H1 2023
REPORT & ACCOUNTS

Pursuant to CMVM Regulation 1/2023, please find herein the transcription of the

H1 2023 Report & Accounts

BANCO COMERCIAL PORTUGUÊS, S.A.

Public limited company
Registered Office: Praça D. João I, 28, 4000-295 Porto - Share Capital Euros 3,000,000,000.00
Registered at Porto Commercial Registry, under the single registration and tax identification number 501 525 882

The H1 2023 Report Accounts is a translation of the "Relatório e Contas do 1S 2023" 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 de 1S 2023" prevails.

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

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

Nuno Amado
Chairman of the Board of Directors

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

In the first half of 2023, the main world economies showed significant signs of slowing down, accompanied by a reduction in inflationary pressures.

The unfavourable macroeconomic and geopolitical environment, accompanied by the increase in financing costs, was reflected in a slowdown or even stagnation of growth in the Portuguese economy in the second quarter, after the strong increase registered in the first three months of the year (1.6%). For the full year, the Bank of Portugal forecasts GDP growth of 2.7% and a reduction in the inflation rate, which in June stood at 4.7%.

In Poland, the persistence of inflation at high levels, 11.5% in June, and the consequent tightening of monetary policy have conditioned the performance of economic activity.

In Mozambique, the extractive industry continues to support robust levels of economic growth.

In Angola, the pronounced depreciation of the kwanza in recent months stands out against a backdrop of lower international market prices for oil, which may be offset to some extent by the impact of the reforms implemented to boost economic growth.

In Macau, the end of the Covid-zero policy, in December 2022, led to a significant increase in the number of tourists in the first half of 2023, contributing decisively to a marked rise in casino revenues. The economy is in full growth, with GDP registering an increase of 38.8% in the first quarter of this year.

In the coming quarters, the tightening of global monetary policy and continuing geopolitical tensions will affect the progress of the world economy. In this context of uncertainty, the International Monetary Fund (IMF) forecasts that global GDP will grow in 2023 at historically low levels (3.0%).

The Millennium bcp Group's net profit in the first half of this year totalled 423.2 million euros, greatly exceeding the 62.2 million euros recorded in the same period of the previous year, a comparison that, however, must consider the non-recurring impacts recorded in the Polish operation in the first half of 2022 (including the extraordinary contribution of 54.3 million euros to the Institutional Protection Scheme and the impairment of 102.3 million euros relating to the goodwill associated with the stake in Bank Millennium), and during this half the profit of 127 million euros resulting from the sale of 80% of Millennium Financial Services in Poland, under the bancassurance partnership.

But more important than these non-recurring effects, it is important to highlight the solid evolution of the core operating result, which confirms the robustness of the business model and shows the bank’s resilience in managing the adverse effects related to Bank Millennium and our capacity to generate sustained profitability.

Core operating income increased to 1.2 billion euros, some 40.1% over the same period of the previous year, which stems from the combination of a vigorous growth in core income, of 28.3%, and a moderate increase in operating costs, up 8.8%, the result of strict management that allowed for cost containment despite the inflationary context.

In the first half of this year, the net result of the activity in Portugal totaled 353.7 million euros, which compares with the 162.2 million euros recorded in the first half of 2022 and which, on a comparable basis, represents growth of 118.1% year-on-year, despite the banking sector in Portugal continuing to be subject to specific costs that distort competition in the euro area, namely mandatory national contributions, which in the case of Millennium bcp amounted to 54.3 million euros.

The result of the international activity in the first six months of the year was 69.5 million euros, significantly improving from the loss of around 100 million euros registered in the first half of the previous year. This reversal was due to the profitability of the operation in Mozambique and the greater contribution from the Polish subsidiary, which after an extended period with negative results returned to positive results for the third consecutive quarter.

The result achieved by Bank Millennium in Poland in the first half of 2023 was 77.3 million euros, which compares with a loss of 56.7 million euros in the first half of the previous year. The result achieved in this half, in addition to the aforementioned positive impact resulting from the sale of 80% of the stake in Millennium Financial Services, was strongly marked by a charge of 399.1 million euros associated with the portfolio of Swiss franc-denominated mortgage loans, including provisions in the amount of 331.6 million euros, which incorporate the application of more conservative assumptions to the provisioning model, in accordance with the decision of the Court of Justice of the European Union of 15 June that banks may not demand remuneration on the capital of these loans for contracts that are considered invalid,.

The contribution of Millennium bim, in Mozambique, to international activity rose from 47 million euros to 48.5 million euros, between June 2022 and June 2023, confirming this subsidiary's consistent and continuous trajectory of generating profit.

In a very challenging macroeconomic environment, Millennium bcp significantly strengthened its capital ratios, presenting a robust capital position that is comfortably above regulatory requirements. The Group ended the first half year with Total Capital[1] and CET1 ratios of 18.3% and 14% respectively, corresponding to an increase of 304 bp and 268 bp respectively compared to the same period last year, demonstrating the strong capacity of the Bank's business to generate capital on an organic and recurring basis.

At the same time, the robust liquidity position largely exceeds regulatory requirements, complemented by the availability of 24.2 billion in assets that can be used to obtain funding from the ECB.

Despite the challenging context, Millennium bcp presented to the market a relevant reduction of non-performing assets in the first half of this year. In consolidated terms and compared to 30 June 2022, there was a reduction of 923 million euros, including 361 million euros of Non Performing Exposures (NPEs), €162 million in property received through recovery and €400 million in restructuring funds. It should be noted that the NPE ratio, in consolidated terms, decreased from 4.3% at the end of the first half of 2022 to 3.7% on 30 June 2023. In Portugal in the same period this ratio fell from 4.0% to 3.2%.

The path of convergence of the cost of risk to the objective set in the strategic plan also continued, standing at 50 bp at Group level and 53 bp in Portugal, which compares with 61 bp and 69 bp in the first half of 2022, respectively.

Despite the intensification of competition in terms of liability and asset products triggered by the new dynamics of interest rates resulting from the monetary policy in force, Millennium has managed to anticipate trends and adapt our business model to the characteristics and requirements of the market, while rigorously protecting our balance sheet and preserving the risk profile approved by the Board of Directors.

In the first half, there was growth in business volumes at the consolidated level, supported by the increase in the Group's balance sheet resources, which grew by 2.9% compared to the same period in 2022 to 76.7 billion euros, despite the natural containment of credit resulting from the current macroeconomic context.

The Group's customer base continues to expand, with an emphasis on mobile customers who represent 66% of the customer base and rose in the first half by 507,000 (of which 182,000 in Portugal) compared to the end of the first half half of the previous year, a positive trend in a context of marked digital transformation with implications for customer standards and forms of interaction.

During the first half, Millennium bcp remained focused on supporting families and companies, continuing to lead the companies segment in Portugal, having once again been elected the Main Bank for Companies in the DATA E 2023 Study and #1 Bank for Innovative Companies, helping more than 420 companies achieve the COTEC Innovative Statute.

Throughout the first half of 2023, Millennium bcp reinforced its commitment to the communities in which it operates, while maintaining its support for culture and continuing to reinforce ESG practices. The bank was included for the 3rd consecutive year in the "Europe's Climate Leaders" ranking published by the Financial Times and Statista. This ranking now also includes Bank Millennium, both of which belong to the group of the 500 European companies with the greatest reduction in CO2 emissions.

In the current context, the efforts made by shareholders to bolster the bank's capital have become even more relevant, with special emphasis on the decision to withhold the results for the 2022 financial year, which, along

[1]The financial information in this presentation has been prepared under the scope of the International Financial Reporting Standards ("IFRS") of the BCP Group for the purposes of the preparation of the consolidated financial statements under Regulation (CE) 1606/2002, as the currently existing version.
The information in this presentation is for information purposes only and should be read in conjunction with all other information made public by the BCP Group.
The interim condensed consolidated financial statements, for the six months ended at 30 June 2023, were prepared in terms of recognition and measurement in accordance with the IAS 34 - Interim Financial Reporting adopted by the EU.
The figures presented do not constitute any form of commitment by BCP regarding future earnings.
The figures for the first six months of 2023 and 2022 were not audited.

with other strict capital management measures, allowed Millennium bcp to end the first half with the robust capital ratios presented, creating the conditions for the distribution of dividends to occur, depending on the evolution of the referred ratios and the results for the full year.

In general terms, and despite the persistence of the adverse effects resulting from the war in Ukraine and the macroeconomic and geopolitical challenges facing the world, our performance in the first half of 2023 once again demonstrated the resilience of Millennium bcp's business model and its ability to manage risks in challenging contexts, leading to solid half-year results both at the consolidated level and in the activity in Portugal, combined with a robust capital position.

We would also like to highlight the strong performance of BCP’s share price during the first half of 2023, which rose by around 75% up to the date of presentation of the half-yearly results and surpassed the performance of the main listed banks in the euro zone, compared to an increase in the order of 16.5% for the European Banks Index.

The work carried out by the bank's employees, as well as the relevant support and confidence that the shareholders have provided to Millennium bcp and its management team, have enabled us to continue on the path of building a solid, profitable and sustainable bank able to generate and share value with our various stakeholders.

Miguel Maya

Chief Executive Officer

Vice-Chairman of the Board of Directors

Nuno Amado

Chairman of the Board of Directors

From left to right:
Maria José Campos (Member of the Executive Committee); **Rui Manuel Teixeira** (Member of the Executive Committee); **Miguel Bragança** (Vice-Chairman of the Executive Committee); **Miguel Maya** (Chairman of the Executive Committee); **João Palma** (Vice-Chairman of the Executive Committee); **José Miguel Pessanha** (Member of the Executive Committee).

Main highlights of the Results in H1 2023

A Bank prepared for the future

Profitability

- Net income of 423.2 million euros in the 1st half of 2023.
- Group's core operating profit increase of 40.1% to 1,199.9 million euros, supported by the increase of 28.3% on core income and by the strict management of operating costs, which grew 8.8% compared with the same period of 2022.
  - Effects[1] related with Bank Millennium: 399.1[2] million euros of costs related with CHF mortgage loan portfolio, out of which 331.6[3] million euros related with provisions, resulting from the application of more conservative assumptions to the provisioning model after the Court of Justice of the European Union ruling; results benefited, in the previous quarter, of 127.0 million euros related with the sale of Millennium Financial Services stake (80%) as a result of the strategic partnership in the bancassurance business.
- Net income of 353.7 million euros in the activity in Portugal in the 1st half of 2023.

Robust business model

- Substantial strengthening of capital ratios. CET14 ratio stood at 14.0% and total capital ratio[4] at 18.3% (an increase of 268 bp and 304 bp, respectively, compared with the same period of last year), reflecting the strong capacity to generate organic capital.
- Strong liquidity indicators[5], well above regulatory requirements: LCR at 214%, NSFR at 155% and LtD at 75%.
- On-Balance sheet customer funds grew 2.9% year on year to 76.7 billion euros.
- Significant decrease of non-performing assets compared with June 2022: 361 million euros in NPE, 162 million euros in foreclosed assets and 400 million euros in restructuring funds, a combined reduction of 25.8% compared to June 2022
- Continued growth of the customer base, highlighting the increase in mobile Customers (+13% from June 2022), which represent 66% of total Customers.

1 Before taxes and non-controlling interests 2 Includes provisions for legal risk, costs with out-of-court settlements and legal advice 3 Does not include provisions for legal risk on CHF mortgages of Euro Bank (guaranteed by a third party) 4 Fully implemented ratio including unaudited net income for the first half of 2023 5 Liquidity Coverage Ratio (LCR); Net Stable Funding Ratio (NSFR); Loans to Deposits Ratio (LtD).

Main highlights (1)

Million euros

	30 June 2023	30 June 2022 (restated)	Chg. % 23/22
BALANCE SHEET			
Total assets	90,950	96,022	(5.3%)
Equity	6,577	6,240	5.4%
Loans to customers (net)	56,336	57,039	(1.2%)
Total customer funds	92,453	91,070	1.5%
Balance sheet customer funds	76,733	74,546	2.9%
Deposits and other resources from customers	75,355	73,190	3.0%
Loans to customers (net) / Deposits and other resources from customers (2)	75%	78%	
Loans to customers (net) / Balance sheet customer funds	73%	77%	
RESULTS			
Net interest income	1,374	985	39.5%
Net operating revenues	1,844	1,273	44.9%
Operating costs	562	516	8.8%
Operating costs excluding specific items (3)	550	511	7.7%
Results on modification	(12)	(2)	<-200%
Loan impairment charges (net of recoveries)	146	179	(18.9%)
Other impairment and provisions	403	372	8.3%
Income taxes	246	156	57.9%
Net income	423	62	>200%
PROFITABILITY AND EFFICIENCY			
Net operating revenues / Average net assets (2)	4.1%	2.7%	
Return on average assets (ROA)	1.1%	0.1%	
Income before tax and non-controlling interests / Average net assets (2)	1.6%	0.4%	
Return on average equity (ROE)	16.8%	2.4%	
Income before tax and non-controlling interests / Average equity (2)	24.6%	6.7%	
Net interest margin	3.34%	2.29%	
Cost to core income (2)(3)	31.2%	37.2%	
Cost to income (2)	30.4%	40.6%	
Cost to income (2)(3)	32.0%	40.1%	
Cost to income - Activity in Portugal (2)(3)	31.0%	39.5%	
Staff costs / Net operating revenues (2)(3)	17.3%	21.9%	
CREDIT QUALITY			
Cost of risk (net of recoveries, in b.p.)	50 b.p.	61 b.p.	
Non-Performing Exposures (loans to customers) / Loans to customers	3.7%	4.3%	
Total impairment (balance sheet) / NPE (loans to customers)	73.6%	64.5%	
Restructured loans / Loans to customers	3.2%	3.6%	
LIQUIDITY			
Liquidity Coverage Ratio (LCR)	214%	261%	
Net Stable Funding Ratio (NSFR)	155%	153%	
CAPITAL (4)			
Common equity tier I phased-in ratio	14.0%	11.5%	
Common equity tier I fully implemented ratio	14.0%	11.3%	
Total ratio fully implemented	18.3%	15.3%	
BRANCHES			
Activity in Portugal	402	415	(3.1%)
International activity	817	832	(1.8%)
EMPLOYEES			
Activity in Portugal	6,256	6,254	—%
International activity (5)	9,393	9,413	(0.2%)

(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 in the respective chapters.
(2) According to Instruction no. 16/2004 from the Bank of Portugal, as the existing version as of 30 June 2023.
(3) Excludes specific items: positive impact of 115 million euros, recognised in the 1st half of 2023, including income of 127 million euros in the international activity, related to the sale of 80% of the shares in Millennium Financial Services sp. z o.o. (118 million euros recognised as net trading income and 9 million euros recognised as other net operating income) and costs of 12 million euros recognised as staff costs in the activity in Portugal ((i) costs related to the compensation for the temporary adjustment of remuneration in the period 2014/2017; (ii) costs with mortgage financing to former employees and (iii) income recognised after an agreement related to liabilities with former directors of the Bank). In the 1st half of 2022 the impact was negative in the amount of 6 million euros, mainly related to the compensation for the temporary adjustment of remuneration in the period 2014/2017.
(4) Presented figures include the cumulate net results of the respective periods.
(5) Of which, in Poland: 6,869 employees as at 30 June 2023 (corresponding to 6,746 FTE - Full-time equivalent) and 6,871 employees as at 30 June 2022 (corresponding to 6,735 FTE - Full-time equivalent). As of 30 June 2022, the number of employees associated with the international activity includes 3 employees of Cayman, non-existent as of 30 June 2023, since the operation was liquidated in 2022.

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 operation in Mozambique (in Angola, Banco Millennium Angola - BMA merged with Banco Privado Atlântico-BPA and currently the Bank holds a equity accounted shareholding) and in Europe through its banking operation in Poland. 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 Portuguese laws, 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.

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.

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 banking operations controlled by BCP are now carried out under the "Millennium" brand. In Portugal, BCP Group also operates under the "ActivoBank" brand.

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, and with a majority of independent 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 on the plan with the EC, 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 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. The entity resulting from this merger ceased to be controlled by BCP.

In January 2017, BCP announced a Euros 1.3bn 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 the dividend ban, the risk of potential sale of core businesses and the tail risk of conversion. This transaction was designed to strengthening the balance sheet through the improvement of the 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..

On 27 August 2019, the Extraordinary General Meeting of Bank Millennium S.A., in which 216 shareholders representing 78.53% of its share capital, participated, approved the merger of Bank Millennium S.A. with Euro Bank S.A.. The completion of the integration of Eurobank 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.

On June 29, 2021 BCP entered into an agreement with Union Bancaire Privée, UBP SA regarding the sale of the entire share capital of Banque Privée BCP (Suisse) SA ("Banque Privée"). The sale of the entire share capital of Banque Privée BCP (Suisse) SA ("Banque Privée") to Union Bancaire Privée, UBP SA was completed on November 2, 2021. The sale of Banque Privée allows BCP Group to pursue its strategy of focusing resources and management on core geographies, enhancing their development and thus creating value for stakeholders.

On 29 December 2021, BIM – Banco Internacional de Moçambique, SA (a bank incorporated under Mozambican law in which BCP indirectly holds a stake of 66.69%) formalized the entry into force of a long-term agreement with Fidelidade – Companhia de Seguros, SA, with a view to strengthening capabilities and expanding the offer of insurance through the banking channel (bancassurance) in Mozambique. Under this partnership, the possibility of which was provided for in the memorandum of understanding signed between BCP and the Fosun Group in November 2016, BIM and Fidelidade also formalized the sale by BIM to Fidelidade of shares representing 70% of the share capital and voting rights of Seguradora Internacional de Moçambique, SA, with BIM maintaining approximately 22% of its share capital. BIM and Fidelidade also agreed call and put options with a view to enabling Fidelidade to acquire additional shares, and BIM's shareholding, as a result of these options, may be reduced to 9.9% of SIM's capital. Under the long-term exclusive distribution agreement, BIM will promote the distribution of SIM insurance through the banking channel, continuing to provide its customers with a wide range of competitive insurance products, which is reinforced by the partnership with Fidelidade, an Insurance Group of reference.

