly presented by its Executive Board of Directors on 28 February 2020, include the quantification of the liability arising from the Contingent Capital Agreement, of Euros 1,037 million. In this context, and without prejudice to the verification procedures to be carried out prior to disbursement by the Resolution Fund, a provision was made by that amount for 2019."

According to a notice issued by the Resolution Fund on 4 June 2020, the payment made by the Resolution Fund to Novo Banco in May 2020 of Euro 1,035 million, results from the execution of the 2017 agreements, under the process of the sale of the 75% stake of the Resolution Fund in Novo Banco, complying with all the procedures and limits defined therein.

In the same notice, the Resolution Fund also clarifies that the "Resolution Fund and Novo Banco have initiated an arbitration procedure to clarify the treatment that should be given, under the Contingent Capital Agreement, of the effects of Novo Bank's decision to waiver the transitional regime it currently benefits from and which aims to reduce the impact of the introduction of IFRS 9 on credit institutions' own funds. This issue falls within the scope of the implementation of the Contingent Capital Agreement, which sets the maximum amount of payments to be made by the Resolution Fund at Euro 3,890 million. Thus, even if the arbitration procedure were to have an unfavourable outcome for the Resolution Fund's claims, its effects would fall under the maximum limit of Euros 3,890 million in accordance with the Contingent Capital Agreement. The above arbitral proceedings therefore do not represent an additional risk compared to the ceiling of Euros 3,890 million".

Thus, considering the payments already made and the amount of the provision recorded in 2019, the remaining amount that may still be used amounts to Euros 912 million.

In a separate notice dated 16 June 2020, the Resolution Fund clarifies that "the Resolution Fund has also provided the Budget and Finance Committee, in writing, of all the clarifications on its decision to deduct from the amount calculated under the Contingent Capital Agreement, the amount related to the variable remuneration attributed to the members of the Executive Board of Directors of Novo Banco".

As at 30 June 2020, Novo Banco is held by Lone Star and the Resolution Fund, corresponding to 75% and 25% of the share capital respectively.

Novo Banco adhered to the Special Regime applicable to Deferred Tax Assets under Law No. 61/2014, of 26 August, having had the confirmation of the conversion of the deferred tax assets into tax credits by the Tax and Customs Authority for the tax period of 2015 and 2016 in exchange for conversion rights attributed to the State. If the Resolution Fund does not exercise its right to acquire the conversion rights attributed to the State, which expires in 2022, the State may become Novo Banco's shareholder up to a stake of 2.71% of Novo Banco's share capital, while diluting the Resolution Fund's shareholder position. According to the Resolution Fund's 2019 annual report, under the terms of the Sale and Subscription Agreement of 75% of the share capital of Novo Banco with Lone Star on 17 October 2017, the effect of the dilution associated with the Special Regime applicable to deferred tax assets shall exclusively affect the Resolution Fund's stake. It is estimated, according to note 21, although subject to certain assumptions, that the processes in progress for the conversion of deferred tax assets into tax credits with reference to 2017 and 2018 may correspond to about 7.6 percentage points of the share capital of Novo Banco. These effects may impact the shareholder position of the Resolution Fund in Novo Banco.

Resolution measure of Banif – Banco Internacional do Funchal, S.A.

On 19 December 2015, the Board of Directors of Bank of Portugal announced that Banif was "at risk of insolvency or insolvent" and started an urgent resolution process of the institution through the partial or total sale of its activity, which was completed on 20 December 2015 through the sale to Banco Santander Totta S.A. (BST) of the rights and obligations of Banif, formed by the assets, liabilities, off-balance sheet items and assets under management.

The largest portion of the assets that were not sold, were transferred to an asset management vehicle denominated Oitante, S.A. (Oitante) specifically created for that purpose, having the Resolution Fund as the sole shareholder. For that matter, Oitante issued bonds representing debt in the amount of Euros 746 million. The Resolution Fund provided a guarantee and the Portuguese State a counter-guarantee. The operation also involved state aid, of which Euros 489 million were provided by the Resolution Fund, which was funded by a mutual contract given by the State.

According to the Resolution Fund's 2019 annual report, note 21, *"to ensure that the Fund has, at due date, the financial resources necessary to comply with this guarantee, if the principal debtor – Oitante - defaults, the Portuguese State counter-guarantees the referred bond issue. Until 31 December 2019, Oitante made partial prepayments of Euros 546,461 thousand, which reduces the amount of the guarantee provided by the Resolution Fund to Euros 199,539 thousand. Considering the anticipated reimbursements, as well as information provided by Oitante's Board of Directors regarding 2019 exercise, it is envisaged that there are no relevant situations that could trigger the guarantee provided by the Resolution Fund".* Also, according to the 2019 Resolution Fund's annual report, *"at the date of approval of this report, the debt reimbursed since it was incurred is above 73%".*

Also, according to this source, *"The outstanding debt related to the amount made available by the State to finance the absorption of BANIF's losses, following the resolution measure applied by Banco de Portugal to that entity [amounts to] Euros 352,880 thousand".* This partial early repayment of Euros 136 million corresponds to the revenue of the contribution collected, until 31 December 2015, from the institutions covered by the Regulation of the Single Resolution Mechanism which was not transferred to the Single Resolution Fund and which will be paid to the Single Resolution Fund by the credit institutions that are covered by this scheme over a period of 8 years starting in 2016 (according to the Resolution Fund's 2016 annual report).

Liabilities and financing of the Resolution Fund

Pursuant to the resolution measures applied to BES and Banif the Resolution Fund borrowed loans and assumed other responsibilities and contingent liabilities resulting from:

- The State loans, on 31 December 2019, included the amounts made available (i) in 2014 for the financing of the resolution measure applied to BES (Euros 3,900 million); (ii) to finance the absorption of Banif's losses (Euros 353 million); (iii) under the framework agreement concluded with the State in October 2017 for the financing of the measures under the Contingent Capital Agreement (Euros 430 million plus Euros 850 million of additional funding requested in 2019, as described above);

- Other funding granted by the institutions participating in the Resolution Fund in the amount of Euros 700 million, in which the Bank participates, within the scope of BES resolution measure;

- Underwriting by the Resolution Fund of a Tier 2 instrument to be issued by Novo Banco up to the amount of Euros 400 million. This underwriting did not take place as the instruments were placed with third party investors as disclosed by Novo Banco on 29 July 2018;

- Effects of the application of the principle that no creditor of the credit institution under resolution may assume a loss greater than the one it would take if that institution did not go into liquidation;

- Negative effects resulting from the resolution process that result in additional liabilities or contingencies for Novo Banco, S.A., which must be neutralized by the Resolution Fund;

- Legal proceedings filed against the Resolution Fund;

- Guarantee granted to the bonds issued by Oitante S.A. This guarantee is counter-guaranteed by the Portuguese State;

- Contingent Capital Agreement which allows Lone Star to reclaim, from the Resolution Fund, funding costs, realised losses and provisions related to the aforementioned ex-ante portfolio of existing loan stock agreed upon the sale process to Lone Star up to Euros 3.89 billion under the aforementioned conditions, among which a reduction of CET1 below 8%-13%;

- In case the Supervisory Review and Evaluation Process (SREP) total capital ratio of Novo Banco falls below the SREP total capital requirement, the State will provide additional capital in certain conditions and through different instruments as referred to in the respective European Commission Decision.

According to note 21 of the Resolution Fund's 2019 annual report, the Resolution Fund considers that, to date, there are no elements that allow a reliable estimate of the potential financial effect of these potential liabilities.

By a public statement on 28 September 2016, the Resolution Fund and the Ministry of Finance communicated the agreement based on a review of the terms of the Euros 3,900 million loan originally granted by the State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. According to the Resolution Fund, the extension of the maturity of the loan was intended to ensure the ability of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Office of the Minister of Finance also announced that increases in the liabilities arising from the materialization of future contingencies will determine the maturity adjustment of State and Bank loans to the Resolution Fund, in order to maintain the contributory effort required to the banking sector at current levels.

According to the communication of the Resolution Fund of 21 March 2017:

- *"The conditions of the loans obtained from the Fund to finance the resolution measures applied to Banco Espírito Santo, S.A. and to Banif– Banco Internacional do Funchal, S.A. were changed. These loans amount to Euros 4,953 million, of which Euros 4,253 million were granted by the Portuguese State and Euros 700 million were granted by a group of banks";*

- *"Those loans are now due in December 2046, without prejudice to the possibility of being repaid early based on the use of the Resolution Fund's revenues. The due date will be adjusted so that it enables the Resolution Fund to fully meet its liabilities based on regular revenues and without the need for special contributions or any other type of extraordinary contributions. The liabilities resulting from the loans agreed between the Resolution Fund and the Sate and the banks pursuant to the resolution measures applied to BES and Banif are handled with one another";*

- *"The revision of the loans' conditions aimed to ensure the sustainability and financial balance of the Resolution Fund";*

- *"The new conditions enable the full payment of the liabilities of the Resolution Fund, as well as the respective remuneration, without the need to ask the banking sector for special contributions or any other type of extraordinary contributions".*

On 2 October 2017, by Council of Ministers (Resolution no. 151-A/2017), the Portuguese State, as the ultimate guarantor of financial stability, was authorised to enter into a framework agreement with the Resolution Fund, to make available the necessary financial resources to the Resolution Fund, if and when it deemed necessary, to satisfy any contractual obligations that may arise from the sale of the 75% stake in Novo Banco. It is also mentioned that the reimbursement will consider the stability of the banking sector, i.e. without the Resolution Funds' participants being charged special contributions or any other extraordinary contributions.

The Resolution Fund's own resources had a negative equity of Euros 7,021 million vs. Euros 6,114 million in 2018, according to the latest 2019 annual report of the Resolution Fund.

To reimburse the loans obtained and to meet other liabilities that it may take on, the Resolution Fund receives proceeds from the initial and regular contributions from the participating institutions (including the Bank) and from the contribution over the banking sector (Law no. 55-A/2010). It is also provided for the possibility of the member of the Government responsible for the area of Finance to determine, by ordinance that the participating institutions make special contributions, in the situations provided for in the applicable legislation, particularly if the Resolution Fund does not have resources to fulfil with their obligations.

Pursuant to Decree-Law no. 24/2013 of 19 February, which establishes the method for determining the initial, periodic and special contributions to the Resolution Fund, provided for in the RGICSF, the Bank has been proceeding, since 2013, to the mandatory contributions, as provided for in the decree-law.

On 3 November 2015, the Bank of Portugal issued a Circular Letter under which it is clarified that the periodic contribution to the Resolution Fund should be recognised as an expense at the time of the occurrence of the event which creates the obligation to pay the contribution, i.e. on the last day of April of each year, as stipulated in Article 9 of the referred Decree-Law, thus the Bank is recognising as an expense the contribution to the RF in the year in which it becomes due.

The Resolution Fund issued, on 15 November 2015, a public statement declaring: *"...it is further clarified that it is not expected that the Resolution Fund will propose the setting up of a special contribution to finance the resolution measure applied to Banco Espírito Santo, S.A., ('BES'). Therefore, the eventual collection of a special contribution appears to be unlikely".*

The regime established in Decree-Law no. 24/2013 establishes that the Bank of Portugal fixes, by instruction, the rate to be applied each year based on objective incidence of periodic contributions. The instruction of the Bank of Portugal no. 24/2019, published on 16 December 2019, set the base rate to be effective in 2020 for the determination of periodic contributions to the FR by 0.06% against the rate of 0.057% in 2019.

During 2020, the Group made regular contributions to the Resolution Fund in the amount of Euros 28,301 thousand. The amount related to the contribution on the banking sector, registered during the first half of 2020, was Euros 29,571 thousand. These contributions were recognized as a cost in the first half of 2020, in accordance with IFRIC no. 21 – Levies.

In 2015, following the establishment of the Single Resolution Fund (SRF), the Group had to make an initial contribution in the amount of Euros 31,364 thousand. In accordance with the Intergovernmental Agreement on the Transfer and Mutualisation of Contributions to the SRF, this amount was not transferred to the SRF but was used instead to partially cover for the disbursements made by the RF in respect of resolution measures prior to the date of application of this Agreement. This amount will have to be reinstated over a period of 8 years (started in 2016) through the periodic contributions to the SRF. The total amount of the contribution attributable to the Group in the first half of 2020 was Euros 22,808 thousand, of which the Group delivered Euros 19,394 thousand and the remaining was constituted as irrevocable payment commitment. The Single Resolution Fund does not cover undergoing situations with the National Resolution Fund as at 31 December 2015.

It is not possible, on this date, to assess the effects on the Resolution Fund due to: (i) the sale of the shareholding in Novo Banco in accordance with the communication of Banco de Portugal dated 18 October 2017 and the information provided by the European Commission on this subject under the terms described above, including the effects of the application of the Contingent Capital Agreement and the Special Regime applicable to Deferred Tax Assets; (ii) the application of the principle that no creditor of the credit institution under resolution may take on a loss greater than the one it would take if that institution did not go into liquidation; (iii) additional liabilities or contingencies for Novo Banco, S.A. which need to be neutralized by the Resolution Fund; (iv) legal proceedings against the Resolution Fund, including "processo dos lesados do BES"; and (v) the guarantee provided to the bonds issued by Oitante, in this case, the referred trigger is not expectable in accordance to the most recent information communicated by the Resolution Fund in its annual accounts.

According to Article 5 (e) of the Regulation of the Resolution Fund, approved by the Ministerial Order no. 420/2012, of 21 December, the Resolution Fund may submit to the Government a proposal for the implementation of special contributions to rebalance the financial condition of the Resolution Fund. According to public communications from both the Resolution Fund and from the Government, there is no indication that any such special contributions are foreseen.

According to the Resolution Fund's 2019 annual report, under note 8, *"the Resolution Fund is not obliged to present positive equity. In case of insufficient resources, the Resolution Fund may receive special contributions, as determined by the member of the Government responsible for finance, in accordance with article 153-I of the RGICSF and no such contributions are foreseen, in particular after a review of the financing conditions of the Resolution Fund".*

Eventual alterations regarding this matter may have relevant implications in future financial statements of the Group.

The COVID-19 pandemic and heightened uncertainty about the magnitude and duration of the outbreak create an additional context of uncertainty relative to its impacts, in accordance with the opinion of the external auditor and the opinion of the audit board of Bank of Portugal.

10. Banco Comercial Português, S.A., Banco ActivoBank S.A. and Banco de Investimento Imobiliário, S.A. (company merged into Banco Comercial Português, S.A.) initiated an administrative proceeding to contest the resolution adopted by Banco de Portugal on 31 March 2017 to sell Novo Banco (NB), and also, as a precaution, the deliberation adopted by the Resolution Fund on the same date, as they foresee the sale of NB by resorting to a contingent capitalization agreement under which the Resolution Fund commits to inject capital in Novo Banco up to Euros 3,9 billion, under determined circumstances. In the proceedings, the Claimants request the declaration of nullity or annulment of those acts.

The proceedings were filed based on the information contained in the Communication from Banco de Portugal dated 31 March 2017, of which the Claimants were not notified.

The proceedings were filed in court on 4 September 2017. Banco de Portugal and the Resolution Fund presented their arguments and, only very recently, Nani Holdings SGPS, S.A. did the same since, by delay of the court, this company was only very recently notified to act as a party in the proceedings.

Besides opposing to it, the Defendants invoke three objections (i) the illegitimacy of the Claimants, (ii) the argument that the act performed by Banco de Portugal cannot be challenged and (iii) the material incompetence of the court. The opponent part invoked the issue of passive illegitimacy since Novo Banco was not notified as an opponent party.

The Claimants replied to the arguments presented by the Defendants and to the arguments presented by the opponent party. After the presentation of the arguments, Banco de Portugal attached to the proceedings what it called an evidence process (allegedly in compliance with the law) but most of the documents delivered were truncated in such a way that neither the court nor the Claimants are able to get an adequate knowledge thereon. That issue was already raised in the proceedings (requesting the court to order Banco de Portugal to deliver a true evidence process) but no decision thereon has been made yet.

Currently, the proceedings are prepared for confirmation of the decision accepting the formalities of right of action (with the making of a decision on the specific objections invoked). In case the judge considers that Novo Banco is an opponent party, the judge must start by issuing a pre-confirmation order to request the Claimants to identify it. Afterwards, that Bank will be notified to present its opposition arguments (event subsequent to the reference date of the report is described in note 60).

11. Following the restructuring process agreed with the Directorate-General for Competition (DGComp) and the Portuguese State, it was implemented in Group Banco Comercial Português a process of salary adjustment with temporary term. Additionally, it was agreed between the Bank and the Trade Unions that, in the following years after the State intervention and if then exist distributable profits, the Board of Directors and the Executive Comitee will submit for approval of the Shareholders' General Meeting a proposal of distribution of profits to the employees, which allows the distribution of an accumulated total global amount at least equal to the total amount that was not received over the temporary term of the salary adjustment, as described in the clause no. 151-E of BCP's Collective Labour Agreement.

At the General Meeting of 20 May 2020, following the proposal submitted by the Board of Directors, the application of profits relating to the financial year of 2019 was approved, which includes an extraordinary distribution to each employee up to Euros 1,000 who, having not been fully compensated with the distribution of profits occurred in 2019, remains on-job on the date of payment of the remuneration corresponding to June 2020, until the maximum global amount of Euros 5,281,000.

12. The Bank was subject to tax inspections for the years up to 2017. As a result of the inspections in question, corrections were made by the tax authorities, arising from the different interpretation of some tax rules. The main impact of these corrections occurred, regarding IRC, in terms of the tax loss carry forwards and, in the case of indirect tax, in the calculation of the Value-Added Tax (VAT) deduction *pro rata* used for the purpose of determining the amount of deductible VAT. Most of additional liquidations/corrections made by the tax administration were object of contestation by administrative and/or judicial ways.

The Bank recorded provisions or deferred tax liabilities at the amount considered adequate to offset the tax or tax loss carry forwards, as well as the contingencies related to the fiscal years not yet reviewed by the tax administration.

13. Banco Comercial Português, S.A. filed in 2013 a lawsuit against Mr. Jorge Jardim Gonçalves, his wife and Ocidental – Companhia de Seguros de Vida, S.A., requesting mainly that the following be recognized: (a) that the amount of the retirement instalments of the former director, to be paid by the Bank, cannot exceed the highest fixed remuneration earned by the directors exercising functions in the Bank at any moment; (b) that the former director cannot maintain, at the Bank's expenses, the benefits he had when still in active functions; and (c) that the wife of the former director cannot benefit from a survival lifelong pension paid by the Bank in case of death of the former director, under conditions different from the ones foreseen for the majority of the Bank's employees.

After several procedural extraordinary events, on 27 January 2019, the court issued a new sentence - which fully reproduces the previous one issued on 25 May 2018 - considering: (i) rejected the request made by the Bank consisting in the reduction of the pensions paid and to be paid to the first defendant Mr. Jorge Jardim Gonçalves, (ii) rejected the request for the nullity of the eventual future survival pension of the second defendant; (iii) partially accepted the counter-claim made by the defendant Mr. Jorge Jardim Gonçalves, sentencing the Bank to pay him the amount of Euros 2,124,923.97, as reimbursement of the expenses regarding the use of a car with driver and private security until June 2016, and also those that, on this regard, he paid since that date or will pay in the future, in the amount that comes to be settled, expenses which would be part of his retirement regime, plus default interests accounted at the legal rate of 4% per year since the date of the reimbursement request up to their effective and full payment.

In March 2019, BCP appealed the sentence to the Tribunal da Relação de Lisboa (Lisbon Court of Appeal) requesting that the same is revoked and replaced by a decision accepting all the requests presented by the Bank. The Bank considers that the court decided incorrectly regarding evidence and relevant legal issues, and that the appeal has good chances of success, namely because, concerning the amounts received by the former director, the sentence upholds an original interpretation of the limit of article 402, no.2, of the Commercial Companies Code (CCC), going against all court decisions issued by superior courts and most of all the prior doctrine on these issues.

On 5 March 2020, Lisbon Court of Appeal abrogated the court of first instance's decision, upholding the Bank's legal action and declaring the non-existence of the right of the Defendant Mr. Jardim Gonçalves to receive the retirement supplements paid by Ocidental Vida, condemning the Defendant to return to the Bank the amounts received monthly in excess of the limits provided for in Article 402 (2) of the Commercial Companies Code, as from the date of retirement; as well as enacted the partial nullity of the insurance contracts titled by the capitalisation and lifelong pension policy, sentencing Ocidental Vida to return to the Bank the amounts paid by the latter to support the retirement supplements of Mr. Jardim Gonçalves. Finally, the court dismissed the counterclaim, acquitting the Bank of the request. There may be an appeal to the Supreme Court of Justice for this last decision.

56. Application of IFRS 16 – Leases

As described in note 1 A. Basis of presentation and accounting policy 1 H, the Group adopted IFRS 16 – Lease transactions on 1 January 2019, replacing IAS 17 – Lease transactions, which was in force until 31 December 2018. IFRS 16 was approved by EU in October 2017. The Group did not adopt any of the requirements of IFRS 16 in prior periods.

This standard establishes the new requirements regarding the scope, classification/recognition and measurement of leases:
- from the lessor's perspective, leases continue to be classified as finance leases or operating leases;
- from the lessee's perspective, the standard defines a single model of accounting for lease contracts, which results in the recognition of a right-of-use asset and a lease liability for all leases, except for those which the lease term ends within 12 months or for those which the underlying asset is of low value and, in these cases, the lessee may opt for the exemption from recognition under IFRS 16, and shall recognise the lease payments associated with those leases as an expense.

The Group choose not to apply this standard to short-term lease contracts, i.e. contracts with a term shorter than or equal to one year, and to lease contracts in which the underlying asset's value is below Euros 5,000. Additionally, the option not to apply this standard to leases of intangible assets was also used.