In the 1st half of 2023, Bank Millennium completed the sale of the sale of 80% of Millennium Financial Services stake as a result of the strategic partnership in the bancassurance business.

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 a 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.

The General Meeting is the highest governing body of the company, representing all shareholders, having its competences established in the law and in By-laws.

The BD is the governing body of the Bank with the amplest 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. The current Board of Directors is composed of 17 members, of which 15 were elected at the General Meeting that took place on May 4, 2022. As a result of two members elected at that meeting, due to personal unavailability, not having taken office, the Board of Directors co-opted, on May 11 October 2022, two members to join the Board of Directors, the co-option having been ratified at the General Meeting that took place on December 20, 2022, after authorization to exercise functions by the ECB (on 7 December).

Of the 17 members that make up the BD, 6 are executive and 11 are non-executive, with 5 qualified as independent.

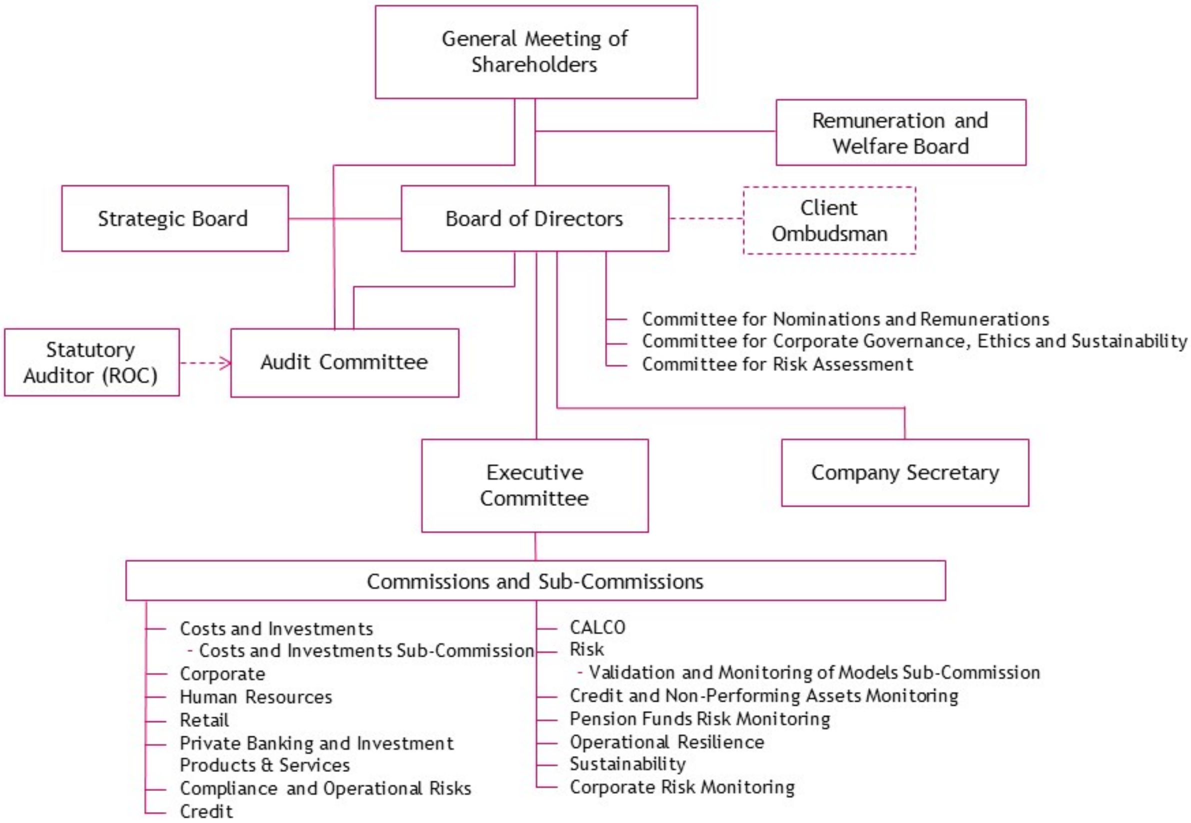
The BD began its functions on September 5, 2022 and appointed an EC, composed of six of its members, with the Chief Executive Officer being appointed by the General Meeting. The BD has delegated to the EC the day-to-day management of the Bank, which is assisted by several committees and subcommittees 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 elected members. The lists proposed for the BD should indicate the members to be part of the Audit Committee and indicate the respective Chairperson. The Audit Committee is composed of 3 non-executive directors, most of them are independent members, as well as its Chairman, and includes an alternate member, co-opted by the BoD, whose exercise of the position was authorized by the supervisor on February 14, 2023.

The RWB and the Strategic Board have the functions described in the By-laws, the latter being a non-permanent body.

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.

Corporate Governance Model



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

The General Shareholders' Meeting held on May 4, 2022 elected 17 of the current members of the Bank's Board of Directors, and two were co-opted at a Board meeting held on October 11, 2022. The co-option was ratified at the General Meeting that took place held on December 20, 2022, all members were elected to hold office for the 2022/2025 quadrennium.

The Governing Bodies and Committees of the Board of Directors currently have the following composition:

	Board of Directors (BD)	Executive Committee (EC)	Audit Committee (AudC)	Remuneration and Welfare Board (RWB)	Board for Strategy *	Committee for Corporate Governance, Ethics and Sustainability (CCGES)	Committee for Nominations and Remunerations (CNR)	Committee for Risk Assessment (CRA)
Nuno Manuel da Silva Amado (Chairman of BD and of CGSES)	●				●	●		
Jorge Manuel Baptista Magalhães Correia (Vice-Chairman of BD and Member of RWB)	●			●	●			
Valter Rui Dias de Barros (Vice-Chairman of BD)	●		●	●	●		●	
Miguel Maya Dias Pinheiro (Vice- Chairman of BD)	●	●			●			
Ana Paula Alcobia Gray	●							●
Cidália Maria da Mota Lopes (Chairman of AudC)	●		●					●
Fernando da Costa Lima (Chairman of (CRA)	●		●					●
João Nuno de Oliveira Jorge Palma	●	●						
Lingzi Yuan (Smilla Yuan) (Chairman of CNR)	●						●	
José Miguel Bensliman Schorcht da Silva Pessanha	●	●						
Lingjiang Xu	●					●	●	
Maria José Henriques Barreto de Matos de Campos	●	●						
Miguel de Campos Pereira de Bragança	●	●						
Rui Manuel da Silva Teixeira	●	●						
Xiao Xu Gu (Julia Gu)	●							
Altina de Fátima Sebastian Gonzalez **	●		●					●
José Pedro Rivera Ferreira Malaquias	●					●		
José António Figueiredo Almaça (Chairman of RWB)				●				

* In addition to the apppointed members, the Board of Directors may, on a case-by-case basis, appoint up to five ad-hoc members, for the composition of the Strategic Board, to choose from among the representatives of shareholders with qualified holdings and other personalities of recognized merit linked to the topics that, at any given moment, are the object of analysis by part of the Strategic Board, and whose functions will cease at the same time as the term of office of the Board of Directors expires.**

Main events in H1 2023

During the 1st half of 2023 and under a challenging macroeconomic environment, the Bank kept its focus on supporting households and companies.

Banco Comercial Português, S.A. concluded on May 24, through electronic means and, simultaneously, at the Bank's facilities, with 64.29% of the share capital represented, the Annual General Meeting of Shareholders, with the following resolutions being highlighted:

- Approval of the individual and consolidated Annual Report, the balance sheet and financial statements of 2022, and the Corporate Governance Report, which includes a chapter on the remuneration of the management and supervisory bodies, and the Sustainability Report, and the proposal for the appropriation of profit concerning the 2022 financial year.
- Approval of the updating of the policy for the remuneration of Members of the Management and Supervisory Bodies and revoking the retirement regulation of the Executive Directors.
- Approval of the update of the policy for selection and appointment of the Statutory Auditor or Audit Firm and the hiring of not prohibited non-audit services under the terms of the legislation in force.

S&P Global Ratings, DBRS and Moody's revised the Outlook to Positive on April 17th, May 24th and May 26th, respectively.

Fitch Ratings on March 17 upgraded BCP’s long-term deposits rating to ‘BBB-’ and the long-term Issuer Default Rating to ‘BB+’, with a stable Outlook. BCP's ratings upgrade primarily reflect the bank’s improved asset quality, the improvement in capitalisation and resilient pre-impairment profitability, due to a leading franchise in Portugal and sound cost efficiency.

Bank Millennium S.A. on February 13 executed the agreement for the sale of 80% of the shares in Millennium Financial Services sp. z o.o. and concluded also certain agreements concerning an exclusive insurance distribution model, including a cooperation agreement and distribution and agency agreements. On 29 March 2023, Bank Millennium S.A. informed the completion of the transaction resulting in the recognition of the correspondent extraordinary positive financial result, in the 1st quarter of 2023, of 597 million Zlotys before taxes (127 million euros).

AWARDS AND DISTINCTIONS

- Millennium bcp and ActivoBank were elected “Escolha do Consumidor” (Consumer Choice) 2023 in the categories of “Big Banks” and “Digital Bank”, respectively. Millennium bcp collected the award for the third consecutive year while ActivoBank accumulates five years in the leadership position.
- Millennium bcp distinguished in the 2023 “Cinco Estrelas” (Five Stars) Awards in the category of Large Banks.
- Leadership in the Inovadora COTEC Program for the third consecutive year with 54% market share.
- Millennium bcp was included for the fourth year in the Bloomberg Gender-Equality Index, remaining in the elite group of companies, that worldwide, stand out for their implementation of policies and practices of gender equality, diversity, and inclusion.
- Millennium bcp was distinguished as Local Market Member in Equity in the Euronext Lisbon Awards.
- Millennium bcp was named “Best Investment Bank” in Portugal by Global Finance.
- Millennium bcp is Europe’s “Best Private Bank For Self-Directed Investments” according to Professional Wealth Management, a publication of the Financial Times Group, in the PWM Wealth Tech Awards 2023.
- Millennium bcp has won the APCC Contact Centers 2023 award in the category of Best Banking Contact Center in Portugal.
- ActivoBank was named for the second consecutive time as “Powerful Brand” in the “Online Banking” category.
- Millennium App was distinguished with the “Product of the Year” and “Prémio Cinco Estrelas” awards, in the “Banking Apps” category, a distinction awarded by Five Star Consulting Portugal and Consumer Choice.
- Bank Millennium distinguished as “Best Bank in Poland” in 2023 by Global Finance.

- Bank Millennium came in second place on the ranking list of best employers in the “Banking and Financial Services” category in the 3rd edition of the Best Employers Poland 2023 ranking prepared by Forbes Poland and Statista.
- Bank Millennium has been awarded the Golden Bank 2023 title for the best multi-channel service quality in the Golden Banker 2023 ranking. This ranking, the largest in the banking sector in Poland, aims to identify the banking institutions that offer the highest standards of service quality, provide the best products and carry out activities that stand out from the competition.
- Bank Millennium wins the CSR Golden Leaf from Polityka Weekly for its consistent activities for sustainability and its measurable successes in limiting the consumption of resources.
- Millennium bim distinguished as “Best Bank in Mozambique” in 2023 by Global Finance.
- Millennium bim distinguished as “Best Private Bank” in Mozambique for the fourth year in a row.

SUBSEQUENT EVENTS

- Millennium bcp considered a climate leader in Europe by the Financial Times and Statista. For the third consecutive year, the Bank is part of the “Europe’s Climate Leaders 2023” ranking prepared by the two institutions.
- Banco Comercial Português, S.A. was subject to the 2023 EU-wide stress test conducted by the European Banking Authority (EBA), in cooperation with the Banco de Portugal (BdP), the European Central Bank (ECB), and the European Systemic Risk Board (ESRB). Banco Comercial Português, S.A. notes the announcements made on July 28 by the EBA on the EU-wide stress test and fully acknowledges the outcomes of this exercise, comprising 70 banks that together represent around 75% of total banking assets in the European Union. The 2023 EU-wide stress test does not contain a pass-fail threshold and instead is designed to be used as an important source of information for the purposes of the Supervisory Review and Evaluation Process (SREP). The results will assist competent authorities in assessing Banco Comercial Português, S.A. ability to meet applicable prudential requirements under stressed scenarios. The adverse stress test scenario was set by the ECB/ESRB and covers a three-year time horizon (2023-2025). The stress test has been carried out applying a static balance sheet assumption as of December 2022, and therefore does not take into account future business strategies and management actions. It is not a forecast of Banco Comercial Português, S.A. profits. When analyzing the results, it should be taken into account that the projections made under the adverse scenario incorporated a significant increase in provisions associated with the legal risk related to credits indexed to Swiss Francs at Bank Millennium in Poland. It should also be noted that, since the end of 2022, the reference date for the stress test, there has been: (i) an increase of 150 b.p. in the Bank's CET1 ratio, currently standing at 14%[2]; (ii) a reinforcement of provisions for loans indexed to the Swiss Franc by 332 million euros. Considering the results of Banco Comercial Português, S.A, in the stress test, it should be highlighted the following:
    - the application of the adverse scenario resulted in a reduction of 448 b.p. in the fully loaded CET1 capital ratio at the end of 2025 compared to December 2022, which compares with an average reduction of 459 b.p. in the universe of the 70 banks submitted to this exercise.
    - the application of the baseline scenario resulted in an increase of 256 b.p. in the fully loaded CET1 capital ratio at the end of 2025 compared to December 2022, which compares with an average increase of 136 b.p.

[2] Including unaudited net income for H1’23. Includes the implementation of CRR (Capital Requirements Regulation) 352 (2) following the ECB approval in March 2023.

BCP Share

The 1st half of 2023 proved to be very challenging for financial markets conditioned by the political/ military tensions associated with the invasion of Ukraine by Russia, by the high inflation in the US and Europe, by the expectation of continued interest rate hikes by the main Central Banks and by the instability occurred in March 2023 in the banking sector due to the resolution of Sillicon Valley Bank, as well as the situation at Credit Suisse, which resulted in the sale of the bank to UBS after joint intervention by the Swiss authorities and regulators. The 1st half of 2023 was also conditioned by the agreement reached in the US between Democrats and Republicans that avoided the sovereign debt default, which, if occurred, would have been the first in country's history.

FED's and BCE's interest rate hikes, in the 1st half of 2023, continued the trend seen in 2022. Therefore, FED made three 25 basis points hikes during the 1st half of the year, while ECB made four hikes, two of 50 basis points and two of 25 basis points. The expectation for the 2nd half of the year is that the upward inflation movement will continue since it remains at high levels, and since the Central Banks' objectives have not been achieved.

Inflation, at the beginning of the year, stood at 8.6% in the Eurozone and 6.4% in the US, declining in May to 6.1% and 4%, respectively. However, these figures are still well above the goals set by both the ECB and the FED, and, thus, it is expected that the monetary policy followed in 2022 will be maintained in 2023, with the fight against inflation remaining a priority for both Central Banks.

However, and despite the extremely challenging context, with the market performance conditioned by several events, the banking sector recorded a positive 1st half of the year supported on the positive results presented during this semester. Indeed, the rising interest rates environment has been having a positive impact on banks' net interest income and, thus, banks' have posted robust results showing resilience against the current challenging environment.

The national reference index (PSI) recorded a 3.4% appreciation since the beginning of the year, while the Eurostoxx 600 recorded a 12.5% appreciation. In the United States, the S&P 500 recorded an appreciation of 15.8%.

BCP SHARES INDICATORS

	Units	H1 2023	H1 2022
ADJUSTED PRICES			
Maximum price	(€)	0.2389	0.1982
Average price	(€)	0.2085	0.1657
Minimum price	(€)	0.1529	0.1269
Closing price	(€)	0.2196	0.1650
SHARES AND EQUITY			
Number of ordinary shares (outstanding)	(M)	15,114	15,114
Shareholder's Equity attributable to the group	(M€)	5,678	5,441
Shareholder's Equity attributable to ordinary shares (1)	(M€)	5,678	5,441
VALUE PER SHARE			
Adjusted net income (EPS) (1)	(€)	0.054	0.006
Book value (2)	(€)	0.375	0.359
MARKET INDICATORS			
Closing price to book value	(PBV)	0.60	0.40
Market capitalisation (closing price)	(M€)	3,319	2,494
LIQUIDITY			
Turnover	(M€)	2,391	2,376
Average daily turnover	(M€)	18.8	18.7
Volume	(M)	11,637	14,364
Average daily volume	(M)	91.6	113.1
Capital rotation (3)	(%)	77.0%	95.0%

(1) Based on the average number of shares outstanding
(2) Based on the average number of shares minus the number of treasury shares in portfolio
(3) Total number of shares traded divided by the average number of shares issued in the period

BCP share closed H1 2023 with an appreciation of 50.0%, which compares with a 10.8% appreciation of the European banking benchmark index.

The 1st 6 months of the year were very challenging for the financial markets and were conditioned by the political/ military tensions associated with the invasion of Ukraine by Russia, by the high inflation levels in the US and Europe, by the expectation of continued interest rate hikes by the main Central Banks and by the instability occured in March 2023 in the banking sector due to the resolution of Sillicon Valley Bank, as well as the situation at Credit Suisse. Despite this events, with the release of FY 2022 and Q1'23 results that exceeded market expectations and confirmed Group's robustness and operational capacity, BCP's share performance outperformed its peers and had several upward price target revisions by analysts who cover the Bank.

It is important to highlight the evolution of Bank Millennium's results, which after several quarters with negative results, as a result of the provisioning for litigation risk related to mortgage loans granted in foreign currency and for the moratorium on mortgage loans granted in local currency, presented two consecutive quarters with positive results, which demonstrates its good operational performance and, hence, the ability to absorb the impact of the European Court of Justice unfavourable ruling.

Based on analysts who regularly monitor BCP, at the end of June 2023, buy recommendations represented 55% vs. 45% at the end of 2022. 45% of analysts have a neutral recommendation vs. 45% in December 2022 and there were not any analyst recommending to sell the stock vs 10% at the end of 2022.

The average price target for the BCP share at the end of June 2023, after several upward revisions, stood at €0.31, which compares favourably to the price target of €0.21 recorded at the end of 2022, corresponding to a variation of +47.6% year-on-year.

Positive impacts:

- Disclosure of 2022 and Q1 2023 results, which showed business model resilience and robustness even in challenging contexts;
- Upward revision, by several analysts, of the BCP share price target.

Negative impacts:

- Bank Millennium's high levels of provisioning to face legal risks associated with the mortgage loan portfolio granted in foreign currency after the European Court of Justice ruling;
- Uncertainty in the banking sector with the resolution of Sillicon Valley Bank (SVB) and the sale of Credit Suisse to UBS, as well as by expectations of economic slowdown and continued prospect of interest rates hikes by Central Banks.

PERFORMANCE

Index	Change H1 2023
BCP share	50.0%
Eurostoxx 600 Banks	10.8%
PSI20	3.4%
IBEX 35	16.6%
CAC 40	14.3%
DAX	16.0%
FTSE 100	1.1%
MIB FTSE	19.1%
Dow Jones	3.7%
Nasdaq 100	31.7%
S&P500	15.8%

Source: Euronext, Reuters, Bloomberg

Liquidity

During the 1st half of 2023, 2,391 million euros in BCP shares were traded, which represented an average daily turnover of 18.8 million euros. During this period, 11,637 million shares were traded, corresponding to an average daily volume of 91.6 million shares. The capital turnover ratio stood at 77% of the average annual number of shares issued.

Follow-up with Investors

During the 1st half of 2023, the Bank participated in several events, having been present at 3 conferences (all face-to-face) and 7 roadshows (2 face-to-face), where it held institutional presentations, one-on-one meetings and group meetings with investors. Around 100 meetings were held with institutional investors, which continues to demonstrate the interest of those investors in BCP.

Indexes listing BCP shares

BCP shares are part of more than 50 national and international stock indexes, among which the Euronext 150, the PSI and the PSI All-Share Index GR stand out.

Additionally, Millennium bcp was also included in the following Sustainability indices: “European Banks Index”, “EURO STOXX Total Market ESG-X”, “STOXX® Developed Markets Total Market ESG-X” and “STOXX Europe Total Market ESG-X”. Bank Millennium, in Poland, is also part of the “WIG-ESG” of the Warsaw Stock Exchange. In 2023, the BCP Group was included, for the 4th consecutive year, in the Bloomberg Gender-Equality Index.

Sustainability Indexes

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

The following table summarizes the relevant facts directly related to Banco Comercial Português that occurred during the 1st half of 2023, as well as the changes in the share price, both on the following day and in the 5 subsequent days, and the relative evolution vis-à-vis the main national reference indices and European banking sector in the periods mentioned.

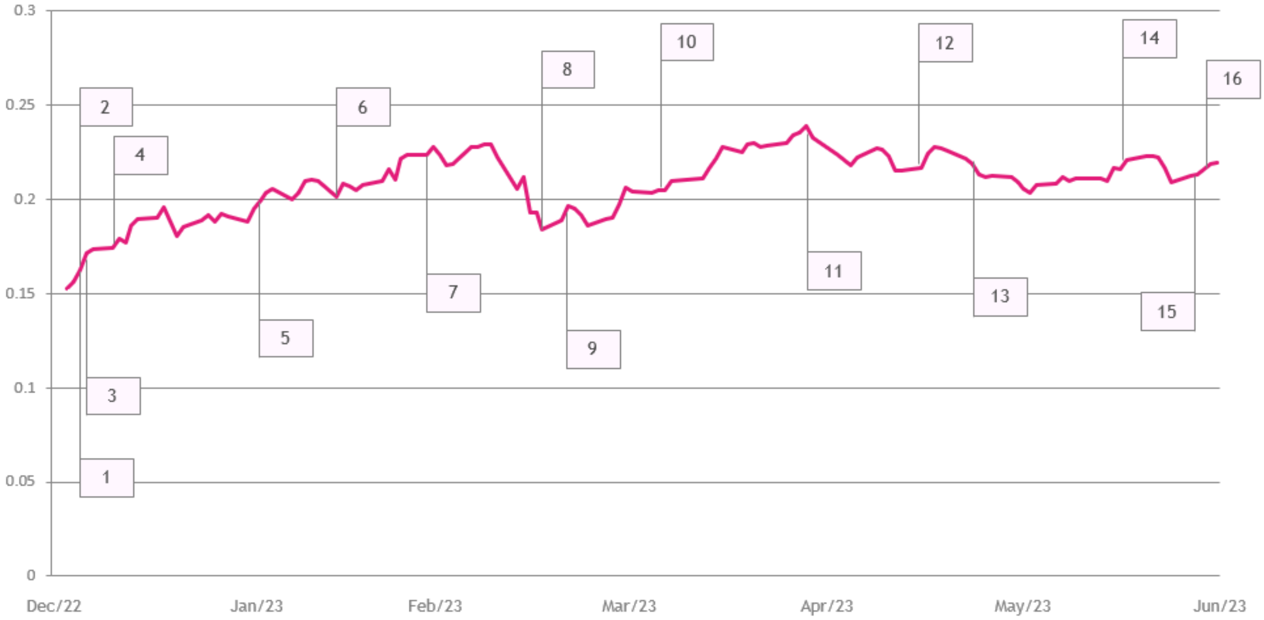
Nr.	Date	Material Events	Chg. +1D	Chg. vs. PSI20 (1D)	Chg. vs. STOXX® Europe 600 Banks (1D)	Chg. +5D	Chg. vs PSI20 (5D)	Chg. vs STOXX® Europe 600 Banks (5D)
1	4/Jan	Banco Comercial Português, S.A. informs about calendar of events in 2023	5.2%	5.0%	4.2%	8.7%	7.0%	7.2%
2	4/Jan	Banco Comercial Português, S.A. informs about significant items impacting 4th quarter 2022 financial results of Bank Millennium, S.A.	5.2%	5.0%	4.2%	8.7%	7.0%	7.2%
3	5/Jan	Banco Comercial Português, S.A. informs about notice of acquisition of securities	1.2%	0.7%	0.4%	8.5%	5.8%	6.9%
4	9/Jan	Banco Comercial Português, S.A. releases additional information about Restructuring Funds	2.9%	2.4%	3.1%	9.2%	7.7%	7.4%
5	31/Jan	Banco Comercial Português, S.A. informs about Bank Millennium (Poland) results in 2022	1.9%	1.6%	1.2%	4.4%	3.7%	3.7%
6	13/Feb	about signing of conditional agreement concerning the sale of Millennium Financial Services sp. z.o.o. and strategic	3.5%	3.6%	3.1%	4.4%	2.2%	3.2%
7	27/Feb	Millennium bcp Earnings release as at 31 December 2022	1.9%	1.3%	0.5%	1.8%	1.5%	1.0%
8	17/Mar	Banco Comercial Português, S.A. informs about upgrade of deposits rating to Investment Grade and Long-Term Issuer Default Rating to 'BB+' by Fitch Ratings	2.6%	1.8%	1.3%	1.4%	1.2%	3.0%
9	21/Mar	Banco Comercial Português, S.A. informs about notice of acquisition of securities	-0.8%	-0.2%	-0.7%	-3.2%	-2.5%	1.3%
10	5/Apr	Banco Comercial Português, S.A. informs about additional provisions for FX-denominated mortgage loans booked by Bank Millennium, S.A.	2.4%	1.8%	0.7%	5.7%	4.6%	3.2%
11	28/Apr	Banco Comercial Português, S.A. informs about Bank Millennium (Poland) results in Q1 2023	-3.9%	-2.5%	-2.5%	-4.7%	-3.1%	-4.2%
12	15/May	Millennium bcp Earnings release as at 31 March 2023	3.7%	3.4%	4.3%	2.4%	4.0%	1.4%

(Continues)

(Continuation)

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)
13	24/May	Banco Comercial Português, S.A. informs about resolutions of the Annual General Meeting	-0.6%	0.6%	-0.8%	-3.5%	0.3%	-0.9%
14	16/Jun	Banco Comercial Português, S.A. informs about preliminary estimation of provisions against legal risk related to FX mortgage loans portfolio of Bank Millennium in 2Q 2023	1.0%	1.6%	1.0%	-5.3%	-1.8%	-1.9%
15	27/Jun	Banco Comercial Português, S.A. informs about the attribution of shares within the scope of the variable remuneration policy for Persons with Managing Responsibilities and Employees	1.5%	1.1%	1.0%	3.8%	2.9%	0.3%
16	29/Jun	Banco Comercial Português, S.A. informs about notice of acquisition of securities by Fidelidade	0.4%	0.0%	-0.8%	-0.9%	-0.4%	0.2%

The following chart depicts BCP's share price performance in the 1st half of 2023:



Dividend policy

The BCP Group's dividend policy takes into account in particular: (i) the promotion of conditions for sustainable compliance with the capital ratios applicable to the Bank at any given time, as well as other applicable legal provisions, including the limitations applicable at any given time that result from the calculation of the maximum distributable amount; (ii) retention of own funds to promote consistency with the Risk Appetite Statement (RAS) and with the results of the internal capital adequacy self-assessment process (ICAAP); and (iii) safeguarding an appropriate safety margin over the values established by the regulator within the scope of its analysis and assessment regarding the adequacy of strategies, processes, capital and liquidity, to the risks to which the Bank is exposed (SREP). In the current context, it will naturally still be worth considering the guidance issued by the ECB mentioned above.

The decision on the application of profits for the year is the responsibility of the General Meeting, based on a proposal from the Board of Directors.

Bearing in mind the permanent consideration of the Bank's capital needs to meet its strategic objectives, it is the intention of the Board of Directors, in a context of macroeconomic stability, to re-establish a distribution of net profits, determined in the individual accounts for each year, that goes to meeting the legitimate expectations of its shareholders and that, in the medium term, it is in line with the best practices of the reference banking sector.

The Board of Directors will define the implications of these criteria in the maximum limit of prospective dividend payout resulting from the dividend policy, as well as the respective application period, which must be evidenced in the Bank's annual budgets.

Shareholder structure

According to information from Interbolsa, on June 30, 2023, the number of Shareholders of Banco Comercial Português amounted to 131,977.

At the end of June 2023, there were two Shareholders with qualifying holdings holding more than 5% of the Bank's share capital.

Shareholder structure	Number of Shareholders	% of share capital
INDIVIDUAL SHAREHOLDERS		
Group Employees	1,835	0.29%
Other	125,837	21.25%
COMPANIES		
Institutional	355	20.37%
Qualified Shareholders	2	49.44%
Other companies	3,948	8.65%
TOTAL	**131,977**	**100%**

Shareholders with more than 5 million shares represented 76.68% of the share capital.

Number of shares per Shareholder	Number of Shareholders	% of share capital
> 5,000,000	134	76.68%
500,000 a 4,999,999	1,182	9.14%
50,000 a 499,999	11,107	9.79%
5,000 a 49,999	33,521	3.89%
< 5,000	86,033	0.50%
TOTAL	**131,977**	**100%**

In the 1st half of 2023 the Bank’s shareholding structure remained stable in terms of geographical distribution. Domestic shareholders held 26.0% of the total shares of the Bank as of June 30, 2023.

	Nr. of Shares (%)
Portugal	26.0%
China	29.9%
Africa	19.7%
UK / EUA	10.4%
Other	14.0%
Total	**100%**

Qualified Holdings

The following Shareholders held more than 2% of the share capital of Banco Comercial Português, S.A. as of June 30, 2023:

30 June 2023

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	4,525,940,191	29.95%	29.95%
TOTAL FOR FOSUN GROUP	**4,525,940,191**	**29.95%**	**29.95%**
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%**
Total of Qualified Shareholdings	**7,472,294,105**	**49.44%**	**49.44%**

Regulatory, economic and financial system environment

Regulatory environment

The regulatory and supervisory framework has been influenced by the uncertain environment aggravated by the Russian invasion of Ukraine, by the adoption of tight monetary policies to curb inflationary pressures and by some instability in the economic activity. The need to apply resolution measures to banks in the US and Switzerland to safeguard financial stability has prompted further reflection on existing prudential requirements and supervisory practice. Climate change and the challenges associated with digital transformation, information and systems security are some of the regulatory and supervisory priorities.

Under this context, the most recent developments include: (i) the provisional agreement on the adoption of the Basel III Reform, on amendments to the Capital Requirements Regulation and the Capital Requirements Directive reached by the Council presidency and the European Parliament, with amendments to the Capital Requirements Regulation and the Capital Requirements Directive; (ii) the approval by the European Parliament in April 2023 of the European Regulation on crypto-assets ("MiCA"), aiming at protecting consumers against abuse and market manipulation; (iii) the collection of additional information, as part of the EBA bank stress test exercise, which outcome was released on July 28, on banks' exposure to interest rate risk in the banking book; (iv) the announcement of Single Supervisory Mechanism bank stress tests in 2024, albeit of a different nature, to assess exposures to climate stress and cyber resilience.

Regarding prevention of money laundering and terrorist financing ("ML/TF") (i) entry in force of Banco de Portugal's Notice No 1/2023 - setting out the preventive duties of ML/TF and (ii) the European Council adopted rules on information accompanying transfers of funds associated to crypto-assets. The proposal for the establishment of the European Anti-Money Laundering Authority (AMLA) is at the trialogue stage of the legislative process.

The Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 ("DORA Regulation"), applicable from 17 January 2025, entered into force in January 2023, laying down the requirements about the security of network and information systems supporting the operational processes of financial entities.

The European Commission communicated the proposal for the Retail Investment Strategy, in particular (i) a proposal for an Omnibus Directive amending the UCITS Directive, Solvency II Directive, AIFMD, MiFID II and IDD, (ii) a proposal for a Regulation amending the PRIIPs Regulation to "empower retail investors to make investment decisions in line with their needs and preferences, ensuring that they are treated fairly and are properly protected" and (iii) Open Finance Regulation proposal aimed at sharing and access of clients' data for the purposes of providing financial services.

In Portugal, the potential impact of rising interest rates on households' financial capacity has been contributing to the creation of specific consumer protection regulations, such as Law No. 24/2023 of 29 May and Law No. 19/2022 of 21 October, Decree-Law No. 80-A/2022, of November 25, and Decree-Law No. 20-B/2023, which together bring new obligations for credit institutions in the marketing of mortgage loans, in the operationalization of the temporary interest subsidy, extending the services included in the minimum banking services account and introducing new restrictions on commissions. At a macro prudential level, Bank of Portugal is reviewing the formula for calculating the effort rate for granting mortgage loans, to be implemented by year-end. The countercyclical capital buffer applicable to credit exposures to the domestic non-financial private sector remained at 0% of the total amount of exposures.

In Poland, the European Court of Justice, regarding the event of the annulment of a mortgage loan agreement, decided that the EU law does not preclude, in the event of the annulment of a mortgage loan agreement vitiated by unfair terms, the consumers from seeking compensation from the bank going beyond reimbursement of the monthly instalments paid. By contrast, it precludes the bank from relying on similar claims against consumers. A possible extension of the "credit vacation" scheme beyond 2023 has not yet been communicated. The countercyclical capital buffer remains at 0%.

Banco de Moçambique maintained the classification of Millennium bim as a Domestic Systemically Important Institution (D-SIBs). It also decided to maintain all macro prudential policy instruments, keeping the conservation buffers for systemically important and quasi-systemically important domestic banks (2.0% and 1.0%, respectively). Macro prudential lending requirements, namely the loan-to-value ratio (LTV) and the debt service-to-income ratio, remained capped at 100%. The reserve requirement ratios for domestic and foreign currency liabilities were sharply revised upwards to support the absorption of excess liquidity in the system.

Economic environment

In the 1st half of the year, economic activity in China and in the Euro area was subdued, while the US economy has shown great resiliency. Therefore, with the lower dynamism of the global aggregate demand, the inflation rate has tumbled in the past months, after the elevated value registered at the end of 2022, decreasing in June to 5.5% in the euro area and to 3.0% in the United States. For the whole year, the International Monetary Fund (IMF) foresees a global economic growth of 3.0%, which corresponds to an historically low output growth, driven by the restrictive stance of global monetary policy and tensions in the geopolitical sphere. The risks to this projection are tilted to the downside and relate to the possibility of the worsening of the aforementioned factors.

Regarding financial markets, the performance in the second quarter was positive, characterised by lower volatility due to the dissipation of fears related with the turmoil in the American banking sector observed in the beginning of March. In this sense, the developed economies major equity indexes registered valuations, which were particularly significant in the technological segment. In the sovereign debt markets, the German government bond yields continued to surge, benefiting from the prospect of additional interest rate hikes by the European Central Bank, that rose its reference interest rate by 50 basis points between April and June, which stood at 4.00% at the end of the 1st semester. In this context, the Euribor interest rates continued their upward trend throughout the whole curve, with the twelve-month rates increasing to levels higher than 4%. In its turn, the risk premia of the Portuguese and Italian sovereign debt tightened, while the Spanish risk premia have remained stable. In the United States, despite expectations that the end of the interest rate hiking cycle by the Federal Reserve is near, following an increase to 5.25% in May, the government bond yields have also increased, supported by the resilience that the US economy has been exhibited. In the foreign exchange market, Euro has been relatively stable against the US Dollar, with a value around 1.09.