Transition

On 1 January 2019, the Group carried out a review of the existing contracts at this date and applied the practical expedient provided in IFRS 16, i.e., the standard was only applied to contracts previously identified as leases in accordance with IAS 17 – Leases and IFRIC 4.

As proposed in IFRS 16, the Group applied this standard retrospectively, with its transition impacts recognised on 1 January 2019. This way, comparative information has not been restated.

By applying the practical expedient provided on the transition to IFRS 16, the Group recognised a lease liability at the present value of the remaining lease payments, discounted at an incremental interest rate at the date of initial application and the underlying assets' right-to-use by the lease liability amount.

For contracts in which a sublease is identified, the Group recognised a lease liability at the present value of the remaining lease payments, discounted at an incremental interest rate at the date of initial application and a financial asset related to the sublease.

The following assumptions considered in the implementation of this standard were:
- lease term: this component was evaluated by categories of contracts, being each contract enforceable. In the evaluation of the enforceability, the particular clauses of the contracts as well as the current legislation regarding the urban lease are taken into consideration;
- discount rate: it was used the lessee's incremental rate, which incorporates the risk-free yield curve (swap curve), plus Group's risk spread, applied over the weighted average term of each lease contract. Regardless of the type of asset, the discount rate was calculated in the same way;
- non-application of the standard to lease contracts with a term under 12 months, neither to leases of low value assets (up to Euros 5,000).

Given the conditions mentioned above, the Group identified that the main lease contracts covered by this standard are contracts on real estate (branches and central buildings) and on a residual number of vehicles.

The adoption of the standard implies changes in the Group's financial statements, namely:
- in the consolidated income statement:
(i) in Net interest income, the record of interest expenses related to lease liabilities, as referred to in note 2. Net interest income, balance Interest and similar charges - Interest on leases;
(ii) in Other Administrative Expenses, the record of the amounts relating to short-term lease contracts and low value assets lease contracts, as referred to in note 8. Other administrative expenses, balance Rents and leases; and
(iii) in Amortisations, the record of depreciation costs of right-of-use assets, as referred in note 9. Amortisations and depreciations, balance item Right-of-use.
- in the consolidated balance sheet:
(i) in Financial assets at amortised cost - Loans and advances to customers, the recognition of financial assets related to sublease operations measured in accordance with IFRS 9, as referred to in note 21. Loans and advances to customers, balance Finance leases;
(ii) in Other tangible assets, the recognition of right-of-use assets, as referred in note 28. Other tangible assets, balance Right of use; and
(iii) in Other liabilities, the record of the amount of recognised lease liabilities, as referred in note 39. Other liabilities, balance Rents to pay.
- In the cash flow statement, Cash flows arising from operating activities - Payments (cash) to suppliers and employees includes amounts related to short-term leases and to leases of low-value assets. The balance Decrease in other sundry liabilities and non-controlling interests includes amounts relating to payments of capital portions of lease liabilities, as detailed in the Consolidated statement of cash flows.

Until 31 December 2018, and according to IAS 17, every payment of operating leases was presented as Cash flows arising from operating activities. Following the IFRS 16's adoption, Cash flows arising from operating activities changed to Cash flows arising from financing activities in the amount of Euros 25,733,000. IFRS 16's adoption didn't cause an impact in the Group's net cash flows.

The reconciliation between the balance sheets of 31 December 2018 and 1 January 2019, according to IFRS 16, is detailed as following:

(Thousands of euros)

	IAS 17 31 Dec 2018	Impact of IFRS 16	IFRS 16 1 Jan 2019
ASSETS			
Cash and deposits at Central Banks	2,753,839	-	2,753,839
Loans and advances to credit institutions repayable on demand	326,707	-	326,707
Financial assets at amortised cost			
Loans and advances to credit institutions	890,033	-	890,033
Loans and advances to customers	45,560,926	9,835	45,570,761
Debt securities	3,375,014	-	3,375,014
Financial assets at fair value through profit or loss			
Financial assets held for trading	870,454	-	870,454
Financial assets not held for trading mandatorily at fair value through profit or loss	1,404,684	-	1,404,684
Financial assets designated at fair value through profit or loss	33,034	-	33,034
Financial assets at fair value through other comprehensive income	13,845,625	-	13,845,625
Assets with repurchase agreement	58,252	-	58,252
Hedging derivatives	123,054	-	123,054
Investments in associated companies	405,082	-	405,082
Non-current assets held for sale	1,868,458	-	1,868,458
Investment property	11,058	-	11,058
Other tangible assets	461,276	249,416	710,692
Goodwill and intangible assets	174,395	-	174,395
Current tax assets	32,712	-	32,712
Deferred tax assets	2,916,630	-	2,916,630
Other assets	811,816	-	811,816
TOTAL ASSETS	75,923,049	259,251	76,182,300
LIABILITIES			
Financial liabilities at amortised cost			
Resources from credit institutions	7,752,796	-	7,752,796
Resources from customers	52,664,687	-	52,664,687
Non subordinated debt securities issued	1,686,087	-	1,686,087
Subordinated debt	1,072,105	-	1,072,105
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	327,008	-	327,008
Financial liabilities at fair value through profit or loss	3,603,647	-	3,603,647
Hedging derivatives	177,900	-	177,900
Provisions	350,832	-	350,832
Current tax liabilities	18,547	-	18,547
Deferred tax liabilities	5,460	-	5,460
Other liabilities	1,300,074	259,251	1,559,325
TOTAL LIABILITIES	68,959,143	259,251	69,218,394
EQUITY			
Share capital	4,725,000	-	4,725,000
Share premium	16,471	-	16,471
Other equity instruments	2,922	-	2,922
Legal and statutory reserves	264,608	-	264,608
Treasury shares	(74)	-	(74)
Reserves and retained earnings	470,481	-	470,481
Net income for the year attributable to Bank's Shareholders	301,065	-	301,065
TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS	5,780,473	-	5,780,473
Non-controlling interests	1,183,433	-	1,183,433
TOTAL EQUITY	6,963,906	-	6,963,906
TOTAL LIABILITIES AND EQUITY	75,923,049	259,251	76,182,300

57. Acquisition/Merger of Euro Bank, S.A.

Description of the transaction

On 5 November 2018, Bank Millennium announced and signed the preliminary agreement related to the acquisition of 99.787% shares of Euro Bank S.A. from SG Financial Services Holdings a wholly owned subsidiary of Societe Generale S.A. The transaction specified in the agreement is the direct acquisition of the shares by Bank Millennium.

The strategic logic of the transaction

As a result of the transaction related to the acquisition of Euro Bank shares, Bank Millennium strengthened its important position in the Polish banking sector. The transaction increased the number of the Bank's clients by 1.4 million (of which more around 494 thousand fulfil the classification of active client as per Bank's internal definition) and therefore allowed the Bank to become one of the largest Polish bank in terms of the number of retail clients.
The acquisition of Euro Bank allowed the Bank to increase the segment of consumer loans, as well as the importance of this segment for the entire Group.

The acquisition of Euro Bank enabled Millennium Bank to acquire competences in the franchise model and strengthen its presence in smaller cities, where Euro Bank was strongly located, and contributed to increase of the geographical coverage of the Bank's distribution network.

Completion of the acquisition

On 3 January 2019, the Bank received information on issuing by the President of the Office of Competition and Consumer Protection the decision on the consent for the concentration consisting in the Bank's acquisition of control over Euro Bank S.A. The consent was issued on 28 December 2018.

On 28 May 2019 the Polish Financial Supervision Authority issued the consent specifying that there is no basis for the objection raising, and therefore Bank Millennium together with its parent entity, Banco Comercial Portugues, were allowed to acquire the shares of Euro Bank S.A. in the number resulting in exceeding 50% of the total number of votes on the general meeting of Euro Bank and of the share in the share capital. The number of acquired shares exceeding 50% results also in becoming a parent entity of Euro Bank.

On 31 May 2019, by executing the share purchase agreement between the Bank and SG Financial Services Holdings of 5 November 2018, the Bank has acquired the majority of shares, constituting 99.787% of Euro Bank S.A. share capital.

Additionally, on 31 May 2019, the Bank has repaid the unsubordinated financing granted to Euro Bank by Societe Generale S.A. ("SG") in the amount of ca. PLN 3.800.000.000. It was preceded by Euro Bank's repayment of a part of subordinated debt from SG in the amount of PLN 250.000.000, after obtaining appropriate agreements from the PFSA in this particular area. In October 2019, a final repayment of a subordinated loan of SG taken out by Euro Bank in the amount of PLN 100 million (fully collateralised by a cash deposit since 31 May 2019) took place.

In order to limit the risk associated with the Euro Bank's portfolio of mortgage loans denominated in CHF or denominated in PLN, but indexed to CHF, Euro Bank and SG signed on 31 May 2019 an "CHF Portfolio Indemnity and Guarantee Agreement" as it was planned in the Share Purchase Agreement. Euro Bank, Bank Millennium and SG also concluded an agreement related to the provision of certain limited transitional services by SG for Euro Bank.

Merger

On 6 June 2019, the Management Board of Bank Millennium and the Management Board of Euro Bank agreed and signed the merger plan of Bank Millennium and Euro Bank (the "Merger"). The merger was performed in accordance with art. 492 § 1 point 1 of the Commercial Companies Code (KSH) by transferring all assets and liabilities of Euro Bank (the acquired bank) to Bank Millennium (the acquiring bank), without increasing the share capital of Bank Millennium.

In accordance with the Merger, existing, dematerialized shares of Bank Millennium ("Merger Shares") were allocated to the minority shareholders of Euro Bank. The shares were purchased on Warsaw Stock Exchange S.A. in the secondary trading, by Millennium Dom Maklerski S.A. [Millennium Brokerage House], by the order of Bank Millennium, pursuant to art. 515 § 2 of the Commercial Companies Code.

The following share exchange parity has been determined in the Merger Plan: in exchange for 1 (one) share of Euro Bank, a minority shareholder of Euro Bank received 4.1 Merger Shares.

As a result of the Legal Merger performed 1st October 2019, Bank Millennium assumed all the rights and obligations of Euro Bank, and Euro Bank was dissolved without liquidation proceedings and its entire assets were transferred to Bank Millennium. The merger took place on the day of its entry into the register of entrepreneurs of the National Court Register of Bank Millennium.

The merged Bank operates under the name Bank Millennium S.A. based on the provisions of the Act of 15 September 2000 - Code of Commercial Companies ("KSH").

The merger was performed based on already obtained appropriate consents and permits required by law, i.e.:
(i) - permission of the Polish Financial Supervision Authority ("PFSA") for the Merger, pursuant to art. 124 paragraph 1 of the Act of 29 August 1997 - Banking Law ("Banking Law");
(ii) - permission of the PFSA to amend the Statute of Bank Millennium pursuant to art. 34 paragraph 2 of the Banking Law.

Transaction settlement

Transaction settlement was performed applying the acquisition method, in accordance with the International Financial Reporting Standard 3 "Business combinations" ("IFRS"), which requires, among others, recognition and measurement of identifiable assets acquired, and liabilities assumed measured at fair value as at the acquisition date, and any non-controlling interest in the acquired entity (if any) and separate recognition and measurement of goodwill or gain on bargain purchase.