After the pronounced expansion of the Portuguese economy in the 1st quarter (1.6%, relatively to the previous quarter), the Bank of Portugal envisages a growth rate of 2.7% for 2023, boosted by the favourable evolution of tourism services exports and by the dynamism of investment, driven by the Recovery and Resilience Plan projects. However, this forecast is subject to important downside risks, mainly, related to tighter financial conditions and the slowdown of external demand, given the elevated global monetary policy restrictiveness. Concerning prices, the inflation rate has proceeded its downward trajectory during the second quarter, standing at 4.7% in June. For the whole year, the Bank of Portugal projects an average inflation rate of 5.2%.

In Poland, economy has contracted by 0.3%, year-on-year, in the 1st quarter of 2023, hindered by sluggish internal demand, namely private consumption, whose negative impact on GDP was, however, mitigated by the positive contribution of net exports. In this sense, the IMF anticipates a deceleration of GDP growth from 5.1% in 2022 to 1.2% in 2023. The persistence of elevated inflationary pressures, with an average inflation rate of 16% in the 1st half of the year, prompted the central bank to maintain a restrictive monetary policy, keeping the key interest rate unchanged at 6.75% in June 2023, by the 10th consecutive month. Notwithstanding the greater uncertainty regarding the evolution of economic activity, Zloty has appreciated throughout the 2nd quarter.

In Mozambique, GDP grew 4.2% in the 1st quarter, bolstered by the dynamism of the extractive industry, that should continue to support economic activity in the medium term, along with an improvement of domestic demand. The IMF forecasts an acceleration of GDP in 2023, from 4.1% to 7.0%. Despite the fall of inflation to 9.6% in May, the uncertainty regarding price evolution led the central bank of Mozambique to raise the mandatory reserve ratios once more, and to keep the key interest rate unchanged at 17.25%. In this context the Metical remained stable.

In Angola, GDP should have decelerated in the 1st months of the year, penalised by the contraction of the activity in the oil sector, due to lower oil prices. In this context, Kwanza has been depreciating markedly.

Financial system

The 1st semester of 2023 continued to be strongly affected by the invasion of Ukraine by Russia and ensuing impacts on the world economy, with Western countries and their allies imposing unprecedented sanctions on Russia. The full impact on the economy is still uncertain, but some multi-lateral agencies have more recently revised upwards their world economic growth forecasts. The Russia-Ukraine conflict has increased volatility in financial markets, contributed materially to raise inflationary pressures and significantly increased uncertainty about the pace of global economic recovery, also increasing general concern about food shortages in the short/medium term, as well as a widespread decrease in purchasing power.

The financial system was also affected by the recent turbulence in the US banking sector (through the collapse of several regional banks) and in Credit Suisse (leading to the merger with UBS and the write-off of AT1 instruments). It should be noted that the ECB has stuck to the monetary policy normalization process, raising interest rates in order to tame high levels of inflation, reaffirming its capacity to respond as necessary to preserve Euro Zone price and financial stability, where banks have remained quite resilient under the latest developments.

In a highly uncertain economic context, the Portuguese banking system posted positive and growing levels of profitability, benefiting from the normalization of monetary policy, the reduction of provisioning levels and the high levels of efficiency, achieved through years of sustained cost reduction efforts and investment in the digital transformation of their business models. However, the evolution and performance of the banking system continued to be impacted by increasingly demanding and costly supervision and regulation, including the intensification of ad-hoc reporting and regulatory contributions that remain very high (e.g. contributions to the European and National Resolution Funds, and Contributions to the Banking Sector, in these last two cases with a clear disadvantage compared to other European jurisdictions). In the current high uncertainty context, the Portuguese banking system continues to show strength both in terms of capital and liquidity, and improved asset quality indicators, reflecting the efforts also made in recent years to reduce NPE and to raise provisioning and coverage levels.

The performance and evolution of the Portuguese banking system will continue to be impacted, inter alia, by the level of implementation of the 'Plano de Recuperação e Resiliência (PRR)', created to mitigate the negative economic impacts of the pandemic and now also the impacts of the invasion of Ukraine by Russia, and also by the evolution of disposable income and of consumption behaviour and savings profile of Households, on the back of rising inflation and interest rates, even when mitigated by income support from social security and from employers and by resilient employment levels.

In the last few years, Banks in Portugal have adjusted their business and customer relationship models, making them more digital, close, simple, safe and sustainable, improving the overall quality of service provided to increasingly demanding Customers. But the absence of a single regulatory framework applying to all entities operating in the same business segments, which would ensure a level playing field, is critical. the non-regulation will force banks, who continue to face increasing scrutiny and ever-rising capital requirements, to maintain their focus on optimised efficiency levels in order to mitigate the impact of the loss of business and revenues to unregulated non-bank players and to continue adapting their business models to the new environment. Compliance, cybersecurity and other risks will require enhanced investment in appropriate operating and technological risk assessment and control policies, as well as in IT, and particularly in data security systems and risk control frameworks. Finally, banks need to cope with the integration of ESG requirements (Environmental, Social & Governance) in daily management, so as to attain a more resilient response to current and future societal demands and a fast-evolving and volatile economic context.

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, Mozambique, Angola (through its associate BMA) and China (Macao). 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, personal loans, 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 and companies markets, providing services to its Customers in a segmented manner. The Bank makes products available to Customers through its network of branches, offering a wide range of products and services.

Distinctive factors of the business model

Largest private sector banking institution

BCP is the largest private banking institution in terms of business volume in Portugal, assuming a leading and prominent position in various financial products and services as well as different market segments, with its activity based on a modern branch network with wide coverage at a national level. In addition, the Bank has remote banking channels (banking service by telephone, Mobile Banking and Internet), which act as distribution points for its financial products and services.

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

At the end of June 2023, Millennium bcp continued to be the largest Portuguese privately-owned bank on business volumes and with a relevant position in the countries where it operates.

On 30 June 2023, operations in Portugal accounted for 69% of total assets, 69% of total loans to Customers (gross) and 71% of total customer funds. The Bank had over 2.6 million active Customers and market shares of 17.3% and 19.2% of loans to Customers and customer deposits, respectively, in March 2023.

International presence as a platform for growth

At the end of June 2023, Millennium bcp was also present throughout the world through its banking operations, representative offices and/or commercial protocols, serving over 6.5 million active Customers.

In Poland, Bank Millennium has a well distributed network of branches, supported by a modern multi-channel infrastructure, a service quality and with high brand recognition.

In May 2023, Bank Millennium had a market share of 5.7% in loans to Customers and of 5.5% in deposits.

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 about 1.2 million Active Customers and is the reference bank in this country, with market shares of 15.9% in loans and advances to Customers and of 22.7% in deposits, in the end of May 2023. Millennium bim is a highly reputed brand in the Mozambican market, associated with innovation, strong penetration in terms of electronic banking and exceptional capacity to attract new Customers, as well as being a reference in terms of profitability.

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

The Group also operates in the Far East since 1993. The activity of the existing branch in Macau was expanded in 2010, 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 6 representation offices (1 in the United Kingdom, 2 in Switzerland, 2 in Brazil and 1 in China, in Guangzhou), 3 commercial protocols (USA, France and Luxembourg).

Growth based on digital/mobile banking

Since its incorporation, the Bank has been recognized by the innovation. The Bank was the first in Portugal to introduce specific innovative concepts and products, including direct marketing methods, branch formats based on Customer profiles, salary accounts, simplified 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 1st half of 2023, digital Customers and private mobile Customers grew by 8% and 13%, respectively, compared to June of the previous year. The penetration rate of mobile Customers increased by 6 p.p. compared to the previous year.

Accumulated sales in Portugal, made through digital channels, represented 81% of the Bank's total sales, in number of operations and considering the products made available on both channels, an increase of 7p.p. compared to the same period.

Emphasis on the sustained growth in Personal Credit where production levels through the Digital channel were 8% higher than those seen in the same period of 2022, with the App being responsible for 84% of digital transactions (+6 p.p. compared to 2022). The sale of credit cards on the App accounted for 85% of digital card sales in 2022 (+3 p.p. compared to the same period last year).

The Bank continues to move forward with its digital experience development plan, with an increasingly personalized and targeted communication strategy with Customers, with the right message and at the right time. on digital channels.

In January, the “Apparte” was made available to Customers, a new way of saving, where the Customer can choose to save for a specific purpose, save for an emergency, or simply set up a piggy bank.

In risk insurance, digital already represents 56% of the Bank's total sales and, in the 1st half of 2023, the Bank launched the automobile product (Móbis) on the App.

Until August, all Customers will have access to their new personal assistant, once again revolutionizing Customers' banking experience. The assistant serves Customers in an efficient and personalized way on the most varied topics, transactional or informational, being available 24 hours a day. Through the use of the most advanced artificial intelligence technology, the project overcame the traditional challenges of customer service, providing measurable and concrete improvements in the banking experience.

In terms of corporate Customers, the 1st half was also characterized by several innovations:

- Online accession to the P@Y.ME platform - which allows merchants to accept payments in their online store via MB WAY, Multibanco and Visa and MasterCard cards with a single IT integration.
- Opening of a Digital Account for Companies with the aim of simplifying the process for the Client.
- iziBizi, the first Invoicing and Bank Account Management Program in Portugal.

Customer-oriented relationship model

Millennium maintained, in the 1st half of 2023, a strong communication dynamism, not only in the commercial but also in the relational fronts.

Of particular note, at the beginning of the year, was the double recognition campaign with the “Consumer Choice” and “Five Stars” awards in the “Big Banks” category, which allowed the Bank not only to thank those who matter most – the Consumers – but also to position Millennium bcp as a Bank of excellence, pioneering spirit and innovation.

This commitment to quality and service available to Customers guided all of the Bank's communication activity during the 1st six months of the year, through the launch of campaigns with a clear concern for the needs of Customers and Non-Customers, as was the case with the domiciliation of wages. Also noteworthy is the strong focus on digital and on loans to individuals, such as personal loans and mortgage loans.

In the Corporate segment, Millennium continued to reinforce its position as the Leading Bank, through the launch of innovative products and solutions that allowed the development of differentiating communication campaigns and actions, namely: Factoring & Confirming, PT2030, Estatuto Inovadora COTEC, PME Líder and Online Business Account Opening.

At a relational level, the Bank consolidated its strategy of proximity and partnership with Customers and Non-Customers, through its presence at events such as the Millennium Talks, the Millennium Estoril Open and the WSL Surf competitions.

The Bank continued to invest in sport and sponsor professional athletes who are the ultimate expression of talent, dedication and excellence in their activities – João Sousa in Tennis, Teresa Bonvalot in Surfing and Marta Paço in Adapted Surfing.

Business Model Sustainability

Millennium bcp, with the aim of strengthening its value proposition and performance in matters of Sustainability and responsible finance, has been leading an accelerated dynamic of adaptation to new ESG (Environmental, Social and Governance) requirements that allow it to respond to expectations of the different Stakeholders in these lines of action.

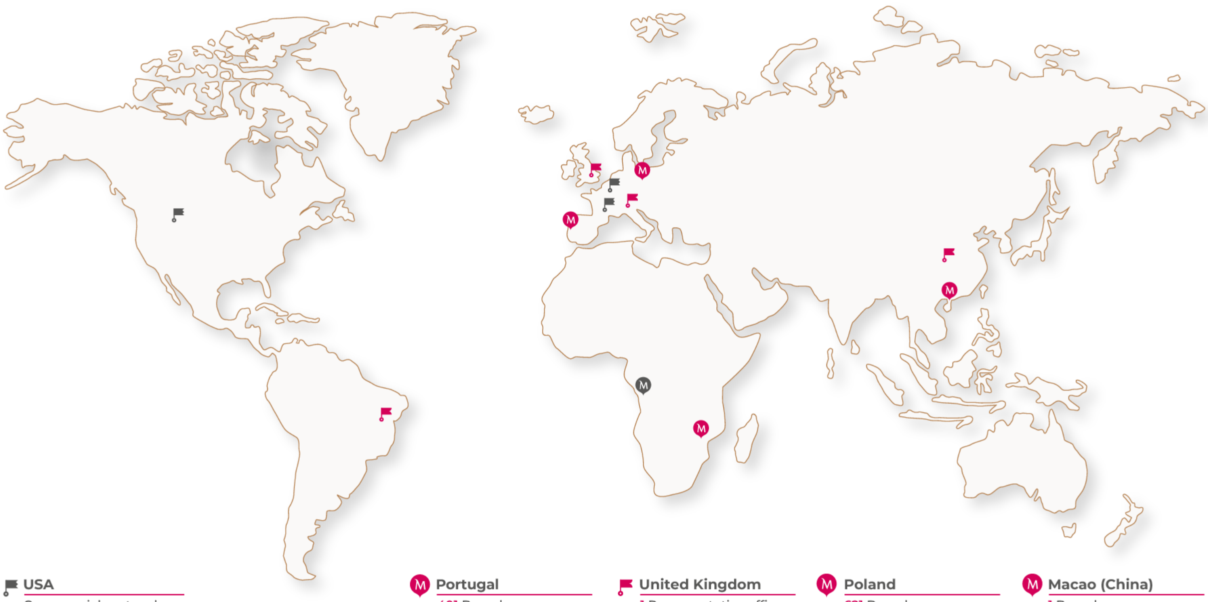
The Bank has, within the framework of its governance and decision-making model, a Committee of the Board of Directors for Corporate Governance, Ethics and Sustainability, a Sustainability Committee headed by the CEO and a Sustainability Division to which it is responsible. attributed to the management of the Sustainability Master Plan (PDS), an instrument that aggregates, in a coherent and standardized way, the actions to be developed, many of them multidisciplinary, with transforming potential within the scope of ESG dimensions.

Millennium bcp's intervention is thus divided into three fundamental axes: Environmental, aimed at implementing measures and initiatives that encourage a fair and inclusive transition to a decarbonized economic development model, including the incorporation of the climate dimension in the Bank's risk models and in the commercial offer of products and services; Social, which ensures and promotes, in articulation with the Millennium bcp Foundation, proximity and involvement with internal and external communities in the creation of shared value; and Corporate Governance, promoting the integration of Sustainability principles in the Bank's decision-making, management and control processes.

This alignment is central to Sustainability at Millennium bcp, remaining a privileged means of determining the social and environmental impact of the activity carried out and the expected corporate performance in these dimensions. The Bank is aware of the competitive advantage of incorporating environmental, social and corporate governance factors, opportunities and risks in decision-making processes and of reflecting them in the provision of solutions, products and services, in line with the recommendations of the "Superação 24" Strategic Plan , a document that summarizes the vision and objectives of Millennium bcp for the three-year period 2021-2024.

The deepening of a Responsible Business culture that promotes the creation of wealth and its fair distribution, and positively influences the organization's long-term value proposition, in balance with the well-being of people, the company and the communities in which is inserted and with respect for the preservation of natural resources, climate, biodiversity and the environment, constitute the essence of the BCP Group's Sustainability strategy, policies and practices in all the geographies in which it operates.

Millennium network



USA
Commercial protocols

Brazil
2 Representative offices

Portugal
401 Branches
140* 0 346

France
Partnership
Commercial protocols

Switzerland
2 Representative offices

United Kingdom
1 Representative office

Luxembourg
Commercial protocols

Mozambique
196 Branches
28 62 188

Poland
621 Branches
103 91 249

Angola
Partnership

Macao (China)
1 Branch

China
1 Representative office

- Branches
- Branches opened on Saturday
- Branches with differentiated schedule
- Branches with access conditions to people with reduced mobility
- Representative offices
- Commercial protocols
- Partnership

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

	Customers (Thousands)	Internet	Call Centre	Mobile Banking	ATM [1]	POS [2]
Portugal	2,666	505,970	282,666	1,284,431	1,931	87,629
Poland	2,710	1,991,238	228,297	2,333,650	508	3,480
Mozambique	1,195	12,481	2,635	820,851	480	9,295
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. Do not include AtivoBank Customers.
[1] Automated Teller Machines.
[2] Points of Sale.

Financial information

Results and Balance Sheet

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 5/2015, 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.

The Group owns 49% of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. (Mbcp Ageas), being accounted for under the equity method, as Investments in associated companies. On 1 January 2023 Mbcp Ageas adopted simultaneously IFRS9 - Financial Instruments and IFRS17 - Insurance Contracts. IFRS 17 replaces IFRS 4 - "Insurance Contracts" and is applicable to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation features if they are also issuers of insurance contracts. Taking into account that the initial adoption of IFRS 17 and IFRS 9 requires comparative information, Mbcp Ageas made the transition exercise on 1 January 2022. The estimated impacts of the transition to IFRS 17 represent a reduction in the Equity of Mbcp Ageas, partially offset by the positive impact resulting from the adoption of IFRS9. The impacts resulting from this implementation led to the restatement of the accounts of the Group referring to 2022 as detailed in note 57. Adoption of IFRS 17 - Insurance Contracts and IFRS 9 - Financial Instruments by Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.

In the fourth quarter of 2022, the Bank reclassified the amount associated with potential costs arising from the moratorium program (credit holidays[3]) in Poland, enacted in July of that year, which was accounted for in other impairments and provisions, starting to recognise these costs as results on modification. Since then this heading also started to include contractual modifications, namely those negotiated with customers with foreign exchange mortgage loans, in accordance with IFRS9. In the scope of this analysis, the amounts referring to the 1st half of 2022, which were recognised in other net operating income, were reclassified, thus diverging from the published accounting values.

During the 2nd half of 2022 and the 1st half of 2023, some reclassifications were made, in order to improve the quality of the information reported, namely regarding net commissions and operating costs. The historical amounts of such items are presented considering these reclassifications with the purpose of ensuring their comparability. The total amount of each heading disclosed in previous periods remains unchanged compared to those published in previous periods.

On 13 February 2023, Bank Millennium signed an agreement for the sale of 80% of the shares in Millennium Financial Services sp. z o.o. to Towarzystwo Ubezpieczeń na Życie Europa S.A. which acquires 72% of the Company's shares and Towarzystwo Ubezpieczeń Europa S.A. which acquires 8% of the Company's shares. Bank Millennium concluded also with the buyers and with Millennium Financial Services sp. z o.o. certain agreements concerning exclusive insurance distribution model, including a cooperation agreement, distribution agreements and agency agreements. The strategic cooperation provides for long term (10 years) bancassurance partnership in relation to specified insurance products linked to loans offered by Bank Millennium.

On 29 March 2023, the transaction was concluded with the transfer of 80% of the shares of Millennium Financial Services sp. z o.o., as well as with the payment of the price for the shares to Bank Millennium S.A., resulting in the recognition of the corresponding positive financial result and triggering the commencement of the Strategic Insurance Cooperation between the Bank and the buyers, as described above.

[3] Following the signing by the President of the Republic of Poland of the Act of 7 July 2022 on crowdfunding for business ventures and assistance to borrowers, introducing, among others, a possibility of up to 8 months of credit holidays in 2022-2023 for borrowers of mortgages denominated in Zlotys.

PROFITABILITY ANALYSIS

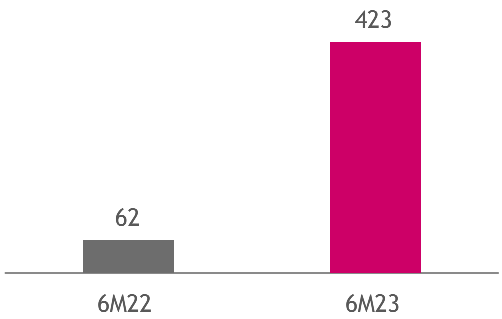
NET INCOME

The consolidated net income of Millennium bcp amounted to 423 million euros in the 1st six months of 2023, growing noticeably from the 62[4] million euros achieved in the same period of the previous year.

This evolution of the consolidated net income reflects the favourable performance of both the activity in Portugal and the international activity, driving return on equity (ROE) of the Group to increase significantly to 16.8% in the 1st half of 2023, compared with 2.4% recorded in the 1st half of 2022.

NET INCOME

Million euros



The growth in net income of the Group largely reflects the evolution of core income, which increased by 28.3%, from 1,373 million euros in the 1st half of 2022 to 1,761 million euros in the same period of 2023, benefiting from the performance of net interest income, both in the activity in Portugal and in international activity.

In fact, in the 1st six months of the year, net interest income of the Group was 39.5% above the amount achieved in the same period of the previous year, corresponding to an increase of 389 million euros, of which 277 million euros from the contribution of the activity in Portugal and 112 million euros from the international activity, corresponding to growth rates of 64.3% and 20.2% respectively.

The favourable evolution of net income of the Group in this period also benefited from the extraordinary gain of 127[5] million euros resulting from the sale, by Bank Millennium, of 80% of the shares of Millennium Financial Services sp. z.o.o., in the scope of the strategic partnership in the bancassurance business, mostly recognised in net trading income, in the 1st quarter of the year.

On the other hand, the reduction in the amount of mandatory contributions levied on the Group also contributed to the good performance of the consolidated net income. It should be noted that this reduction was particularly significant in the Polish subsidiary, where the amount of mandatory contributions was about 90.0% lower than that recorded in the 1st half of 2022, corresponding to a reduction of 104 million euros, largely explained by temporary exemptions.

The favourable evolution of net income of the Group is also influenced by the fact that in the 1st half of the previous year the result was heavily penalised by the recognition of impairments, in the amount of 102 million euros, concerning the total goodwill associated with the group's stake in Bank Millennium S.A. in Poland.

An improvement of risk profile of the credit portfolio against previous year allowed a reduction in credit impairment (net of recoveries) in the activity in Portugal, determining the favourable evolution of this item, which in consolidated terms stood 34 million euros (18.9%) below the amount calculated in the 1st half of 2022.

Conversely, the results of the Group continue to be strongly influenced by the increase in the costs associated with foreign exchange mortgage portfolio, that globally went from 258[5] million euros, in the 1st half of 2022, to 399[5] million euros, in the 1st half of 2023. The overall increase in these costs was mainly due from the additional provisions booked to face the litigation risk implicit in this portfolio following the unfavourable decision of the Court of Justice of the European Union, regarding foreign exchange mortgage loans. In fact, in the 1st half of 2023 the Polish subsidiary recognised provisions in the amount of 332 million euros that compares to 198 million euros in the same period of the previous year (net of the amount related to loans originated by Euro Bank S.A., to be reimbursed by a third party).

[4] Following the adoption, on 1 January 2023, of IFRS9 - Financial Instruments and IFRS17 - Insurance Contracts, by Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. (Mbcp Ageas), an entity 49% owned by the Group, and complying with comparative information requirements, the accounts of the Group referring to 2022 were restated accordingly, corresponding to a negative impact of 12 million euros in the 1st half of 2022 results (as detailed in note 57. Adoption of IFRS 17 - Insurance Contracts and IFRS 9 - Financial Instruments by Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.).

[5] Before taxes and minority interests.

On the other hand, despite the pursuit of a disciplined management of operating costs by the Group, the impact of inflation was felt in the geographies in which the Bank operates (particularly in Poland and Mozambique where it recorded double-digit levels in 2022), influencing the evolution of operating costs that, in consolidated terms, increased 8.8% (45 million euros) compared to the amount posted in the 1st half of 2022.

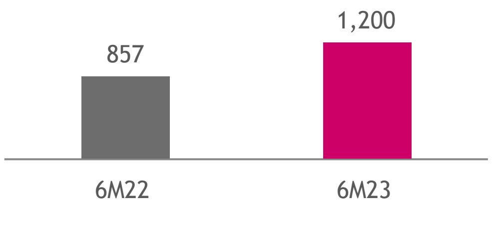
At the same time, albeit on a smaller scale, the results of the Group were also influenced, on one hand, by the increase in equity accounted earnings and, on the other hand, by the less favourable performance, compared to the 1st half of 2022, of dividends from equity instruments and results on modification. Net commissions, in turn, remained in line with the amounts calculated in the 1st six months of 2022.

The 1 million euros amount recognised in results from discontinued operations, in the 1st half of 2022, mostly incorporates the adjustment of the sale price of Banque Privée, in accordance with previously agreed conditions[6].

The consolidated core operating profit of the Group amounted to 1,200 million euros in the 1st six months of 2023, showing a significant growth of 40.1% from the 857 million euros achieved in the same period of 2022, driven by the already mentioned increase in core income.

CORE OPERATING PROFIT

Million euros



In the activity in Portugal, net income amounted to 354 million euros in the 1st half of 2023, showing a significant growth from the 162 million euros achieved in the same period of the previous year.

For this performance of net income in the activity in Portugal, contributed above all the increase of 39.6% in core income, from 708 million euros in the 1st half of 2022, to 988 million euros in the 1st half of 2023.

The growth in core income, of 280 million euros, mainly reflects the positive performance of net interest income, which increased 277 million euros (64.3%) from the 1st half of 2022. Net commissions, in turn, also evolved favourably, showing, however, a more modest growth of 3 million euros (1.1%) in the same period.

The evolution of net income in the activity in Portugal also benefited from an improved risk profile of the credit portfolio against previous year, which corresponded to a 24.0% (34 million euros) reduction in loans impairment charges (net of recoveries).

Conversely, the evolution of net income of the activity in Portugal in the 1st half of 2023 was influenced by the strong reduction in net trading income which stood at 3 million euros, compared to 60 million euros obtained in the 1st half of 2022, mainly due to the gains recognised in the 1st half of the previous year with the sale of foreign sovereign debt securities, which did not occur in the 1st half of this year.

The evolution of net income in the activity in Portugal was also influenced, albeit to a lesser extent, by a slight increase in operating costs and by the smaller contribution of dividends from equity instruments, on the one hand, and by the favourable performance of equity accounted earnings, other net operating income and other impairment and provisions, on the other.

It should be noted that the significant expansion of core income largely exceeded the rise in operating costs, leading the core operating profit of the activity in Portugal to grow by 64.5%, from 414 million euros in the 1st half of 2022 to 681 million euros in 1st half of 2023.

In the international activity, net income amounted to 70 million euros, a significant improvement from the negative amount of 100 million euros recorded in the same period of the previous year, penalised by the recognition of impairments, in the amount of 102 million euros, related to the totality of goodwill associated with the Group 's stake in Bank Millennium SA in Poland. Although the subsidiary in Mozambique showed a favourable performance, the increase in net income from the international activity, compared to the 1st half of 2022, was almost entirely due to the contribution related to the Polish subsidiary.

[6] Following the sale of the entire share capital of Banque Privée BCP (Suisse S.A.) in the fourth quarter of 2021, the purchase price was subject to subsequent adjustments, according to typical provisions in this kind of transactions, including the variation of the equity in the completion date, and the ones that may result from the variation of stocks and/or flows of assets under management, in pre-determined dates and specified portfolios.

In fact, in the 1st six months of 2023, Bank Millennium in Poland showed a net income of 77 million euros, corresponding to a significant growth from the negative amount of 57 million euros recorded in the 1st half of 2022. It should be noted that after an extended period with negative quarterly results, the Polish subsidiary presented positive results for the third consecutive quarter.

To this favourable performance contributed to a large extent both the aforementioned extraordinary gains associated with the sale of 80% of the shares of Millennium Financial Services sp. z o.o., in the scope of the strategic partnership in the bancassurance business and the 21.6% growth recorded in net interest income from 461 million euros in the 1st half of 2022 to 561 million euros at the end of June 2023, driven by the successive increases in the reference interest rates of the central bank of Poland observed between the last quarter of 2021 and the third quarter of 2022. Additionally, the reduction in the amount of mandatory contributions levied on the Polish subsidiary, also contributed to the growth of net income.

On the other hand, the result of the Polish subsidiary in the 1st half of 2023 was penalised by the increase in costs associated with the portfolio of foreign exchange mortgage loans, mainly due to the additional provisions booked following the unfavourable decision of Court of Justice of the European Union, regarding these loans.

Additionally, the results of the Polish subsidiary were influenced by the increase in operating costs, resulting from the inflationary pressures in this period.

Finally, although on a smaller scale, reference should be made to the impact of smaller contribution of the results on modification and net commissions in the results of the subsidiary.

The net income of Millennium bim in Mozambique, in turn, amounted to 48 million euros in the 1st half of 2023, standing 4.4% above the 46 million euros achieved in the same period of the previous year.

In the performance of the Mozambican subsidiary, it is important to highlight, on the one hand, the increase in net interest income, reflecting the impact arising from the environment of rising reference interest rates and, on the other hand, the increase in operating costs largely due to the levels of inflation. Still, net interest income was adversely influenced, especially in the second quarter, by the impact of the increase in the local requirement for non-remunerated cash reserves to be maintained with the central bank.

The contribution from Angola also had a positive impact on the evolution of the net income from the international activity since, although not material within the scope of this analysis, it compares with the negative 2 million euros recorded in the 1st half of 2022.

Benefiting from the increase in core income and despite the impact of the inflation rate on operating costs, core operating profit of the international activity increased by 17.2%, from 443 million euros in the 1st half of 2022, to 519 million euros in the 1st half of 2023.

INCOME STATEMENT

Million euros

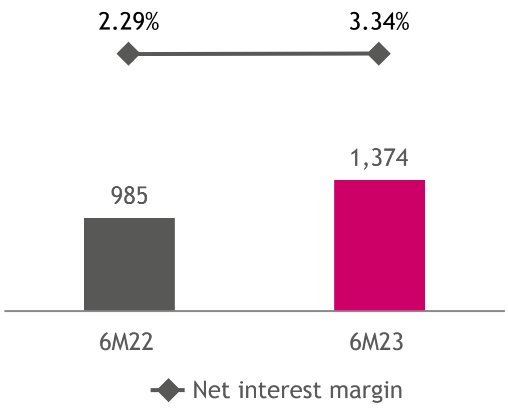
	6M23	6M22 (restated)	Chg. 23/22
NET INTEREST INCOME	**1,374**	**985**	**39.5 %**
OTHER NET INCOME	**470**	288	**63.3 %**
Dividends from equity instruments	1	13	(90.9)%
Net commissions	387	388	(0.1)%
Net trading income	124	42	194.8 %
Other net operating income	(72)	(175)	58.8 %
Equity accounted earnings	29	20	43.8 %
NET OPERATING REVENUES	**1,844**	**1,273**	**44.9 %**
OPERATING COSTS	**562**	**516**	**8.8 %**
Staff costs	308	284	8.4 %
Other administrative costs	185	163	13.7 %
Depreciation	69	69	(1.2)%
PROFIT BEFORE IMPAIRMENT AND PROVISIONS	**1,283**	**757**	**69.5 %**
Results on modification	(12)	(2)	<-200%
Loans impairment (net of recoveries)	146	179	(18.9)%
Other impairment and provisions	403	372	8.3 %
INCOME BEFORE INCOME TAX	**723**	**204**	**>200%**
INCOME TAX			
Current	126	45	181.5 %
Deferred	120	111	7.8 %
NET INCOME AFTER INCOME TAX FROM CONTINUING OPERATIONS	**477**	**48**	**>200%**
Income arising from discontinued operations	0	1	(100.6)%
NET INCOME AFTER INCOME TAX	**477**	**49**	**>200%**
Non-controlling interests	53	(13)	>200%
NET INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	**423**	**62**	**>200%**

NET INTEREST INCOME

Net interest income of the Group reached 1,374 million euros in the 1st half of 2023, showing a growth of 39.5% compared to the 985 million euros posted in the same period of the previous year. The favourable evolution of net interest income was driven by a general improvement in the three geographies in which the Bank operates, with emphasis on the growth achieved by the activity in Portugal, exceeding 60%.

NET INTEREST INCOME

Million euros



In fact, net interest income, in the activity in Portugal, showed a significant growth of 64.3% from the 431 million euros recorded at the end of the 1st half of 2022, rising to 708 million euros, in the 1st six months of 2023.

This performance of net interest income largely reflects the higher income generated by the loan portfolio stemming from the increases in interest rates, partially offset by the increase in the remuneration of the deposit portfolio.

At the same time, the evolution of net interest income in the activity in Portugal also reflects the positive impact resulting from the management of the securities portfolio, namely the greater contribution of the income generated by the public debt portfolio, benefiting from the evolution of interest rates.

Although on a smaller scale, reference should also be made to the positive impact on the domestic net interest income of income generated in the 1st half of 2023 by other assets and liabilities, in contrast to the costs accounted for in the 1st half of 2022.

Conversely, the evolution of net interest income in the activity in Portugal reflects the increase, compared to the 1st half of 2022, of the costs incurred with issued debt, arising not only from the increase in interest rates, but also from the impact of an issue of senior preferential debt securities, in the amount of 350 million euros, launched in October 2022, under the Bank's Euro Note Programme, aiming at meeting the requirements known as "MREL" (Minimum Requirements for Own Funds and Eligible Liabilities), partially offset by the repayment of a covered bond issue in May 2022.

The performance of net interest income in the activity in Portugal was also influenced by the impact from the income recorded in the 1st half of 2022 related to the funding obtained from the European Central Bank, through participation in Targeted Longer-Term Refinancing Operations (TLTRO), resulting from the negative interest rate applied. Following the full early repayment in December 2022 and a residual portion in January 2023, this refinancing operation (T LTRO III) no longer had material impact in the 1st half of 2023. The interest rate evolution has also driven the increase in the cost of resources from other credit institutions, net of interest income earned liquidity surpluses placed with these institutions. In contrast, reference should be made to the increase in net interest income resulting from liquidity deposited at the Bank of Portugal.

In the international activity, net interest income grew by 20.2% compared to the 555 million euros recorded in the 1st half of 2022, rising to 667 million euros in the 1st six months of the current year.

This evolution was mainly due to the performance of the Polish subsidiary, driven by successive increases in the reference interest rates that have taken place between the last quarter of 2021 and the third quarter of 2022, with net interest income at the subsidiary in Mozambique also increasing, albeit to a lesser extent, influenced by the significant increase in the local requirement for non-remunerated cash reserves to be maintained with the central bank.

In consolidated terms, net interest margin rose from 2.29% in the 1st half of 2022 to 3.34% in the 1st half of 2023, reflecting both the performance of the activity in Portugal, where it evolved from 1.41% to 2.52%, and international activity, where it increased from 4.44% to 5.07% in the same period.

OTHER NET INCOME

Other net income, that includes dividends from equity instruments, net commissions, net trading income, other net operating income and equity accounted earnings, amounted to 470 million euros in the 1st half of 2023, showing a significant growth of 63.3% compared to the 288 million euros recorded in the same period of the previous year.

The contribution of the international activity, namely the Polish subsidiary, was decisive for this performance, mainly due to the recognition, in the 1st half of 2023, of the gains obtained with the sale of 80% of the shares of Millennium Financial Services sp. z o.o as part of the strategic partnership in bancassurance business. These gains, considered as specific items totalled 127 million euros, of which 118 million euros referring to the gain recognised in net trading income and 9 million euros recognised in other net operating income, associated with the revaluation of the 20% minority stake held by Bank Millennium after the completion of the operation. The reduction in mandatory contributions to which the Polish operation was subject in this period was also favourably reflected in the evolution of other net operating income and consequently in the aggregate of these headings.

In the activity in Portugal, other net income amounted to 244 million euros, significantly below the 299 million euros obtained in the 1st half of 2023, mainly due to the gains recognised in the 1st half of the previous year with the sale of foreign public debt securities, which did not occur in the 1st half of this year.