As part of the transaction, the Group identified non-controlling interests amounting to 0.2% of the total value of Euro Bank shares. Bank Millennium acquired 26,240 shares of the Bank, constituting 0.00216302% of its share capital, which were then offered as merging shares to authorized shareholders of Euro Bank other than the Bank. The average purchase price of one merger share was PLN 5.939842, and the total price, representing the total cost of purchasing the merger shares, was PLN 156.3 thousand.

The Group made a final settlement of the merger and calculation of goodwill in connection with the purchase of Euro Bank S.A. shares within a period of one year from the date of acquiring the control in accordance with the requirements of IFRS 3. During this time, the acquirer may adjust retrospectively the provisional fair values of assets and liabilities recognized as at the acquisition date to reflect any new information obtained in relation to facts and circumstances that existed as at the acquisition date and, if known, would affect the measurement of those assets and liabilities. Such adjustments refer to the recognized goodwill or gain on bargain purchase.

Recognition and measurement of identifiable assets acquired liabilities assumed measured in accordance with IFRS

The following data regarding the fair value measurement of the acquired assets and assumed liabilities were based on the identification from the point of view of Bank Millennium and the adopted assumptions regarding the materiality threshold.

A detailed description of the fair value measurement of individual assets acquired and liabilities assumed was presented in the consolidated annual report of the Millennium Group for 2019.

	Identifiable assets acquired and liabilities assumed measured at fair value	
	million of zloty	million of euros
Assets		
Cash and deposits at Central Banks	242	57
Loans and advances to credit institutions repayable on demand	85	20
Financial assets at amortised cost		
Loans and advances to customers	12,558	2,933
Financial assets at fair value through profit or loss		
Financial assets not held for trading mandatorily at fair value through profit or loss	17	4
Financial assets at fair value through other comprehensive income	1,385	324
Other tangible assets	113	26
Goodwill and intangible assets	50	12
Deferred tax assets	143	33
Other assets	72	16
Total Assets	14,665	3,425
Liabilities		
Financial liabilities at amortised cost		
Resources from credit institutions	4,087	955
Resources from customers	7,975	1,863
Non subordinated debt securities issued	506	118
Subordinated debt	100	23
Hedging derivatives	6	1
Provisions	1	-
Other liabilities	375	88
Total Liabilities	13,050	3,048
Total Equity	1,615	377

The adjustments to the fair value for temporary differences constituted the basis for the calculation of deferred tax.

Calculation of goodwill

As at the date of the present report, the Group has completed the process of calculating goodwill as at 31 May 2019.

In accordance with IFRS 3.45, the maximum period for making changes to the purchase price allocation expired after 12 months from the date of the acquisition, i.e. on 31 May 2020. The finally determined difference of the fair value of acquired assets and assumed liabilities at the acquisition date over the purchase price is recognized by the Group in accordance with the provisions of IFRS 3.32 as goodwill in intangible assets.

	Identifiable assets acquired and liabilities assumed measured at fair value	
	thousands zloty	thousands euros
Price transferred in accordance with the Agreement	1,833,000	428,151
Preliminary price adjustment	(25,529)	(5,963)
Price after adjustment	1,807,471	422,188
Fair value of acquired net assets	1,615,346	377,312
Exchange differences	-	(1,645)
Goodwill	192,125	43,231

As at the balance sheet date, no impairment allowances for goodwill were recognized in intangible assets.

The difference between the book value of the acquired assets and liabilities of Euro Bank S.A. and their fair value measurement will be subject to settlement through the profit or loss account - in the economic life of the individual components of the assets and liabilities acquired.

58. Impact of Covid - 19 Pandemic

Background

The first half of 2020 was marked by the spread of the COVID-19 disease on a global scale after the first cases of SARS-CoV-2 (Coronavirus) infection were detected in China, still in late 2019. The outbreak of this virus shows a significant mortality rate and led to the declaration of a pandemic by the World Health Organization on 11 March 2020. The immediate impacts of this pandemic have already reached an unprecedented dimension in the alert situation created, in the exhaustion of health systems and in the severe containment and combat measures implemented in several countries including Portugal where the state of emergency was declared on 18 March 2020, for the first time since the country's current Constitution was enacted.

The outbreak of COVID-19 forced the majority of the countries to implement restraining measures, including temporary confinement of large proportions of the populations of the most-affected countries and strong restrictions to the normal economic activity of many companies in almost every sector, to contain the spread of the disease. These measures turned out to be very harmful for the global economy, causing a sudden slowdown in activity. The Euro Area should be the most penalized among the main world economies given the strong incidence of the pandemic in some of its member-states. In reaction to this unfavourable environment, the governments of countries in the main economic blocs and their Central Banks have announced extraordinary fiscal measures and changes in monetary policy designed to mitigate the impacts of the crisis caused by the pandemic and to stimulate the resumption of the economy. The European Central Bank (ECB) intensified the purchase of public and private debt securities and created a new liquidity facility for the banks. Additionally, aiming credit institutions to preserve capital to retain their capacity to support the economy in an environment of heightened uncertainty caused by COVID-19, ECB issued a recommendation related to dividend distributions. According to this recommendation, banks should refrain from paying out dividends and from assuming irrevocable commitment to pay out dividends for the financial years 2019 and 2020 and should also abstain from buying-back shares aimed at remunerating shareholders. The deadline for this recommendation, initially scheduled until 1 October 2020, was subsequently extended to at least 1 January 2021.

Portugal has been of one the European countries most affected by the pandemic mainly due to the preponderance of tourism in exports and employment. The fiscal policy activism combined with the expressive retraction of GDP imply a marked deterioration of public finances in 2020. The seriousness of the situation led the government to implement a set of measures to mitigate the impact of COVID-19, including guaranteed credit lines, moratoria for credit and tax obligations for firms and individuals, a simplified layoff regime and other measures of employment protection.

The Polish economy denoted a great resiliency in the first quarter of 2020 due to its reduced exposure to some of the sectors most affected by the pandemic, like tourism, and the diversified structure of its productive structure. Notwithstanding, in the second quarter, the lockdown needed to contain the pandemic resulted in a significant loss of activity, leading the central bank to reduce again the key interest rate, setting the reference rate to 0.1% (1.5% till March). In Mozambique, the COVID-19 containment measures and the military instability in the north of the country together with the contraction of the external demand have been hampering the performance of the economy.

Measures to support the economy

Portugal

Credit lines guaranteed by the Portuguese State

In the context of the epidemic caused by the new Coronavirus, the Portuguese Government created lines of support for the economy that allow companies to access credit on favourable terms. This support has been made available in a phased manner and distributed in specific lines for different business sectors. These lines are guaranteed by the Portuguese State in 90% in the case of credit granted to micro and small companies and in 80% in the case of larger companies.

Credit moratoriums

The Portuguese Government, through Decree-Law no. 10-J / 2020, of 26 March, introduced a moratorium on credits towards financial institutions with the objective of supporting families and companies in an adverse context of a substantial decline in income caused by the COVID-19 pandemic. This public moratorium establishes exceptional measures to protect the credits of beneficiary entities in the context of the COVID-19 pandemic, allowing the deferral of the fulfilment of responsibilities, when they represent credits assumed by the beneficiary entities towards the Bank, which are not overdue on the date on which the application to the public moratorium is received.

As the economic crisis generated by the COVID-19 pandemic was evolving, in June 2020, the Portuguese Government extended the scope and the deadline of the public moratorium. Thus, Decree-Law No. 26/2020 introduced changes to the public moratorium, regarding the period covered, the timing for accession and the scope of the beneficiaries and the operations covered. With these changes, bank customers began to benefit from an extension of the term of the public moratorium. The moratorium term initially set at six months, until 30 September 2020, has been extended until 31 March 2021. This new term is applicable not only to new moratoriums but to those that were subscribed in periods prior to the extension. Within the scope of these amendments, a deadline for adhering to the public moratorium was also set, which can be requested until 30 September 2020.

Based on this framework, the Bank started to provide credit moratoriums designed to protect, namely, companies, self-employed entrepreneurs and other professionals, private social solidarity institutions, non-profit associations and other entities of the social economy, which fulfil the requirements of the law.

In the case of households, moratoriums covers loans with mortgage guarantee (with multi-purpose, namely mortgage loans, including credit granted for the acquisition of secondary residential property or for rental purposes), as well as the real estate financial leasing and the consumer credit agreements for the purpose of education, including for academic and professional training.

Following the guidance issued by the European Banking Authority on public and private moratoriums applied to credit operations in the context of the COVID-19 pandemic, the Portuguese Association of Banks provided for two private moratoriums open to natural persons, residents or non-residents in Portugal , one of which relates to mortgage loans and the other to non-mortgage loans (e.g. personal or automobile). In the case of non-mortgage loans, the moratoriums agreed until 30 June 2020 are granted for a period of 12 months, counting from the date of the agreement. The moratoriums that will be agreed after 30 June 2020 will end on 30 June 2021. In the case of mortgage loans, the moratoriums will last until 31 March 2021.

Measures to support clients

(i) Exemption and commissions reduction

In parallel with the suspension of certain commissions due for the use and carrying out of payment transactions through digital platforms, established by Law No. 7/2020, of 10 April, the Bank created several exemptions or commission reductions benefiting corporate and private customers, mainly those most affected by the pandemic. In this context, the access to integrated solutions with special conditions or reduced prices was extended and facilitated for private customers.

(ii) Other measures implemented by the Bank

In addition to the aforementioned measures, BCP launched a set of additional measures to help families and companies to overcome the economic challenges caused by the COVID-19 pandemic.

Simultaneously with the moratorium on the repayment of principal and interests, BCP suspended, between 1 April and 30 June, 2020, spread increases on real estate credit agreements to private customers for non-compliance with contractual bonus conditions, resulting from the constraints associated with the COVID-19 pandemic. Additionally, the digital transformation was accelerated, making it easier and faster to access the Bank and its services.

In order to support the economy, protect employment and strengthen corporate sustainability, BCP under the corporate support program, also offers current-account credit facilities and immediate liquidity, with Factoring and Confirming products, providing the possibility of access to several credit lines.

International

In the international activity, it is worth mentioning the initiatives launched by Bank Millennium in Poland. Bank Millennium provided its customers with the possibility of deferring payments of interest and principal for credits as provided for in credit moratoriums sponsored by local associations representing the banking sector and leasing companies. Bank Millennium has launched several initiatives aimed at facilitating access to the bank and carrying out financial transactions remotely, mainly benefiting its private customers. In order to make it easier for companies to meet their cash flow needs during this period, Bank Millennium launched several funding solutions for this specific purpose.

The following tables characterize the transactions that, as of 30 June 2020, were subject to legislative and non-legislative moratorium, as well as new loans granted under new public guarantee systems introduced in response to the COVID-19 crisis.

In what regards moratoriums, it should be noted the presentation of the exposure structure by customer segment, the exposure status (performing / non performing), classification in stage 2 (operations with a significant increase in credit risk since the initial recognition, but without credit impairment), existence of restructuring due to financial difficulties, constituted impairments and residual term of default.