On the other hand, in the international activity, other net income showed a significant growth, from a negative amount of 11 million euros in the 1st half of 2022, to 226 million euros in the same period of the current year, influenced by the contribution of the Polish subsidiary, as mentioned above.

OTHER NET INCOME

Million euros

	6M23	6M22 (restated)	Chg. 23/22
Dividends from equity instruments	1	13	(90.9)%
Net commissions	387	388	(0.1)%
Net trading income	124	42	194.8 %
Other net operating income	(72)	(175)	58.8 %
Equity accounted earnings	29	20	43.8 %
	470	**288**	**63.3 %**
of which:			
Activity in Portugal	244	299	(18.3)%
International activity	226	(11)	>200%

DIVIDENDS FROM EQUITY INSTRUMENTS

Dividends from equity instruments, that incorporates dividends received from investments classified as financial assets at fair value through other comprehensive income and from financial assets held for trading, went from 13 million euros in the 1st half of 2022, to 1 million euros at the end of June 2023, driven by the lower income received related to the investments comprised in the shares portfolio in the activity in Portugal.

NET COMMISSIONS

Net commissions include commissions related to the banking business and commissions more directly related to financial markets.

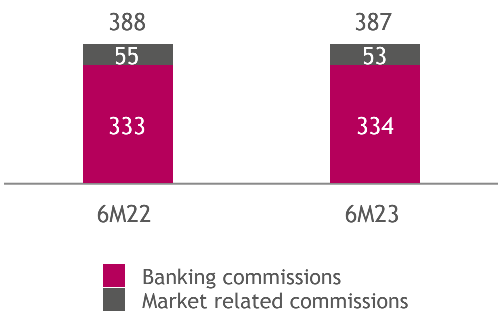
In the 1st six months of 2023, net commissions totalled 387 million euros, remaining flat to the amount recorded in the same period of the previous year (-0.1%) since the growth achieved in the activity in Portugal was fully offset by the reduction recorded in the international activity, namely in the Polish subsidiary.

In consolidated terms, banking commissions also remained at a similar level to the one recorded in the 1st half of 2022, totalling 334 million euros in the 1st half of 2023, since the increase in the activity in Portugal was offset by the reduction in international activity.

Commissions associated with markets, in turn, evolved from 55 million euros to 53 million euros in the same period, reflecting the lower contribution of the international activity, since in the activity in Portugal this type of commissions remained close to the amount calculated in the 1st half of 2022.

NET COMMISSIONS

Million euros



In the activity in Portugal, net commissions were 1.1% higher than the 277 million euros recorded in the 1st half of 2022, amounting to 280 million euros at the end of the 1st half of the current year.

Decisive for this evolution was the increase of 3 million euros recorded in commissions related to the banking business, since, as mentioned before, commissions related to the markets in the activity in Portugal remained stable compared to the amount calculated in the 1st half of 2022.

In the 1st half of 2023, commissions related to the banking business, in the activity in Portugal, amounted to 237 million euros, representing a growth of 1.4% from the 233 million euros recorded in the same period of 2022. The increase in commissions related to cards and transfers, from 71 million euros to 79 million euros, largely contributed to this performance, essentially reflecting the greater contribution of commissions related to transfers. These commissions mainly include the amounts charged for transactions carried out with cards and the respective payment networks, for bank transfers and for the use of points of sale (POS), thus showing an increase in transaction levels.

Commissions associated with management and maintenance of accounts, in turn, also grew from the 68 million euros posted in the 1st half of 2022, totalling 71 million euros in the same period of the current year, mainly due to the dynamics of new customer acquisition and by management of value propositions. Commissions related to credit and guarantees, together, showed a reduction, from 50 million euros to 41 million euros in the same period, reflecting the lower credit production in the current context and the legal restrictions imposed in the meantime.

Bancassurance commissions and other banking commissions in the activity in Portugal also showed a favourable, albeit smaller, evolution.

Commissions related to financial markets stood at 44 million euros at the end of the 1st half of 2023, in line with the amount recorded in the 1st half of 2022.

In the international activity, net commissions totalled 107 million euros in the 1st six months of 2023, standing 3.2% below the 110 million euros posted in the same period of the previous year, with the increase recorded in the subsidiary in Mozambique being insufficient to offset the reduction in the Polish subsidiary.

Commissions related to the banking business in the international activity totalled 98 million euros at the end of June 2023, which compares with 99 million euros accounted for in the same period of the previous year, reflecting the reduction in the Polish subsidiary, partially compensated by the good performance of the operation in Mozambique with regard to this type of commissions.

Commissions related to markets in the international activity, in turn, evolved from 11 million euros in the 1st half of 2022, to 9 million euros in the same period of 2023, due to the performance of the activity in the Polish subsidiary, since this type of commissions have no expression in the Mozambican subsidiary.

NET COMMISSIONS(1)

Million euros

	6M23	6M22	Chg. 23/22
BANKING COMMISSIONS	**334**	**333**	**0.5 %**
Cards and transfers	122	110	10.8 %
Credit and guarantees	64	75	(15.1)%
Bancassurance	63	60	5.8 %
Management and maintenance of accounts	80	82	(2.7)%
Other commissions	5	5	(4.1)%
MARKET RELATED COMMISSIONS	**53**	**55**	**(3.9)%**
Securities	19	20	(4.1)%
Asset management and distribution	34	35	(3.8)%
	387	388	(0.1)%
Of which:			
Activity in Portugal	280	277	1.1 %
International activity	107	110	(3.2)%

(1) In the 1st half of 2023, some commissions were reclassified, in order to improve the quality of the information reported. The historical amounts related to the 1st half of 2022 of such items are presented considering these reclassifications with the purpose of ensuring their comparability. The total amount of net commissions disclosed in previous periods remains unchanged compared to those published in previous periods.

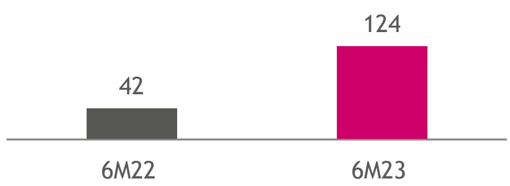
NET TRADING INCOME

Net trading income includes results from financial operations at fair value through profit or loss, results from foreign exchange, results from hedge accounting operations and results from derecognition of financial assets and liabilities not measured at fair value through profit or loss.

In the 1st six months of 2023, net trading income reached 124 million euros showing a noticeable increase compared to the 42 million euros achieved in the same period of the previous year. This evolution mostly benefited from the gains recognised with the sale of 80% of the shares of Millennium Financial Services sp. z o.o. by Bank Millennium in Poland, as part of the strategic partnership in bancassurance business (118 million euros in the 1st quarter of 2023, considered a specific item).

NET TRADING INCOME

Million euros



In the activity in Portugal, net trading income totalled 3 million euros in the 1st half of 2023, standing well below the 60 million euros posted in the same period of 2022. This performance was mainly due to the contribution associated with securities portfolio, mainly due to the gains from foreign sovereign debt securities recognised in the

1st half of the previous year, which did not occur in the 1st half of this year. It should be noted, however, that, in the same period, there was a favourable evolution of net trading income associated with Portuguese public debt securities, since the losses recorded were not material, contrary to what had happened in the 1st half of 2022.

The evolution of net trading income in the activity in Portugal was also influenced by the losses recognised in the 1st half of 2023 with the sale of credits, in contrast to the gains recorded in the same period of the previous year.

In the international activity, net trading income showed a significant increase, from a negative amount of 18 million euros in the 1st half of 2022 to an income of 122 million euros in the 1st half of the current year.

This performance was determined by the contribution of the Polish subsidiary, namely the recognition, in the 1st half of 2023, of the gains obtained with the sale of 80% of the shares of Millennium Financial Services sp. z o.o., that as mentioned before amounted to 118 million euros being considered a specific item. In addition, the reduction in costs incurred by the Polish subsidiary in converting mortgage loans granted in Swiss francs, following the agreements with customers holding these loans, from 49 million euros in the 1st half of 2022 to 25 million euros in the 1st six months of the current year, also contributed to the favourable performance of this heading.

In the operation in Mozambique, net trading income was at a lower level than that achieved in the 1st half of 2022, despite having an immaterial impact within the scope of this analysis.

NET TRADING INCOME

Million euros

	6M23	6M22	Chg. 23/22
Net gains / (losses) from financial operations at fair value through profit or loss	6	7	(13.0)%
Net gains / (losses) from foreign exchange	11	15	(28.1)%
Net gains / (losses) from hedge accounting operations	1	-4	122.4 %
Net gains / (losses) arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss	107	24	>200%
	124	**42**	**194.8 %**
of which:			
Activity in Portugal	3	60	(95.4)%
International activity	122	-18	>200%

OTHER NET OPERATING INCOME

Other net operating income[7] includes other operating income, net of other operating costs, which comprises costs related to deposit guarantee funds and resolution funds, as well as other mandatory contributions, both in the activity in Portugal and in the international activity. Other net operating income also includes the results arising from sales of subsidiaries and other assets.

In the 1st half of 2023, other net operating income stood at a negative amount of 72 million euros, showing a significant improvement compared to the also negative amount of 175 million euros recorded in the same period of the previous year. This evolution was driven by the international activity, namely by the reduction of mandatory contributions charged to the Polish subsidiary.

[7] In the fourth quarter of 2022, the amounts associated with contractual modifications, namely those negotiated with customers with foreign exchange mortgage loans, which were recognised in other net operating income were restated, becoming recognised as results on modification. The historical amounts referring to the 1st half of 2022, considered in this analysis, are in accordance with such restatement in order to ensure comparability, thus diverging from the published accounting values. The amounts reclassified in the 1st six months of 2022 totalled a negative amount of 2 million euros.

In the activity in Portugal, other net operating income went from a negative amount of 72 million euros in the 1st half of 2022 to an also negative amount of 67 million euros in the same period of the current year, benefiting from the reduction of mandatory contributions, although its impact was largely offset by the lower gains recognised with the sale of non-current assets held for sale compared to the amount recognised in the 1st half of 2022.

The evolution of the global amount of mandatory contributions, from 90 million euros in the 1st half of 2022 to 74 million euros in the 1st half of 2023, was mainly due to the reduction in contributions for the National Resolution Fund (NRF) and the Single Resolution Fund (SRF). In fact, the contribution to the NRF decreased by around 50%, from 19 million euros in the 1st half of 2022 to 9 million euros in the 1st half of 2023, mainly due to the reduction in the contribution rate from 0.057% in 2022 to 0.029% in 2023. The cost of the contribution to the Single Resolution Fund (SRF), in turn, decreased from 26 million euros in the 1st six months of 2022 to 18 million euros in the same period of the current year, reflecting the lower reinforcement needs of the SRF determined by the Single Resolution Board (SRB) and the increase, from 15.0% to 22.5%, of the share of this contribution that can be delivered as irrevocable payment commitments, thus reducing the impact on the profit and loss account of the institutions. Conversely, the cost incurred with the contribution on the banking sector increased from 37 million euros to 38 million euros in the same period, influenced by the growth of the Bank's balance sheet with the corresponding increase on average liabilities comprised in the calculation of the amount of this contribution. It should be noted that the balance sheet reduction at the end of 2022 will only have an impact on all contributions for 2024, since the calculation of the amount payable considers the average values of the balance sheet of the previous year to which the contribution relates, taking into account the observations end of month. The additional solidarity contribution on the banking sector, aiming to finance the costs with the public measures to the impact of the crisis caused by the COVID-19 pandemic, amounted to 7 million euros in the 1st half of 2023, in line with the value calculated in the same period of the previous year. Likewise, the contribution to the deposit guarantee fund and the supervision fee charged by the ECB did not change significantly compared to the amount recorded in the 1st half of 2022, standing each one at around 1 million euros.

Of the total amount of costs recognised with mandatory contributions in the activity in Portugal in the 1st half of 2023, 54 million euros refer to contributions for national entities (62 million euros in the 1st six months of 2022).

In the international activity, other net operating income improved considerably compared to the negative amount of 103 million euros recognised in the 1st half of 2022, totalling an also negative amount of 5 million euros in the same period of 2023. This evolution mainly reflects the performance of the Polish subsidiary, largely influenced by the reduction of the mandatory contributions to which it was subject.

In fact, the mandatory contributions borne by the Polish operation were reduced by around 90% compared to the 117 million euros posted in the 1st half of 2022, totalling 13 million euros at the end of June 2023. This evolution was due, in large part, to the contribution, charged in June 2022, associated with the then created Polish institutional protection fund (IPS - Institutional Protection Scheme), which amounted to 54 million euros, non-existent in 2023. This fund was set up with the aim of ensuring the stability of the local financial system by ensuring the liquidity and solvency of the member banks, while serving to support situations of forced restructuring carried out by the Bank Guarantee Fund in banks that are public companies. Thus, the Bank, together with the other participating financial institutions, created a company that, in turn, constituted a "aid fund" to which each bank contributed the equivalent of 0.4% of its deposits covered by the local Deposit Guarantee Fund. On the other hand, following the contribution to the IPS, the contribution of Bank Millennium to the deposit guarantee fund has been suspended since the 1st quarter of 2022. As such, Bank Millennium only recorded costs of the deposit guarantee fund for the 1st quarter of 2022, which amounted to 8 million euros also contributing to the favourable evolution of the global amount of mandatory contributions compared to the 1st half of 2022. Additionally, the evolution of mandatory contributions also benefited from the suspension of the payment of the special tax on the Polish banking sector, following the activation, at the beginning of the 2nd half of 2022, of the Bank Millennium Recovery Plan. In the 1st half of 2022 this tax amounted to 36 million euros. Charges for the resolution fund recognised in the 1st half of 2023, in turn, totalled 13 million euros, below the 18 million euros recognised in the 1st half of 2022.

In addition to the reduction in charges with the Polish subsidiary's mandatory contributions, the evolution of other net operating income also benefited, albeit to a lesser extent, from a gain of 9 million euros, considered a specific item, associated with the revaluation of the minority stake (20%) which Bank Millennium in Poland held following the sale of 80% of the shares of Millennium Financial Services sp. z o.o., in the 1st quarter of 2023.

Conversely, other net operating income was negatively influenced by the impacts related to foreign exchange mortgage loan portfolio that went from an income of 17 million euros in the 1st half of 2022 to a residual amount of 1 million euros recognised in the 1st half of 2023. This performance reflects both the increase arising from court costs related to the claim processes filed by Bank Millennium, which are mainly aimed at claiming the costs associated with the use of capital, by customers, during the period of the respective loans and costs arising from negotiation with customers. On the other hand, the income to be reimbursed from a third party, as compensation for costs incurred with the booking of provisions to address the legal risk implicit in foreign exchange mortgage loans, following the indemnity clauses and contractual guarantees provided for in the acquisition contract of Euro Bank S.A. evolved from 21 million euros in the 1st half of 2022 to 18 million euros in the 1st half of 2023.

In the subsidiary in Mozambique, other net operating income remained in line with the amount recorded in the 1st half of 2022.

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 1st half of 2023, equity accounted earnings totalled 29 million euros, standing 43.8% above the 20 million euros posted in the same period of the previous year.

It should be noted that the amount for the 1st half of 2022 has been restated, thus diverging from the amount previously disclosed. In fact, following the simultaneous adoption, on 1 January 2023, of IFRS9 - Financial Instruments and IFRS17 - Insurance Contracts, by Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. (Mbcp Ageas), an entity 49% owned by the Group, and taking into account that the initial application of IFRS 17 and IFRS 9 requires comparative information, Mbcp Ageas made the transition exercise on 1 January 2022. The restatement of 2022 Group's accounts are detailed in note 57. Adoption of IFRS 17 - Insurance Contracts and IFRS 9 - Financial Instruments by Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.

This restatement resulted in an adjustment of 12 million euros, from 18 million euros to 6 million euros, in the equity accounted earnings results from Mbcp Ageas in the 1st half of 2022, compared to 20 million euros recorded in the 1st half of 2023.

In the activity in Portugal, equity accounted earnings evolved from 22 million euros in the 1st half of 2022, to 28 million euros in the same period of the current year.

The impact of the results from Mbcp Ageas, mentioned above, was offset by the lower income generated by the participation in Unicre and SIBS compared to those recorded in the 1st six months of 2022.

In the international activity, equity accounted earnings amounted to 2 million euros in the 1st six months of 2023, which compares favourably with the negative amount of 1 million euros posted in the same period of the previous year. This performance was driven by the appropriation of the results generated by Banco Millennium Atlântico that went from a negative amount in the 1st half of 2022 to a positive amount in the 1st half of the current year. The appropriation of the results generated by Seguradora Internacional de Moçambique, S.A. (“SIM”), in turn, did not change materially compared to the same period of the previous year.

OPERATING COSTS

Operating costs include staff costs, other administrative costs and depreciation.

In the 1st half of 2023, operating costs totalled 562 million euros, standing 8.8% above the 516 million euros recorded in the 1st half of 2022, strongly influenced by the inflation observed in the geographies in which the Bank operates.

Notwithstanding the disciplined management of costs followed by the Group, this evolution is due to the contribution of both the activity in Portugal, and mainly the international activity, namely the Polish subsidiary.

In consolidated terms, this evolution reflects the increase of 8.4% (24 million euros) in staff costs and the 13.7% (22 million euros) increase in other administrative costs. Depreciations, in turn, showed a slight reduction of 1.2% (1 million euros).

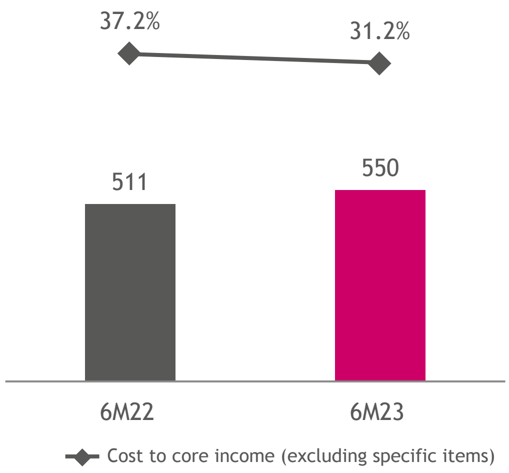
Despite higher operating costs, compared to the amount accounted for in the 1st six months of 2022, the increase in both net operating revenues and core income, allowed a significant improvement of cost to income and cost to core income ratios which evolved, respectively, from 40.6% to 30.4% and from 37.6% to 31.9% in the period under review.

The amounts presented include the specific items[8] considered in each period.

Excluding specific items, operating costs evolved from 511 million euros in the 1st half of 2022 to 550 million euros in the same period of the current year. Cost to income ratio stood at 32.0% and cost to core income ratio at 31.2%, which compare respectively with 40.1% and 37.2% calculated in the 1st half of 2022.

OPERATING COSTS

Million euros



In the activity in Portugal, operating costs totalled 307 million euros standing 4.4% above the 294 million euros posted in the same period of the previous year. This evolution of operating costs in the activity in Portugal mainly reflects the increase of 6.0% (10 million euros) recorded in staff costs. Other administrative costs stood 6.7% (6 million euros) above the amount accounted in the 1st half of the previous year due to the levels of inflation, while depreciation fell by 7.4%, corresponding to 3 million euros.

In the period under review, cost to income and cost to core income ratios in the activity in Portugal, evolved from 40.3% to 32.2%, and from 41.5% para 31.1%, respectively, evidencing the strength of the operation in Portugal and the resilience of its business model.

Not considering the impact of specific items, operating costs in the activity in Portugal went from 288 million euros to 295 million euros. Cost to income ratio stood at 31.0% and cost to core income ratio at 29.9% which compare respectively with 39.5% and 40.7% calculated in the 1st half of 2022.

In the international activity, the evolution of operating costs, from 222 million euros in the 1st half of 2022, to 255 million euros at the end of the 1st half of 2023, largely reflects the inflation recorded in the last twelve months, in the geographies where the Group operates.

[8] In the 1st half of 2023, specific items had a positive impact of 115 million euros, including income of 127 million euros arising from the Polish subsidiary, related to the sale of 80% of the shares in Millennium Financial Services sp. z o.o. (118 million euros recognised as net trading income and 9 million euros recognised as other net operating income) and costs of 12 million euros recognised as staff costs in the activity in Portugal: (i) costs related to the compensation for the temporary reduction in employee remunerations during 2014-2017; (ii) costs with mortgage financing to former employees and (iii) income recognised after an agreement related to liabilities with former directors of the Bank. In the 1st half of 2022 the impact was negative in the amount of 6 million euros, mainly related to the compensation for the temporary reduction in employees remunerations during 2014-2017.

In this context, the evolution of operating costs, in the international activity, resulted from the performance of both of the subsidiary in Mozambique, and mainly, the Polish subsidiary, given its greater expression.

Other administrative costs and staff costs increased by 22.2% (16 million euros) and 11.7% (14 million euros) respectively, while depreciations were 7.0% (2 million euros) above the amount calculated the year before.

It should be noted, however, that the growth in net operating revenues and in core income more than offset the increase in operating costs in the international activity, allowing for a favourable evolution in the cost to income and cost to core income ratios, from 40.9% and 33.4% in the 1st half 2022, to 28.5% (33.3%, excluding specific items) and 32.9% in the same period of 2023.

OPERATING COSTS

Million euros

	6M23	6M22	Chg. 23/22
Staff costs	308	284	8.4 %
Other administrative costs	185	163	13.7 %
Depreciations	69	69	(1.2)%
OPERATING COSTS	**562**	**516**	**8.8 %**
Of which:			
Activity in Portugal	307	294	4.4 %
International activity	255	222	14.5 %

STAFF COSTS

Staff costs totalled 308 million euros in the 1st six months of 2023, standing 8.4% above the 284 million euros accounted in the same period of the previous year, due to both the performance of the activity in Portugal and the international activity.

These amounts include the specific items considered in each period in the activity in Portugal. In the 1st half of 2023, specific items had a negative impact of 12 million euros, including the compensation for temporary reduction in employee remunerations in 2014-2017 as distribution of part of the Bank's results obtained in 2022, costs with mortgage financing to former employees and income recognised after an agreement related to responsibilities with former directors of the Bank. In the 1st half of 2022, the impact was also negative in the amount of 6 million euros, mainly related to the compensation for temporary reduction in remunerations in 2014-2017 as distribution of the Bank's 2021 results by the employees of the Bank.

Excluding specific items, staff costs of the Group amounted to 296 million euros, which compares with 278 million euros accounted for in the 1st half of 2022.

In the activity in Portugal, staff costs amounted to 176 million euros in the 1st six months of 2023, standing 6.0% above the 166 million euros recorded in the same period of the previous year. Not considering the impact of the specific items, staff costs in the activity in Portugal totalled 164 million euros in the 1st half of 2023, corresponding to an increase of 2.5% compared to the 160 million euros recorded in the same period of 2022.

After the implementation of the headcount adjustment plan that the Bank carried out in 2021, the number of employees in the activity in Portugal remained stable, standing at 6,256 employees at the end of June 2023, two more than on the same date of the previous year. It should be noted, however, that the Bank continued to acquire the required capabilities to meet current needs namely by hiring new employees with specific digital and new technologies skills.

In the international activity, staff costs amounted to 132 million euros in the 1st half of 2023, 11.7% above the 118 million euros recorded in the same period of 2022. A major contributor to this evolution was the increase in wages recorded at the Polish subsidiary, although the subsidiary in Mozambique also recorded an increase in this item, albeit with a smaller impact in absolute terms. In the Polish subsidiary, the evolution of staff costs continued to be determined by the strong pressure on basic wages, resulting both from rising levels of inflation and from the characteristics of the Polish labour market, in particular from the very low unemployment rates verified in the country.

On 30 June 2023, the number of employees of the international activity was 9,393, which compares with 9,413 employees on the same date in 2022.

Both subsidiaries maintained their number of employees stable, as the Polish subsidiary ended the 1st half of 2023 with 6,869 employees, just two less than at the end of June 2022 (6,746 FTE - full-time equivalent, corresponding to 11 more employees), while the operation in Mozambique saw a reduction from 2,539 employees to 2,524 employees in the same period.

STAFF COSTS

Million euros

	6M23	6M22	Chg. 23/22
Salaries and remunerations	244	225	8.9 %
Social security charges and other staff costs	52	54	(3.9)%
STAFF COSTS (excludind specific items)	**296**	**278**	**6.4 %**
Of which:			
Activity in Portugal	164	160	2.5 %
International activity	132	118	11.7 %
Specific items	12	6	105.9 %
STAFF COSTS	**308**	**284**	**8.4 %**

OTHER ADMINISTRATIVE COSTS

Other administrative costs evolved from 163 million euros in the 1st half of 2022 to 185 million euros in the 1st half of 2023, strongly influenced by the inflation rates in the geographies in which the Bank operates. The 13.7% increase in consolidated terms thus reflects the contribution of both the activity in Portugal and mainly the international activity, despite the disciplined management of costs pursued by the Group.

In the activity in Portugal, other administrative costs totalled 94 million euros in the 1st six months of 2023, standing 6.7% above the 88 million euros recorded in the same period of the previous year, mainly reflecting the increase in costs related to outsourcing, information technology, advisory services and rents and leases. The increase in costs associated with advisory services is related with exercises within the scope of supervision. On the other hand, savings were obtained in water, energy and fuel, resulting from the reduction in energy prices and from an efficient management of these consumptions. At the same time, following the pursuit of disciplined cost management, the Bank continues to implement a set of measures with recurrent impacts in this regard. The resizing of the branch network which, in the activity in Portugal, evolved from 415 branches, at the end of June 2022, to 402 branches at the same date in 2023, also has a positive impact on the several headings of other administrative costs.

In the international activity, other administrative costs amounted to 91 million euros in the 1st half of 2023, standing 22.2% above the 74 million euros recorded in the same period of the previous year, largely reflecting the aforementioned general price increase, which had repercussions both on the Polish subsidiary and on the subsidiary in Mozambique.

The increase in costs was more noticeable in the Polish subsidiary which reflects, in addition to the impact of inflation, also the increase in costs in legal advice associated with foreign exchange mortgage loan portfolio. On the other hand, it should be noted that the evolution of other administrative costs, in the international activity, continues to benefit from the optimisation of the branch network verified in the Polish subsidiary, with the number of branches decreasing from 635 at the end of June 2022, to 621 on 30 June 2023. The subsidiary in Mozambique, in turn, ended the 1st half of 2023 with 196 branches, one less than a year earlier.

OTHER ADMINISTRATIVE COSTS (1)

Million euros

	6M23	6M22	Chg. 23/22
Water, electricity and fuel	9	8	4.5 %
Consumables	4	4	2.2 %
Rents and Leases	13	12	11.8 %
Communications	12	12	6.7 %
Travel, hotel and representation costs	4	2	69.9 %
Advertising	13	13	(3.1)%
Maintenance and related services	9	8	17.7 %
Credit cards and mortgage	(1)	0	<-200%
Advisory services	18	12	53.8 %
Information technology services	13	14	(2.5)%
Outsourcing	53	45	17.7 %
Other specialised services	15	14	5.1 %
Training costs	0	0	(15.7)%
Insurance	3	2	12.0 %
Legal expenses	2	3	(14.5)%
Transportation	6	5	13.8 %
Other supplies and services	12	10	27.0 %
	185	**163**	**13.7 %**
Of which:			
Activity in Portugal	94	88	6.7 %
International activity	91	74	22.2 %

(1) In the second half of 2022 and in the 1st half of 2023, some reclassifications were made, in order to improve the quality of the information reported. The historical amounts related to the 1st half of 2022 of the reclassified items are presented considering these reclassifications with the purpose of ensuring their comparability, thus diverging from the published accounting amounts. The total amount of other administrative costs disclosed in previous periods remains unchanged.

DEPRECIATIONS

In the 1st six months of 2023, depreciations amounted to 69 million euros, in line with the amount posted in the same period of the previous year.

In this performance it is important to mention the favourable evolution of the activity in Portugal, where depreciations reduced by 7.4%, from 40 million euros at the end of the 1st half of 2022 to 37 million euros at the end of the 1st half of 2023, with this impact being almost entirely offset by the increase of 7.0% in the international activity, from 30 million euros, to 32 million euros in the same period.

The performance of the international activity was determined by the evolution of the subsidiary in Mozambique, since in the Polish subsidiary the increase in depreciations in the period under analysis was not relevant.

RESULTS ON MODIFICATION

Results on modification totalled a negative amount of 12 million euros in the 1st half of 2023 which compares with an also negative amount of 2 million euros recorded in the same period of the previous year. In both periods, the amounts are associated with contractual modifications, namely those negotiated with customers with foreign exchange mortgage loans in the Polish subsidiary.

In fact, in the fourth quarter of 2022, the Bank reclassified the amount associated with potential costs arising from the moratorium program (credit holidays[9]) in Poland, enacted in July of that year, which had been accounted for in other impairments and provisions, starting to recognise these costs as results on modification. Since then this heading also started to include contractual modifications, namely those negotiated with customers with foreign exchange mortgage loans, in accordance with IFRS9. Despite being insignificant within the scope of this analysis, the amounts referring to 1st half of 2022, which had been recognised in other net operating income, were reclassified, thus diverging from the published accounting values.

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).

The reconciliation of the impairment of financial assets at amortised cost presented in the consolidated profit and loss account with the impairment of loans to customers considered for the purposes of this analysis is presented as follows:

Loans impairment (P&L)

Million euros

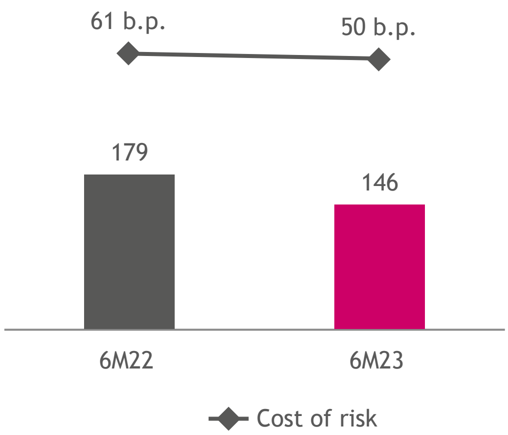
	6M23	6M22
Impairment of financial assets at amortised cost (accounting P&L) (1)	146	183
Impairment of Loans and advances to credit institutions (at amortised cost) (2)	(1)	0
Impairment of financial assets at amortised cost not associated with credit operations (3)	1	4
Loans impairment considering management criteria (4)=(1)-(2)-(3)	146	179

[9] Following the signing by the President of the Republic of Poland of the Act of 7 July 2022 on crowdfunding for business ventures and assistance to borrowers, introducing, among others, a possibility of up to 8 months of credit holidays in 2022-2023 for borrowers of mortgages denominated in Zlotys.

In the 1st half of 2023, loans impairment charges (net of recoveries) stood 18.9% below the 179 million euros accounted in the same period of the previous year, standing at 146 million euros. This evolution reflects the favourable performance of the activity in Portugal, since in the international activity loans impairment remained stable compared to the amount calculated a year earlier.

LOANS IMPAIRMENT (NET)

Million euros



In the activity in Portugal, loans impairment charges (net of recoveries) amounted to 106 million euros in the 1st six months of 2023, showing a 24.0% reduction from the 139 million euros recognised in the same period of the previous year, reflecting an improvement in the risk profile of the credit portfolio, also benefiting from the cure of relevant (ex-)NPE exposures.

In the international activity, impairment charges (net of recoveries) totalled 40 million euros in the 1st half of 2023, in line with the amount recognised in the same period of 2022. It should be noted, however, that this evolution results from the fact that the higher level of provisioning required by the Polish subsidiary was more than offset by the evolution of the subsidiary in Mozambique which, in the 1st half of 2023, benefited from the reversal of impairments recognised in prior periods.

The evolution of impairment charges (net of recoveries), in consolidated terms, allowed the cost of risk of the Group, net of recoveries, to record a significant improvement from the 61 basis points in the 1st half of 2022, standing at 50 basis points in the 1st half of the current year. The performance of the activity in Portugal was decisive for this evolution, with the cost of risk (net of recoveries) falling from 69 basis points to 53 basis points in the same period. In the international activity, the cost of risk net of recoveries stood at 44 basis points in the 1st half of 2023, remaining in line with the 1st half of 2022.

LOANS IMPAIRMENT (NET OF RECOVERIES)

Million euros

	6M23	6M22	Chg. 23/22
Loan impairment charges (net of reversions)	157	189	(17.2)%
Credit recoveries	11	10	14.5%
	146	179	(18.9)%
Of which:			
Activity in Portugal	106	139	(24.0)%
International activity	40	40	(0.9)%
COST OF RISK OF THE GROUP			
Impairment charges (net of recoveries) as a % of total loans	50 b.p.	61 b.p.	(11) b.p.

OTHER IMPAIRMENT 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 totalled 403 million euros in the 1st six months of 2023, standing 8.3% above the 372 million euros recorded in the same period of 2022. This evolution main reflects, on the one hand the additional provision booked by the Polish subsidiary, to face the legal risk of foreign exchange mortgage loans (350 million euros in the 1st half of 2023 vs 219 million euros in the same period of the previous year) and, on the other, the recognition in June 2022, of impairments of the goodwill of the Polish subsidiary, in the amount of 102 million euros.

The additional provision to face the legal risk associated with foreign exchange mortgage loans reflects the expected impact of the unfavourable decision of the Court of Justice of the European Union (CJEU) in relation to such credits, as detailed in note 56. Provisions for legal risk related to foreign currency-indexed mortgage loans in Bank Millennium (Poland).

On the other hand, in June 2022, notwithstanding the good operating performance of Bank Millennium S.A. and the expected effect that the increase in reference interest rates has on the prospective evolution of net interest income, given the sensitivity of the estimated value to the main assumptions considered and the uncertainty associated with the material impacts on the Business Plan and projections arising from potential legislative measures, the Bank considered the total impairment of the current goodwill associated with the acquisition by the BCP Group of the current percentage of control over Bank Millennium S.A.

In the activity in Portugal, other impairments and provisions amounted to 49 million euros in the 1st half of 2023, showing a 4.4% decrease from the 51 million euros recognised in the same period of the previous year. This evolution reflects the significant reduction of impairment to non-current assets held for sale, namely the foreclosed assets portfolio, although its impact has been largely offset by the increase in other assets impairment and in provisions for other risks, guarantees and other commitments and legal and fiscal contingencies.

In the international activity, other impairment and provisions amounted to 354 million euros in the 1st half of 2023, 10.4% above the 321 million euros posted in the same period of the previous year.

This evolution reflects, on the one hand, the estimated impact of the unfavourable decision of the Court of Justice of the European Union, regarding mortgage loans in foreign currency in the Polish subsidiary and the inclusion of more conservative assumptions in the provision calculation methodology, in order to anticipate potential negative trends associated to this portfolio and on the other hand the recognition, in June 2022, of the impairment to the total goodwill associated with the Group's participation in Bank Millennium, that as previously mentioned influenced the evolution in this period.

Additionally, the impact of extraordinary provisions booked to face the legal risk associated with mortgage loans in foreign currency was mitigated by the recognition of income, reflected under the heading of other net operating income, corresponding to the amount receivable from a third party, following the indemnity clauses and contractual guarantees provided for in the acquisition contract of Euro Bank S.A. (18 million euros in the 1st six months of 2023 and 21 million euros in the same period of 2022).