As for loans granted under new public guarantee systems, the breakdown of exposure by segment is presented, as well as the number of associated guarantees and the indication of the portion classified as restructuring due to financial difficulties or classified as non-performing.

Loans and advances subject to legislative and non-legislative moratoria

The analysis of the gross carrying amount of the loans and advances suject to moratorium is as follows:

(Thousands of euros)

	Gross carrying amount						
	Performing			Non performing			
		Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Total
Loans and advances subject to moratorium	9,799,828	504,046	2,429,163	665,251	433,677	655,336	10,465,079
of which: Households	5,415,763	129,069	915,734	109,418	52,944	106,653	5,525,181
of which: Collateralised by residential immovable property	4,628,711	114,621	801,632	90,191	45,533	88,038	4,718,902
of which: Non-financial corporations	4,308,195	373,663	1,462,964	536,104	361,184	528,954	4,844,299
of which: Small and Medium-sized Enterprises	3,687,255	353,270	1,248,641	510,672	348,359	505,000	4,197,927
of which: Collateralised by commercial immovable property	948,524	77,711	430,584	168,023	123,265	167,963	1,116,547

The analysis of the impariment amount of the loans and advances suject to moratorium is as follows:

(Thousands of euros)

	Accumulated impairment, accumulated negative changes in fair value due to credit risk						Gross carrying amount
	Performing			Non performing			
		Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures in the first semester
Loans and advances subject to moratorium	110,270	29,881	79,537	235,158	170,941	233,870	103,889
of which: Households	20,952	1,020	8,763	12,303	2,775	12,129	23,060
of which: Collateralised by residential immovable property	7,195	521	4,008	7,462	1,002	7,446	16,093
of which: Non-financial corporations	87,788	28,777	69,335	203,544	148,918	202,430	80,829
of which: Small and Medium-sized Enterprises	79,378	27,404	64,868	199,178	147,797	198,435	80,792
of which: Collateralised by commercial immovable property	19,411	2,042	17,330	49,078	34,971	49,078	2,398

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

The analysis of the loans and advances which moratorium was offered and was granted is as follows:

(Thousands of euros)

	Number of obligors	Gross carrying amount	Of which: legislative moratoria	Of which: expired
Loans and advances for which moratorium was offered	163,954	10,848,123		
Loans and advances subject to moratorium (granted)	162,261	10,688,029	9,231,116	222,949
of which: Households		5,619,859	4,162,947	94,678
of which: Collateralised by residential immovable property		4,798,260	3,711,340	79,357
of which: Non-financial corporations		4,972,569	4,972,569	128,271
of which: Small and Medium-sized Enterprises		4,261,246	4,261,246	63,319
of which: Collateralised by commercial immovable property		1,116,592	1,116,592	44

The analysis of the loans and advances which moratorium was offered and was granted by residual maturity of moratoria is as follows:

(Thousands of euros)

	Gross carrying amount					
	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year	Total
Loans and advances for which moratorium was offered						
Loans and advances subject to moratorium (granted)	934,684	874,977	8,485,746	169,672	-	10,465,079
of which: Households	763,202	683,385	3,908,922	169,672	-	5,525,181
of which: Collateralised by residential immovable property	575,765	490,434	3,652,540	163	-	4,718,902
of which: Non-financial corporations	171,483	191,593	4,481,223	-	-	4,844,299
of which: Small and Medium-sized Enterprises	99,385	44,927	4,053,615	-	-	4,197,927
of which: Collateralised by commercial immovable property	24,699	25,861	1,065,987	-	-	1,116,547

Newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

The analysis of the loans and advances subject to public guarantee schemes is as follows:

(Thousands of euros)

	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		of which: forborne	Public guarantees received	Inflows to non-performing exposures in the first semester
Newly originated loans and advances subject to public guarantee schemes	1,694,273	-	1,427,086	449
of which: Households	566			-
of which: Collateralised by residential immovable property	-			-
of which: Non-financial corporations	1,691,370	-	1,424,698	449
of which: Small and Medium-sized Enterprises	1,582,971			449
of which: Collateralised by commercial immovable property	25,379			-

Adoption of new procedures and criteria in the preparation of accounting estimates in the context of the COVID-19 pandemic

In the context of the current crisis caused by the spread of the COVID-19 pandemic, several supervisors and regulators, including the European Central Bank, the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA) and the International Accounting Standards Board (IASB) issued guidelines and recommendations to ensure the consistency and comparability of the metrics, principles and requirements provided for in the International Financial Reporting Standards (IFRS), in particular regarding IFRS 9 - Financial instruments.

In this context, the following main guidelines and recommendations should be highlighted:

- Statement on the application of the prudential framework regarding default, forbearance and IFRS 9 in light of COVID-19 measures, issued by EBA in 25 March 2020;
- IFRS 9 and COVID-19 - Accounting for expected credit losses applying IFRS9 Financial Instruments in the light of the current uncertainty resulting from the COVID-19 pandemic, issued in 27 March 2020 by IASB;
- Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis, issued by EBA in April 2, 2020 (EBA/GL/2020/02) and updated in 25 June 2020;
- IFRS 9 in the context of the coronavirus (COVID-19) pandemic, issued in April 1, 2020 by ECB.

Classification of operations based on credit risk

In its statement of 25 March 2020, EBA states that, under IFRS 9 institutions are expected to use a certain degree of judgment to distinguish between obligors for which the credit standing would not be significantly affected by the current situation in the long term, from those that would be unlikely to restore their credit worthiness.

Risk stages under IFRS 9 involve the identification and classification of customers in situations of increased risk or even default. Regarding the classification of credits across different risk stages and in order to address the EBA recommendation, the Bank has implemented the following procedures:

i) Credit portfolio review for the most significant exposures

Regarding customers with the most significant credit exposures, it is worth highlighting the performance of a set of extraordinary procedures in order to assess the possible impacts of the pandemic outbreak COVID-19:

a) Clients with significant exposures - Performing Portfolio:

Based on risk criteria, a set of Corporate clients with significant exposures were identified for review and the questionnaires on signs of impairment were anticipated, covering an exposure as of 30 June 2020 which corresponds to 22.4% of the Corporate performing portfolio.

The revaluation of the portfolio of significant cases sought to identify cases that may have undergone a significant increase in credit risk and / or an increase in a probability of default that may imply transfer of stage or classification as NPE.

b) Clients with significant exposures – Non-performing portfolio (NPE):

For this universe of customers, the following approach was adopted, which focuses on a set of customers representing approximately 1.6 billion euros in exposure as of 30 June 2020, corresponding to 53.7% of the portfolio classified as NPE by the Bank and 11.2% of the total Corporate portfolio:

- Impairment review for customers of the 20 largest NPE Groups and / or 20 largest NPE customers with a going concern approach;
- Impairment review for NPE clients with a gone concern approach and collateral with a valuation over 10 million euros.

c) Individual Customers:

Regarding individual customers, it’s important to take into account that the largest portion of the portfolio corresponds to mortgage credit operations, representing around 16.4 billion euros. This type of operations corresponds to 42% of the Bank's loan portfolio and 91% of the loan portfolio to individuals, characterized by low levels of claims and higher recovery rates, due to the weight and liquidity of the associated collateral.

The impairment levels of the portfolio that benefits from a mortgage guarantee at the end of June 2020 corresponded to an average impairment rate of 0.34% for operations classified in stage 2.

ii) Identification of most vulnerable Corporate customers and respective close monitoring

Also with the objective of identifying, assessing and monitoring the impact in terms of credit risk resulting from the pandemic crisis COVID-19, in a more global and transversal perspective that can allow a consistent monitoring during the period in which the effects of that pandemic are verified, the Bank developed an approach regarding Corporate clients, which is translated into the following methodology:

- Identification of the sectors of activity considered to be at greater risk and with the most adverse impact in the context of the COVID-19 crisis;
- Definition of stress scenarios adjusted to the severity of the expected impact for each sector of activity;
- Assessment of the resilience of companies belonging to the sectors identified as the most vulnerable;
- Identification of customers with the greatest vulnerability, according to the assessment carried out.

As part of this process, the Bank has assessed practically the total exposure to the sectors considered the most impacted. This assessment constitutes a highly valuable support for the identification of the most vulnerable customers, the collection of real and estimated data on the main debtors, selection of customers who, by the sector in which they carry out their activity and size of exposure, should be monitored and closely analysed and continuous monitoring of the evolution of the identified cases.

This monitoring is carried out in coordination with the commercial area that follows the identified customers and the credit area, involving the monthly or quarterly request of information in order to evaluate the evolution of their economic and financial situation as soon as possible. The conclusions from this analysis are presented to a monitoring committee specifically created for this purpose, which is attended by members of the Executive Committee.

This approach allows an early detection of risk of default, providing the conditions for timely action by the Bank, particularly before the end of the moratoria period, for cases that benefited from these measures.

In addition, according to the EBA, the moratoriums introduced in response to the COVID-19 pandemic and in so far as they are not specific to certain obligors, but apply to a wide universe of customers or types of credit, do not lead to a classification of default, restructuring or reduced probability of fulfilling obligations. In this context, operations within the scope of the state moratorium (Decree Law 10-J / 2020 of 26 March) or the sectoral moratorium (protocol signed in the context of the APB- Portuguese Banking Association) need not be flagged as restructured due to financial difficulties.

Regarding the flagging of restructuring due to financial difficulties of other operations or contractual changes, the Bank continued to reinforce the internal procedures with a view to the rigorous classification of new operations or the modification of ongoing operations that are considered to be carried out due to financial difficulties of the customers.

Public and private moratoriums applied to credit operations in the context of the COVID-19 pandemic

On 2 April, 2020 and 25 June 2020, EBA published guidelines on public and private moratoriums on credit operations in the context of the COVID-19 pandemic. These guidelines clarify the treatment of the moratoriums granted until 30 September 2020 and supplement the EBA guidelines on the application of the definition of default and the treatment of restructuring situations. EBA clarifies the implications of default on the prudential and accounting treatment of credit exposures, reaffirming the importance of institutions continuing to monitor, evaluate and classify these exposures in order to adequately reflect any deterioration in credit risk.

In order to evaluate the impacts of the COVID-19 pandemic outbreak in the Bank's risk classification on exposures that make used of mechanisms to change the debt service profile (moratoriums with a generic character - state moratorium under Decree Law 10-J / 2020 of 26 March and sectorial moratorium within the scope of the protocol signed in the context of the APB), a comparative analysis of the situation of these operations was carried out between 29 February 2020, and 30 June 2020, regarding the classification in risk stages under the IFRS9, bearing in mind that the allocation to stage 3 corresponds to an NPE classification (default).

With regard to operations in the Households segment that at the end of the semester had been subject to a moratorium, 90% of the exposure remained on the same stage and the portion that underwent stage degradation was similar to that which experienced an improvement (5.0% vs. 4.6%), with an insignificant value of 1% of operations not classified in February.

(Thousands of euros)

		30 june 2020		
		Households Exposure		
		Stage 1	Stage 2	Stage 3
29 February 2020 Households Exposure	Stage 1	2,912,922	179,558	2,498
	Stage 2	167,426	668,403	23,904
	Stage 3	1,204	20,154	57,572
	n.a	38,292	5,910	751
	Total	3,119,844	874,025	84,725

In the Corporate segment, the trend is not very different from that seen in the private segment, with stage stability for 87% of the value of operations. However, there is a greater weight of the cases of exposure with degradation (7.3%) in relation to improvement situations (3.3%).

(Thousands of euros)

		30 june 2020		
		Corporates Exposure		
		Stage 1	Stage 2	Stage 3
29 February 2020 Corporates Exposure	Stage 1	2,391,380	225,591	79,679
	Stage 2	143,754	1,148,986	29,543
	Stage 3	-	5,360	441,910
	n.a	97,473	11,170	1,978
	Total	2,632,607	1,391,107	553,110

An analysis of the evolution of IFRS9 staging with respect to financing operations under the National Mutual Guarantee System, guaranteed by the Portuguese State to mitigate the impacts of the COVID-19 pandemic is not applicable, taking into account that they correspond to new operations that did not exist at the end of February. In any case, it will be important to note that 96% of the Bank's exposure to this type of instrument at the end of June is allocated to stage 1, with the stage 3 portion being insignificant (0.03%).

Regarding the recognition of impairment by the Bank, it should be noted that within the scope of the individual analysis, the level of impairment arises from the conclusions of the case-by-case analysis, regardless the client has adhered or not to the moratorium's regulatory framework.

In the case of collective impairment, the impacts resulting from the change of the debt service' cash-flows profile through the use of moratoriums are recorded, similar to the procedures adopted for the remaining operations.

Macroeconomic scenarios considered to determine the loan portfolio impairment

Following the public health crisis, the macroeconomic assumptions used in the collective impairment calculation model were updated, which is based on three scenarios (Base Scenario, Upside Scenario and Downside Scenario). These scenarios were prepared at the end of June and took into consideration the most recent projections for the macroeconomic variables disclosed by Bank of Portugal and European Commission.

The uncertainty caused by the pandemic led to the need to apply a higher level of judgment to determine the different macroeconomic scenarios and their weightings. In this sense, a prudent perspective was adopted, based on the following structure: Base Scenario: 60%; Upside scenario: 10%; Downside scenario: 30%.

The tables below summarize the update performed in June 2020 for Portugal and Poland of the Base scenarios regarding some of the most critical variables used in the estimate of collective impairment and their comparison with the figures assumed in December 2019, where it is possible to verify the significant magnitude of the changes incorporated.

Update of main macroecominc scenario assumptions (Base Scenario) - Portugal

Variable	December 2019 Scenario		June 2020 Scenario		Difference	
	2020	2021	2020	2021	2020	2021
Unemployment rate	6.10%	6.00%	10.70%	9.10%	4.60%	3.10%
Nominal GDP annual evolution	2.80%	2.80%	-8.70%	5.90%	-11.50%	3.10%
Savings Rate	6.20%	6.30%	8.00%	6.70%	1.80%	0.40%
German 10 year Sovereign Debt yield	-0.69%	-0.66%	-0.50%	-0.50%	0.19%	0.16%

In the base scenario, the Portugal's real GDP should contract severely in 2020 and the strong recession will be reflected in the labour market. From 2021 onwards, a gradual recovery in activity is expected, supported by the gradual lifting of containment measures and by the economic policy actions both at national and European level.

Update of main macroecominc scenario assumptions (Base Scenario) - Poland

Variable	December 2019 Scenario		June 2020 Scenario		Difference	
	2020	2021	2020	2021	2020	2021
Unemployment rate	5.40%	5.60%	8.95%	8.50%	3.55%	2.90%
Nominal GDP annual evolution	3.70%	3.40%	-3.40%	4.60%	-7.10%	1.20%
Consumption annual evolution	4.20%	3.70%	-3.80%	4.50%	-8.00%	0.80%
Disposable Income	4.84%	4.59%	3.13%	5.01%	-1.70%	0.42%
EUR/PLN exchange rate	4.28	4.28	4.55	4.41	0.27	0.13
EUR/CHF exchange rate	3.96	3.84	4.30	4.16	0.34	0.32

The base macroeconomic scenario is subject to significant risks, namely those stemming from the possibility of a second wave of the pandemic serious enough to trigger another phase of lockdowns. In this sense, a downside scenario for Portugal includes a deeper impact of the pandemic on the global economic activity and employment and the consequent negative effect on the Portuguese economy, namely through a slower recovery of tourism.

The materialization of the upside scenario is depended on a quick fading of the pandemic and the hypothesis that all economic policy measures already implemented or announced will promote a faster than expected recovery in economic activity. This will result in a lower contraction of GDP in 2020 and a faster and more pronounced recovery in the following years.

The following tables describe the weightings given in Portugal and Poland to the different macroeconomic scenarios considered at the end of 2019 and in June 2020:

Scenario	Weightings			
	Portugal		Poland	
	Dec 2019	Jun 2020	Dec 2019	Jun 2020
Central	60%	60%	60%	60%
Upside	20%	10%	10%	10%
Downside	20%	30%	30%	30%

For Portugal, a sensitivity analysis was performed considering a more unfavourable evolution of two variables especially critical for the estimate of collective impairment: GDP growth and unemployment rate. Based on the collective impairment of the portfolio in Portugal on 30 June 2020 valued in 433 million euros, the impact of an additional aggravation of one percentage point in the evolution of these indicators, is presented in the table below:

Variable	Estimated impact (% variation)
100 bp GDP growth aggravation	2.8%
100 bp unemployment rate growth aggravation	0.6%

Use of judgments and estimates in the preparation of financial statements

The preparation of interim condensed consolidated financial statements requires using judgements, preparing estimates and making certain assumptions to determine the value of assets and liabilities and the amount of contingent assets and liabilities disclosed at the balance sheet date, as well as the reported amounts of revenue and expenses during the reporting period.

The main judgments and estimates adopted in the context of preparing these interim condensed consolidated financial statements are described in point Z. Accounting estimates and judgments in applying accounting policies, from note 1. Accounting policies.

The COVID-19 pandemic significantly increased the degree of uncertainty in the estimates made and reinforced the need to use expert judgment to assess how these estimates are influenced by the current macroeconomic situation, mainly in what concerns to the calculation of impairments for financial assets and non-financial assets.

Although the estimates have been prepared based on the best information available with respect to the current and prospective context, the final outcome may differ from the values currently estimated.

Going concern assumption

The BCP Group's financial statements have been prepared on a going concern basis, as the Executive Committee considers that the Group has the adequate resources to continue operations and business in the foreseeable future. The evaluation carried out by the Executive Committee was based on a wide range of information related to current and future conditions, including projections on future profitability, cash flows, capital requirements and funding sources. The Executive Committee regularly prepares projections based on different scenarios, including adverse and stress scenarios. The COVID-19 pandemic introduced an increased level of uncertainty in these projections and the need to take into consideration the impact on the BCP Group's operations, on its profitability, capital and liquidity.

Contingency Plan

To deal with the COVID-19 pandemic, the Bank adopted a set of contingency measures planned and designed to ensure the protection of people and the continuity of the activity, including, among others, the recommendations of health authorities, telework and segregation of teams, trying to maximize the resilience of the organization.

In this context, the Bank activated the Contingency Plan, according to the Business Continuity Plan. This plan was updated and adapted specifically to the current pandemic scenario, with a specific Crisis Management Office being created for this purpose. Thus, in line with the guidelines issued by the authorities and supervisory entities, with which the Bank maintains regular contacts, an action plan was designed to protect Customers and Employees, minimize the chances of contagion and ensure the operational continuity of business.

Impacts in income statement

The main impacts of the COVID-19 pandemic on profitability are as follows:

- Net interest income - The COVID-19 pandemic produced several types of impacts on the net interest income of the Group, with different magnitudes and effects depending on its nature. In the first half of 2020, net interest income benefited from the interest generated by the credit lines guaranteed by the Portuguese State, even though the average spread for these lines was lower than the average spread of the existing portfolio. In addition, the lower level of repayments associated to the credits covered by the legal framework of moratoria contributed positively to the net interest income of the semester. Conversely, the increased level of uncertainty associated with the COVID-19 pandemic caused a global economic recession, putting pressure on the reduction in reference interest rates in foreign geographies where the Group operates, with a particular focus on Poland, whose reference rate fell by 140 bps during the first six months of 2020.

- Commissions - Commissions related to the banking business in the first half of 2020, in particular commissions related to transfers and cards, were significantly penalized, not only by the direct impacts of the pandemic caused by COVID-19, but also by the initiatives to support the economy adopted by the Bank in Portugal, embodied in exemptions granted to face the crisis situation that the country is going through. Likewise, commissions related to guarantees and credit also decreased from the same period of the previous year, although the commissions generated by the credit granted within the scope of measures related to COVID-19, have contributed positively to the commissions generated in the semester.

- Net trading income - In the first half of 2020, net trading income was penalized by the negative impact arising from the revaluation of corporate restructuring funds, in the amount of 67,500 thousand euros, reflecting a review of the business plans and the evaluations of the assets from the funds by the respective management companies.

- Operating costs - The impacts of COVID-19 pandemic on operating costs were mainly in other administrative costs. On the one hand, there were savings associated not only with travel, hotel and representation expenses that did not materialize, but also related to the reduction of current activity and the decline in demand observed in several discretionary projects that were suspended or postponed. In contrast, the COVID-19 pandemic led to the recognition of additional costs with the purchase of protective materials, cleaning services and relocation of facilities.

- Impairment for loan losses - The recessive macroeconomic scenario led to the deterioration of credit risk parameters and to the constitution of additional impairments, in the amount of 71,800 thousand euros, leading to the reversal of the trend towards reducing the cost of risk seen in recent periods. The subsidiaries in Poland and Mozambique reinforced impairments for credit risk, in the amounts of 15,700 thousand euros and 5,300 thousand euros, respectively, following the emerging economic context of the COVID-19 pandemic.

- Other impairment and provisions - The impact of COVID-19 pandemic was also felt in impairment for other financial assets, since the revision of credit risk parameters led to extraordinary reinforcements made for debt instruments and guarantees and commitments, totalling 16,100 thousand euros.

- Income tax - In the first half of 2020, no impacts related to the derecognition of deferred tax assets were recorded. The analysis performed leads to the conclusion that all deferred tax assets recognized on 30 June 2020 are recoverable. It should be noted that the assessment of the recoverability of deferred tax assets in Portugal was carried out based on the regulatory framework provided for in Law no. 27-A / 2020, of 24 July 2020, approved under the Supplementary Budget for 2020, which includes a set of additional measures to deal with the contraction of the economic situation in Portugal following the COVID-19 pandemic. The approved Law provides for the suspension in 2020 and 2021 of the period for deducting tax losses existing on 1 January 2020. Additionally, the period for the recoverability of deferred tax assets recognized as a result of tax losses generated in 2020 and 2021 has been extended from 5 years to 12 years.

Strategic guidelines and targets

The outbreak of COVID-19 caused a pandemic on a global scale that forced different countries to adopt exceptional measures with great impact on the lives of people and companies. Financial institutions were forced to change the focus of their business objectives to outline an action plan to answer to the crisis. In this context, the Bank reacted quickly and adjusted its priorities, trying to anticipate the impacts of the crisis. The strategic orientation focused on growth has temporarily been superimposed by a model aimed at protecting the quality of the balance sheet, supporting the economy and adapting business processes and models to the current situation.

The Bank has defined five priorities to 2020:

1- Protect Employees
2- Defend the quality of the balance sheet, liquidity and solvency of the Bank
3- Support the economy, families, businesses and institutions
4- Adapt business models and processes to the new normal
5- Strengthen the social support component for the most vulnerable

Targets to be achieved after the impacts of the current pandemic

The economic and social impacts of the public health crisis and the measures adopted by governments and authorities, including supervisory authorities, will produce effects that at this stage are still uncertain, but which will materially affect the activity of the Group in the three main markets where it operates.

The answer of financial institutions and of their customers has made it possible to highlight that the current crisis is a powerful trends accelerator, with an adaptation of traditional business models and existing processes to a new context entitled as the “new normal”, which is primarily based on digital channels. The pandemic accelerated and even forced the use of digital channels by customers who would otherwise continue to use traditional channels for their needs.

Among the priorities included in the 2018-2021 Strategic Plan, digitization focused on mobile takes a prominent place. The customers of BCP confirmed their positive appreciation of the digital approach of the Bank, reflected in an increasing number of digital customers, but above all in an increasing number of mobile customers. Thus, the targets initially established for the number of digital customers and mobile customers will not be harmed and are expected to even be exceeded. It should be noted, however, that the potential for revenue generated in a post-pandemic context, probably lower, will increase the pressure on financial institutions to capture additional efficiency gains in order to preserve the sustainability of their business models.

Additionally, it is necessary to highlight that, if the current crisis has accelerated the importance of digitalization, both in terms of attracting and retaining customers, and in terms of improving operational efficiency, the same crisis will jeopardize the achievement of the financial goals of the Strategic Plan, namely the profitability, financial efficiency and asset quality, within the initially predicted time horizon, until 2021.

In this context, the Bank considers that the targets defined under the 2018-2021 Strategic Plan remain valid, reaffirming its commitment to the established goals. However, it considers that some of the defined financial targets will only be attainable after the effects of the current economic crisis are overcome. The main targets defined in the Strategic Plan are the following:

	1º half 2020	Steady Sate*
GROWTH OF BUSINESS		
Active Customers	5.6 million	> 6 million
Digital Customers	61%	> 60%
Mobile Customers	44%	> 45%
VALUE CRIATION		
Cost to income	52% (50% excluding non-usual items)	≅ 40%
ROE	2.6%	≅ 10%
CET1	12.1%	≅ 12%
Loans-to-deposits	85%	< 100%
Dividend payout		≅ 40%
QUALIDADE DOS ATIVOS		
NPE Stock	3.9 billion €	≅ 3 billion € Down ≅ 60% from 2017
Cost of risk	85 bp	< 50 bps

* Original Plan. To be achieved after the economic impact of the pandemic.

Pandemic impacts on financial targets

The evolution of macroeconomic conditions on a global scale caused by the COVID-19 pandemic will have materially relevant impacts on the profitability and future financial position of the BCP Group. The impacts on bank income already observed in the first semester will persist in the subsequent periods, with greater or lesser intensity, depending on the evolution of the public health crisis and economic activity. With regard to operating costs, in addition to the direct impacts of savings from the suspension or cancellation of several initiatives and the expenses arising from measures to protect employees and customers, the evolution of the pandemic will also affect the implementation of restructuring and capture measures efficiency gains. Profitability will also be influenced by the cost of risk, whose downward trend converging to the target of the Plan was interrupted in the first half of the year and will tend to remain at a higher level, according to the evolution of macroeconomic conditions. Likewise, the pace of NPE reduction will be affected by a higher level of inflows associated with more adverse economic conditions, as well as by the constraints resulting from these same conditions in exit strategies.

Capital and liquidity requirements

The crisis of public health caused by COVID-19 has led regulators and supervisors to temporarily reduce capital, liquidity and operational requirements for banks, to ensure that they still perform their role in supporting and financing the economy.

In particular, the European Commission, the European Central Bank and EBA issued clarifications on some of the flexibilities already incorporated in Regulation (EU) 575/2013, issuing interpretations and guidelines on the application of the prudential framework in the context of COVID-19.

The capital buffers have been designed with a view to allowing banks to withstand stressed situations and since the European banking sector has built up a significant amount of these buffers, the ECB will allow banks to operate temporarily below the capital level defined by Pillar 2 Guidance (P2G), the capital conservation buffer (CCB) and the systemic buffer (O-SII) and suggested the relaxation of the countercyclical capital buffer (CCyB) by the national macroprudential authorities.

Banks will also be allowed to partially use capital instruments that do not qualify as CET1 capital to meet Pillar 2 Requirements (P2R), bringing forward a measure included in the latest revision of the Capital Requirements Directive (CRD V), that was planned to come into force only in January 2021.

In addition, the European Central Bank allows banks, if necessary, to use their liquidity buffers and temporarily operate below the minimum regulatory level of the LCR (100%).

59. List of subsidiary and associated companies of Banco Comercial Português Group

As at 30 June 2020, the Group's subsidiary companies included in the consolidated accounts using the full consolidation method were as follows:

Subsidiary companies	Head office	Share capital	Currency	Activity	Group % economic interests	Group % effective held	Bank % direct held
Banco ActivoBank, S.A.	Lisbon	101,000,000	EUR	Banking	100.0	100.0	100.0
Bank Millennium, S.A.	Warsaw	1,213,116,777	PLN	Banking	50.1	50.1	50.1
Banque Privée BCP (Suisse) S.A.	Geneva	70,000,000	CHF	Banking	100.0	100.0	100.0
BCP África, S.G.P.S., Lda.	Funchal	682,965,800	EUR	Holding company	100.0	100.0	100.0
BCP Capital - Sociedade de Capital de Risco, S.A.	Oeiras	1,000,000	EUR	Venture capital	100.0	100.0	100.0
BCP International B.V.	Amsterdam	18,000	EUR	Holding company	100.0	100.0	100.0
BCP Investment B.V.	Amsterdam	5,000	EUR	Holding company	100.0	100.0	100.0
BCP Finance Bank, Ltd.	George Town	246,000,000	USD	Banking	100.0	100.0	–
BCP Finance Company	George Town	31,000,785	EUR	Financial	100.0	100.0	–
BIM - Banco Internacional de Moçambique, S.A.	Maputo	4,500,000,000	MZN	Banking	66.7	66.7	–
Millennium bcp Bank & Trust	George Town	340,000,000	USD	Banking	100.0	100.0	–
Millennium BCP - Escritório de Representações e Serviços, Ltda.	São Paulo	56,762,559	BRL	Financial Services	100.0	100.0	100.0
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Funchal	25,000	EUR	Holding company	100.0	100.0	100.0
Interfundos - Sociedade Gestora de Organismos de Investimento Coletivo, S.A.	Oeiras	1,500,000	EUR	Investment fund management	100.0	100.0	100.0
Monumental Residence - Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A.	Oeiras	30,300,000	EUR	Real-estate management	100.0	100.0	100.0
Millennium bcp - Prestação de Serviços, A.C.E.	Lisbon	331,000	EUR	Services	96.4	96.0	88.2
Millennium bcp Teleserviços - Serviços de Comércio Electrónico, S.A.	Lisbon	50,004	EUR	E-commerce	100.0	100.0	100.0
Millennium Dom Maklerski, S.A.	Warsaw	16,500,000	PLN	Brokerage services	100.0	50.1	–
Millennium Goodie Sp.z.o.o.	Warsaw	500,000	PLN	Consulting and services	100.0	50.1	–
Millennium Leasing, Sp.z o.o.	Warsaw	48,195,000	PLN	Leasing	100.0	50.1	–
Millennium Service, Sp.z o.o.	Warsaw	1,000,000	PLN	Services	100.0	50.1	–
Millennium Telecommunication, Sp.z o.o.	Warsaw	100,000	PLN	Brokerage services	100.0	50.1	–
Millennium TFI - Towarzystwo Funduszy Inwestycyjnych, S.A.	Warsaw	10,300,000	PLN	Investment fund management	100.0	50.1	–
Piast Expert Sp. z o.o (in liquidation)	Tychy	100,000	PLN	Marketing services	100.0	50.1	–
Millennium bcp Imobiliária, S.A.	Oeiras	50,000	EUR	Real-estate management	99.9	99.9	99.9
MULTI24, Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A.	Oeiras	44,919,000	EUR	Real-estate management	100.0	100.0	100.0
Setelote - Aldeamentos Turísticos S.A.	Oeiras	400,000	EUR	Real-estate company	100.0	100.0	–
Bichorro – Empreendimentos Turísticos e Imobiliários S.A.	Oeiras	2,150,000	EUR	Real-estate company	100.0	100.0	–
Finalgarve – Sociedade de Promoção Imobiliária Turística, S.A.	Oeiras	250,000	EUR	Real-estate company	100.0	100.0	–
Fiparso – Sociedade Imobiliária S.A	Oeiras	50,000	EUR	Real-estate company	100.0	100.0	–

During the first semester of 2020, the company BG Leasing, S.A. was liquidated and the Group repurchased 10% of Setelote - Aldeamentos Turísticos, S.A.

As at 30 June 2020, the investment and venture capital funds included in the consolidated accounts using the full consolidation method, as referred in the accounting policy presented in note 1 B), were as follows:

Investment funds	Head office	Participation units	Currency	Activity	Group % economic interests	Group % effective held	Bank % direct held
Fundo de Investimento Imobiliário Imosotto Acumulação	Oeiras	76,159,329	EUR	Real estate investment fund	100.0	100.0	100.0
Fundo de Investimento Imobiliário Gestão Imobiliária	Oeiras	2,732,623	EUR	Real estate investment fund	100.0	100.0	100.0
Fundo de Investimento Imobiliário Imorenda	Oeiras	90,295,185	EUR	Real estate investment fund	100.0	100.0	100.0
Fundo Especial de Investimento Imobiliário Oceânico II	Oeiras	304,320,700	EUR	Real estate investment fund	100.0	100.0	100.0
Fundo Especial de Investimento Imobiliário Fechado Stone Capital	Oeiras	3,336,555,200	EUR	Real estate investment fund	100.0	100.0	100.0
Fundo Especial de Investimento Imobiliário Fechado Sand Capital	Oeiras	16,149,800,900	EUR	Real estate investment fund	100.0	100.0	100.0
Fundo de Investimento Imobiliário Fechado Gestimo	Oeiras	4,307,377	EUR	Real estate investment fund	100.0	100.0	100.0
Fundo Especial de Investimento Imobiliário Fechado Intercapital	Oeiras	1,009,750	EUR	Real estate investment fund	100.0	100.0	100.0
Millennium Fundo de Capitalização - Fundo de Capital de Risco	Oeiras	18,307,000	EUR	Venture capital fund	100.0	100.0	100.0
Funsita - Fundo Especial de Investimento Imobiliário Fechado	Oeiras	8,834,000	EUR	Real estate investment fund	100.0	100.0	100.0
Multiusos Oriente - Fundo Especial de Investimento Imobiliário Fechado	Oeiras	67,691,000	EUR	Real estate investment fund	100.0	100.0	100.0
Grand Urban Investment Fund - Fundo Especial de Investimento Imobiliário Fechado	Oeiras	3,404,600	EUR	Real estate investment fund	100.0	100.0	100.0
Fundial – Fundo Especial de Investimento Imobiliário Fechado	Oeiras	21,850,850	EUR	Real estate investment fund	100.0	100.0	100.0
DP Invest – Fundo Especial de Investimento Imobiliário Fechado	Oeiras	8,860,000	EUR	Real estate investment fund	54.0	54.0	54.0
Fundipar – Fundo Especial de Investimento Imobiliário Fechado	Oeiras	6,875,000	EUR	Real estate investment fund	100.0	100.0	100.0
Domus Capital– Fundo Especial de Investimento Imobiliário Fechado	Oeiras	5,200,000	EUR	Real estate investment fund	63.3	63.3	63.3
Predicapital – Fundo Especial de Investimento Imobiliário Fechado (*)	Oeiras	83,615,061	EUR	Real estate investment fund	60.0	60.0	60.0

(*) - Company classified as non-current assets held for sale.

The Group held a set of securitization transactions regarding mortgage loans which were set through specifically created SPE. As referred in accounting policy 1 B), when the substance of the relationships with the SPEs indicates that the Group holds control of its activities, the SPE are fully consolidated, following the application of IFRS 10.

As at 30 June 2020, the Special Purpose Entities included in the consolidated accounts under the full consolidation method are as follows:

Special Purpose Entities	Head office	Share capital	Currency	Activity	Group % economic interests	Group % effective held	Bank % direct held
Magellan Mortgages No.3 Limited	Dublin	40,000	EUR	Special Purpose Entities	82.4	82.4	82.4

As at 30 June 2020, the Group's subsidiary insurance companies included in the consolidated accounts under the full consolidation method were as follows:

Subsidiary companies	Head office	Share capital	Currency	Activity	Group % economic interests	Group % effective held	Bank % direct held
SIM - Seguradora Internacional de Moçambique, S.A.R.L.	Maputo	295,000,000	MZN	Insurance	92.0	61.4	–

As at 30 June 2020, the Group's associated companies included in the consolidated accounts under the equity method are as follows:

Associated companies	Head office	Share capital	Currency	Activity	Group % economic interests	Group % effective held	Bank % direct held
Banco Millennium Atlântico, S.A.	Luanda	53,821,603,000	AOA	Banking	22.7	22.5	–
Banque BCP, S.A.S.	Paris	173,380,354	EUR	Banking	19.8	19.8	19.8
Beiranave Estaleiros Navais Beira SARL	Beira	2,850,000	MZN	Naval shipyards	22.8	14.0	–
Cold River's Homestead, S.A.	Lisbon	36,838,000	EUR	Agricultural and livestock products, services, animation and rural tourism	50.0	50.0	50.0
Constellation, S.A.	Maputo	1,053,500,000	MZN	Property management	20.0	12.3	–
Exporsado - Comércio e Indústria de Produtos do Mar, S.A.	Setúbal	744,231	EUR	Trade and industry of sea products	35.0	35.0	–
Lubuskie Fabryki Mebli, S.A. (in liquidation)	Swiebodzin	13,400,050	PLN	Furniture manufacturer	50.0	25.1	–
PNCB - Plataforma de Negociação Integrada de Créditos Bancários, A.C.E	Lisbon	1,000,000	EUR	Services	33.3	33.3	33.3
Projepolska, S.A.	Cascais	9.424.643	EUR	Real-estate company	23.9	23.9	23.9
Science4you S.A.	Oporto	517,296	EUR	Production and trade of scientific toys	28.2	28.2	–
SIBS, S.G.P.S., S.A.	Lisbon	24,642,300	EUR	Banking services	23.3	21.9	–
UNICRE - Instituição Financeira de Crédito, S.A.	Lisbon	10,000,000	EUR	Credit cards	32.0	32.0	0.5
Webspectator Corporation	Delaware	950	USD	Digital advertising service	25.1	25.1	25.1

As at 30 June 2020, the Group's associated insurance companies included in the consolidated accounts under the equity method were as follows:

					Group		Bank
Associated companies	Head office	Share capital	Currency	Activity	% economic interests	% effective held	% direct held
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Oeiras	50,002,375	EUR	Holding company	49.0	49.0	49.0
Ocidental - Companhia Portuguesa de Seguros de Vida, S.A.	Oeiras	22,375,000	EUR	Life insurance	49.0	49.0	–
Ageas - Sociedade Gestora de Fundos de Pensões, S.A.	Oeiras	1,200,000	EUR	Pension fund management	49.0	49.0	–

60. Subsequent events

The event that occurred after the date of the financial statements and until the date of its approval, was as follows:

Banco Comercial Português, S.A. ("BCP") informs that it has decided not to continue the legal proceeding before the General Court of the European Union with a view to partially annul the European Commission's decision regarding its approval of the Contingent Capitalisation Mechanism ("MCC") of Novo Banco.

Two factors were particularly important in this decision:

- Firstly, the recognition that the goal of preserving the stability of the national financial system, especially relevant in the current pandemic, is of crucial importance, with the risk that such stability may be affected by a decision by European bodies that indirectly could challenge the sale process of Novo Banco, unlike the position held by BCP, which has always only challenged the MCC;

- Secondly, as there is now greater evidence and public awareness that the current model for compensating losses of Novo Banco, through the MCC supported by the National Resolution Fund, places Portuguese banks - those that support most the recovery of Portugal's economy - in a disadvantage and in an unsustainable position vis-à-vis financial institutions not based but operating in Portugal, BCP maintains the legitimate expectation that a funding model for the National Resolution Fund will be found which, without penalising Portuguese taxpayers, ensures a fair competition and safeguards the competitiveness of the financial institutions operating in the Portuguese market.

Declaration of Compliance

Millennium
bcp

Executive Committee

DECLARATION OF COMPLIANCE

It is hereby declared that, to the best of the knowledge of the undersigned, the interim condensed individual and consolidated financial statements of Banco Comercial Português, S.A. ("BCP" or "Bank"), which include (i) the interim condensed individual and consolidated balance sheets as at 30 June 2020, (ii) the interim condensed individual and consolidated income statements for the six months ended on 30 June 2020, (iii) the interim condensed individual and consolidated statement of changes in equity and cash flow statement for the six months ended on 30 June 2020, (iv) a summary of the significant accounting policies, and (v) the individual and consolidated explanatory notes, give a true and appropriate image of the individual and consolidated financial situation of the Bank as at 30 June 2020, the individual and consolidated results of their operations, and the individual and consolidated changes in equity and cash flow for the six months ended on that date, in accordance to the International Accounting Standard 34 – Interim Financial Reporting (IAS 34), endorsed by the European Union.

At the Board Meeting of March 1, 2012, the Board of Directors, except for the annual report and accounts, has delegated to the Executive Committee the approval of all the other financial statements.

The Bank's interim condensed individual and consolidated financial statements relative to 30 June 2020 were approved by the Executive Committee on 22 September 2020.

Furthermore, it is also declared that the 1st half management report of BCP faithfully presents the evolution of the business, performance and situation of the Bank and companies included in the consolidation perimeter and contain a description of the principal risks and uncertainties facing them. The management report was approved by the Executive Committee on 22 September 2020.

Porto Salvo, 22 September 2020

Miguel Maya Dias Pinheiro
(Chairman)

Miguel de Campos Pereira de Bragança
(Vice-chairman)

João Nuno Oliveira Jorge Palma
(Vice-chairman)

Rui Manuel da Silva Teixeira
(Member)

José Miguel Bensliman Schorcht da Silva Pessanha
(Member)

Maria José Henriques Barreto de Matos de Campos
(Member)

External Auditors' Report

LIMITED REVIEW REPORT OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of euros – t.euros)

(Translation of a report originally issued in Portuguese – in the case of discrepancies, the original version in Portuguese prevails – Note 1A)

Introduction

We have performed a limited review of the accompanying interim condensed consolidated financial statements of Banco Comercial Português, S.A. (the Bank) and its subsidiaries (the Group) for the six month period ended June 30, 2020 which comprise the interim condensed consolidated balance sheet as of June 30, 2020 that presents a total of 86,556,426 t.euros and total shareholders' equity of 7,449,684 t.euros, including a consolidated net profit attributable to the shareholders of the Bank of 75,958 t.euros, the interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended and a selected set of notes to the interim condensed consolidated financial statements.

Board of Directors' Responsibilities

The Board of Directors of the Bank is responsible for the preparation of interim condensed consolidated financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting (IAS 34) as endorsed by the European Union, and for the design and maintenance of appropriate systems of internal control in order to permit the preparation of interim condensed consolidated financial statements exempt from material misstatement due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express a conclusion on the accompanying interim condensed consolidated financial statements. Our work was performed in accordance with ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity and the applicable technical and ethical standards and guidelines of the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). These standards require that our work be performed in order to conclude as to whether anything has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared in all material respects in accordance with International Accounting Standard 34 - Interim Financial Reporting (IAS 34) as endorsed by the European Union.

A limited review of financial statements is a limited assurance engagement. The procedures that we have performed consist mainly of inquiries and analytical procedures and subsequent assessment of the evidence obtained.

A limited review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA). Accordingly, we do not express an audit opinion on these interim condensed consolidated financial statements.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements of Banco Comercial Português, S.A. and its subsidiaries for the six month period ended June 30, 2020 have not been prepared in all material respects in accordance with International Accounting Standard 34 – Interim Financial Reporting as endorsed by the European Union.

Emphasis

The main impacts of the Covid-19 pandemic on the Group's financial statements for the first half of 2020 are presented in Note 58. As mentioned in that Note, the judgments and estimates considered by the management in the preparation of the financial statements were determined considering the current context of the Covid-19 pandemic, which significantly increased the degree of uncertainty regarding the realization of the judgments and estimates considered. Our conclusion is not modified in respect of this matter.

Lisbon, September 22, 2020

Deloitte & Associados, SROC S.A.
Represented by Paulo Alexandre de Sá Fernandes, ROC

EXPLANATION ADDED FOR TRANSLATION

(This report is a translation of a report originally issued in Portuguese. Therefore according to Deloitte & Associados, SROC S.A. internal procedures, the report should not be signed. In the event of discrepancies, the Portuguese language version prevails.)

1H 2020 Report & Accounts

www.millenniumbcp.pt

Banco Comercial Português, S.A.,
Company open to public investment

Registered Office:
Praça D. João I, 28
4000-295 Porto

Share Capital:
Euros 4,725,000,000.00

Registered at
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Tax Identification Number 501 525 882
LEI BCP: JU1U6S0DG9YLT7N8ZV32

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