The evolution of other impairments and provisions in the international activity was also influenced, albeit in an non-material way, by the increase in impairments associated to the subsidiary in Mozambique, which in the 1st half of 2022 had recognised a residual amount.

INCOME TAX

Income tax (current and deferred) amounted to 246 million euros in the 1st half of 2023, which compares to 156 million euros posted in the same period of the previous year.

The recognised taxes include, in the 1st six months of 2023, current tax of 126 million euros (45 million euros in the 1st half of 2022) and deferred tax of 120 million euros (111 million euros in the 1st half of 2022).

Expenses with the reduction of deferred tax assets in the 1st half of 2023 mainly result from the income of the period of the activity in Portugal and are influenced by mandatory contributions to the banking sector and provisions for legal risks not deductible for tax purposes.

Current tax expenses in the 1st semester of 2023 were strongly influenced by provisions for legal risks related to the portfolio of foreign currency mortgage loans and by mandatory contributions to the banking sector, both of them non-deductible for tax purposes at the level of the Polish subsidiary.

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 1st half of 2023, non-controlling interests totalled 53 million euros, compared to a negative amount of 13 million euros accounted in the same period of the previous year. This evolution was essentially due to the income for the year attributable to third parties arising from the activity of the Polish subsidiary, which grew by 67 million euros in the same period, following the better results of Bank Millennium in the 1st half of this year compared to the 1st half of 2022.

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 2023 AND 2022 AND 31 DECEMBER 2022

Million euros

	30 Jun. 23	31 Dec. 22 restated	30 Jun. 22 restated	Chg. 23/22
ASSETS				
Cash and deposits at central banks and loans and advances to credit institutions (1)	4,123	6,235	8,260	(50.1 %)
Financial assets measured at amortised cost				
Loans and advances to credit institutions	571	963	875	(34.8 %)
Loans and advances to customers	54,397	54,676	55,187	(1.4 %)
Debt instruments	16,247	13,036	12,102	34.3 %
Financial assets measured at fair value through profit or loss				
Financial assets held for trading	1,483	767	1,758	(15.7 %)
Financial assets not held for trading mandatorily at fair value through profit or loss	505	553	932	(45.8 %)
Financial assets designated at fair value through profit or loss	22	—	—	
Financial assets measured at fair value through other comprehensive income	7,453	7,462	8,645	(13.8 %)
Investments in associated companies	313	315	392	(20.2 %)
Non-current assets held for sale	155	499	631	(75.4 %)
Other tangible assets, goodwill and intangible assets	793	757	738	7.4 %
Current and deferred tax assets	2,862	2,957	2,859	0.1 %
Other (2)	2,027	1,657	3,642	(44.3 %)
TOTAL ASSETS	90,950	89,877	96,022	(5.3 %)
LIABILITIES				
Financial liabilities measured at amortised cost				
Resources from credit institutions	2,095	1,468	8,996	(76.7 %)
Resources from customers	73,680	75,430	73,190	0.7 %
Non subordinated debt securities issued	1,487	1,482	1,115	33.4 %
Subordinated debt	1,350	1,333	1,350	— %
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading	275	242	193	42.5 %
Financial liabilities measured at fair value through profit or loss	3,053	1,818	1,344	127.1 %
Other (3)	2,434	2,167	3,594	(32.3 %)
TOTAL LIABILITIES	84,373	83,940	89,782	(6.0 %)
EQUITY				
Share capital	3,000	3,000	4,725	(36.5 %)
Share premium	16	16	16	
Other equity instruments	400	400	400	
Reserves and retained earnings (4)	1,838	1,541	238	672.8 %
Net income for the period attributable to Bank's Shareholders	423	197	62	580.6 %
TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS	5,678	5,155	5,441	4.3 %
Non-controlling interests	899	782	798	12.7 %
TOTAL EQUITY	6,577	5,937	6,240	5.4 %
TOTAL LIABILITIES AND EQUITY	90,950	89,877	96,022	(5.3 %)

(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 amortised cost before impairment, the debt securities at amortised 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 amortised cost, the balance sheet impairment associated with debt securities at amortised cost associated with credit operations and the adjustments associated with loans to customers at fair value through profit and loss.

Loans to customers

Million euros

	30 Jun. 23	30 Jun. 22
Loans to customers at amortised cost (accounting Balance Sheet)	54,397	55,187
Debt instruments at amortised cost associated to credit operations	1,927	1,811
Balance sheet amount of loans to customers at fair value through profit or loss	12	40
Loans to customers (net) considering management criteria	**56,336**	**57,039**
Balance sheet impairment related to loans to customers at amortised cost	1,563	1,596
Balance sheet impairment associated with debt instruments at amortised cost related to credit operations	7	7
Fair value adjustments related to loans to customers at fair value through profit or loss	7	11
Loans to customers (gross) considering management criteria	**57,912**	**58,653**

Regarding deposits and other resources from customers, the Bank continued to use the approach previously used for the item “Resources from customers and other loans”, aggregating resources from customers at amortised cost and customer deposits at fair value through profit and loss. Balance sheet customer funds include, apart from deposits and other resources from customers, debt securities placed with customers either classified at amortised cost or designated at fair value through profit or loss.

Balance sheet customer funds

Million euros

	30 Jun. 23	30 Jun. 22
Financial liabilities at fair value through profit or loss (accounting Balance sheet) (1)	3,053	1,344
Debt securities at fair value through profit or loss and certificates (2)	1,378	1,344
Customer deposits at fair value through profit or loss considering management criteria (3)=(1)-(2)	**1,675**	—
Resources from customers at amortised cost (accounting Balance sheet) (4)	73,680	73,190
Deposits and other resources from customers considering management criteria (5)=(3)+(4)	**75,355**	**73,190**
Non subordinated debt securities issued at amortised cost (accounting Balance sheet) (6)	1,487	1,115
Debt securities at fair value through profit or loss and certificates (7)	1,378	1,344
Non subordinated debt securities placed with institutional customers (8)	1,487	1,103
Debt securities placed with customers considering management criteria (9)=(6)+(7)-(8)	**1,378**	**1,356**
Balance sheet customer funds considering management criteria (10)=(5)+(9)	**76,733**	**74,546**

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), financial assets at fair value through other comprehensive income.

Securities portfolio

Million euros

	30 Jun. 23	30 Jun. 22
Debt instruments at amortised cost (accounting Balance sheet) (1)	16,247	12,102
Debt instruments at amortised cost associated to credit operations net of impairment (2)	1,927	1,811
Debt instruments at amortised cost considering management criteria (3)=(1)-(2)	**14,320**	**10,291**
Financial assets not held for trading mandatorily at fair value through profit or loss (accounting Balance sheet) (4)	505	932
Balance sheet amount of loans to customers at fair value through profit or loss (5)	12	40
Financial assets not held for trading mandatorily at fair value through profit or loss considering management criteria (6)=(4)-(5)	**493**	**892**
Financial assets held for trading at fair value through profit or loss (accounting Balance sheet) (7)	**1,483**	**1,758**
of which: trading derivatives (8)	**408**	**453**
Financial assets designated at fair value through profit or loss (accounting Balance sheet) (9)	**22**	**0**
Financial assets at fair value through other comprehensive income (accounting Balance sheet) (10)	**7,453**	**8,645**
Securities portfolio considering management criteria (11)=(3)+(6)+(7)-(8)+(9)+(10)	**23,363**	**21,133**

TOTAL ASSETS

Total assets of the consolidated balance sheet of Millennium bcp amounted to 90,950 million euros as of 30 June 2023, showing a 5.3% decrease compared to the 96,022 million euros recorded on the same date of the previous year, due to the reduction of assets in the activity in Portugal, although the increase observed in the international activity partially offset that reduction.

The performance of the activity in Portugal resulted in a decrease of 10.4% in total assets, compared to the 69,643 million euros recorded on 30 June 2022, totalling 62,382 million euros on the same date of the current year. This evolution is explained, to a large extent, by the reductions in deposits at central banks (mainly associated with the early repayment of the financing that had been raised from the European Central Bank within the scope of targeted longer-term refinancing operations, known as “TLTRO”) and, to a lesser extent, by the decreases in other assets, in loans to customers portfolio (net of impairment), in hedging derivatives and in non-current assets held for sale. Conversely, deposits at credit institutions and loans and advances to credit institutions increased in this period.

In the international activity, total assets amounted to 28,568 million euros on 30 June 2023, showing an increase of 8.3% compared to the same date of the previous year (26,379 million euros recorded as of 30 June 2022). Regarding the evolution of the balance sheet items, there were increases in the securities portfolio, in deposits at central banks and in other assets, which were partially offset by the reductions in loans and advances to credit institutions and deposits at credit institutions.

TOTAL LIABILITIES

Total liabilities on the consolidated balance sheet of Millennium bcp stood at 84,373 million euros on 30 June 2023, 6.0% below the 89,782 million euros recorded on the same date of the previous year, with this evolution being explained, for the most part, by the decrease in resources from central banks (mainly due to the early repayment of the funding within the scope of targeted longer-term refinancing operations) and, to a lesser extent, by the reduction in hedging derivatives. Conversely, there was an increase in deposits and other resources from customers compared to the levels observed in the same date of the previous year.

EQUITY

Equity, including non-controlling interests, amounted to 6,577 million euros as at 30 June 2023, which compares to 6,240 million euros at the end of June of the previous year. Excluding non-controlling interests, the equity attributable to the bank's shareholders stood at 5,678 million euros as of 30 June 2023, above the 5,441 million euros recorded in the same date of the last year, with the positive effect of the integration of net income being partially offset by the negative evolution of the fair value reserve, mainly due to the impact generated by cash flow hedging instruments.

Still with regard to equity, following the resolution of the General Shareholders' Meeting on 20 December 2022, a reformulation of equity was approved, comprising the reinforcement of funds susceptible of regulatory qualification as distributable, by reducing the share capital in the amount of 1,725 million euros, from 4,725 million euros to 3,000 million euros, with no change in the value of equity.

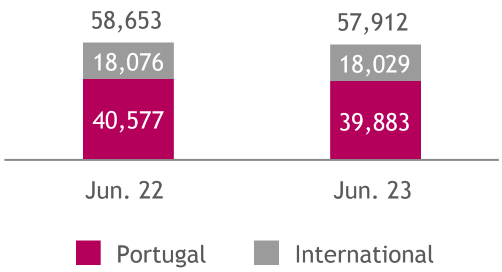
Additional information and details on the evolution of equity are described in the Interim Condensed Consolidated Statements of Changes in Equity for the periods of six months ended 30 June 2023 and 2022 in Consolidated accounts for the 1st half of 2023.

LOANS TO CUSTOMERS

Consolidated loan portfolio (gross) of Millennium bcp, as defined in the glossary, amounted to 57,912 million euros on 30 June 2023, 1.3% below the 58,653 million euros recorded at the end of June of the previous year, due to the reduction verified in the activity in Portugal.

LOANS AND ADVANCES TO CUSTOMERS (*)

Million euros



* Before impairment and fair value adjustments.

In the activity in Portugal, customer loans (gross loans) stood at 39,883 million euros as of 30 June 2023, 1.7% below the 40,577 million euros recorded at the end of the 1st half of 2022. The portfolio of credit granted to companies recorded a reduction of 796 million euros compared to the end of the 1st half of 2022, mainly due to the environment of lower demand for credit due to higher interest rates, postponements and delays in investment projects and, also, reduction of NPE stock in this segment. Conversely, loans to individuals showed a positive evolution compared to the same date of the previous year, both in mortgage and in personal loans (63 million euros and 38 million euros more, respectively).

In the international activity, loans to customers (gross loans) stood at 18,029 million euros on 30 June 2023, 0.3% below the 18,076 million euros recorded at the end of the 1st half of 2022. Loans to individuals showed a slight increase of 41 million euros compared to the same date of the previous year. This evolution was driven by the increase in personal loans registered in the Polish and Mozambican subsidiaries, which was partially offset by the reduction in mortgage loans verified in both subsidiaries, with more pronounced movements in the Polish subsidiary. Loans to companies registered a reduction of 87 million euros compared to the same date of the last year, due to the contraction of credit registered in the Polish subsidiary, within the scope of risk weighted assets and capital ratios optimisation, partially offset by the increase in loans to companies at the subsidiary in Mozambique.

Still with regard to the international activity, the mortgage loan portfolio in foreign currency, registered in the Polish subsidiary, mostly denominated in Swiss francs, continued to show a downward trend, falling from 1,812 million euros on 30 June 2022 to 1,052 million euros as of 30 June 2023, representing 10.4% and 6.1% of the total amount of credit recorded on the balance sheet of Bank Millennium and 3.1% and 1.8% of the total consolidated loan portfolio, at the end of the 1st half of 2022 and 2023, respectively. Excluding the portion relating to Euro Bank SA (the risk of which is fully covered by a third party, within the scope of the clauses set out in the acquisition contract of that entity) from that portfolio, the amount of the mortgage loan portfolio in foreign currency decreased from 1,666 million euros at the end of the 1st half of 2022 to 948 million euros at the end of the 1st half of 2023, representing 9.6% and 5.5% of the total amount of credit recorded on the balance sheet of Bank Millennium and 2.8% and 1.6% of the total consolidated loan portfolio on the aforesaid dates, respectively.

LOANS AND ADVANCES TO CUSTOMERS GROSS

Million euros

	30 Jun. 23	30 Jun. 22	Chg. 23/22
INDIVIDUALS	**34,355**	**34,213**	**0.4 %**
Mortgage loans	27,974	28,284	(1.1)%
Personal loans	6,380	5,929	7.6 %
COMPANIES	**23,557**	**24,441**	**(3.6)%**
Services	8,404	8,462	(0.7)%
Commerce	4,008	4,230	(5.3)%
Construction	1,549	1,632	(5.1)%
Others	9,596	10,116	(5.1)%
	57,912	**58,653**	**(1.3)%**
Of which:			
Activity in Portugal	39,883	40,577	(1.7)%
International activity	18,029	18,076	(0.3)%

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 reduce non-performing loans over the recent years.

Since the outbreak of the Russia/Ukraine conflict, the Bank has been monitoring the potential impacts in the performance of the credit portfolio. This evaluation was carried out, particularly, in Portugal and Poland, the latter being a geography potentially more exposed to the impacts of this event, considering it is a neighbouring country of Ukraine. Taking into consideration that it is not possible to foresee how the conflict will evolve, it is difficult to determine the full extent of the economic consequences in the Bank's business and near/mid-term prospects, namely regarding the effects of the impacts on the energy sector, in the distribution chains of several products and commodities, in inflationary pressures and in the level of interest rates. Nevertheless, specific portfolios were identified as being potentially more vulnerable and for which more closely monitoring procedures were put in place.

Despite the complex economic context, credit quality continues to record a generally favourable evolution. Within the scope of the NPE reduction strategy, there was, in consolidated terms, a decrease of 361 million euros compared to the end of the 1st half of 2022, standing the total amount of NPE at 2,142 million euros as of 30 June from 2023. In the activity in Portugal, the stock of NPE totalled 1,262 million euros at the end of the 1st half of 2023, with a reduction of 373 million euros recorded in the mentioned period.

The NPE ratio[10] , in consolidated terms, decreased from 4.3% at the end of the 1st half of 2022 to 3.7% on 30 June 2023. In the activity in Portugal, NPE ratio stood at 3.2% at the end of the 1st half of 2023, which compares with 4.0% recorded in the same date of the previous year.

Regarding coverage ratios by impairments, NPL coverage for more than 90 days, in consolidated terms, increased from 178.5% on 30 June 2022 to 198.9% on 30 June 2023. Additionally, NPE coverage by impairment, in consolidated terms, increased from 64.5% as of 30 June 2022 to 73.6% at the end of the 1st half of 2023 and, in the activity in Portugal, stood at 75.1% on 30 June 2023, reaching a level above the 63.6% registered on 30 June 2022.

The coverage of the mortgage loan portfolio in foreign currency in the Polish subsidiary was substantially reinforced from 36.3% on 30 June 2022 to 64.7% on 30 June 2023.

[10] NPE Ratio is measured by the percentage between non performing exposures and the total loan portfolio.

CREDIT QUALITY INDICATORS

	Group			Activity in Portugal		
	30 Jun. 23	30 Jun. 22	Chg. 23/22	30 Jun. 23	30 Jun. 22	Chg. 23/22
STOCK (M€)						
Loans to customers (gross)	57,912	58,653	(1.3)%	39,883	40,577	(1.7)%
Overdue loans > 90 days	545	618	(11.9)%	214	287	(25.2)%
Overdue loans	651	753	(13.5)%	231	307	(24.8)%
Restructured loans	1,881	2,109	(10.8)%	1,314	1,616	(18.7)%
NPL > 90 days	792	904	(12.4)%	382	491	(22.2)%
NPE	2,142	2,502	(14.4)%	1,262	1,635	(22.8)%
Loans impairment (Balance sheet)	1,576	1,615	(2.4)%	947	1,040	(8.9)%
NPE impairment (Balance sheet)	1,053	1,185	(11.1)%	603	738	(18.2)%
RATIOS AS A PERCENTAGE OF LOANS TO CUSTOMERS						
Overdue loans > 90 days / Loans to customers (gross)	0.9%	1.1%		0.5%	0.7%	
Overdue loans / Loans to customers (gross)	1.1%	1.3%		0.6%	0.8%	
Restructured loans / Loans to customers (gross)	3.2%	3.6%		3.3%	4.0%	
NPL > 90 days / Loans to customers (gross)	1.4%	1.5%		1.0%	1.2%	
NPE / Loans to customers (gross)	3.7%	4.3%		3.2%	4.0%	
NPE ratio - EBA (includes debt securities and off-balance exposures)	2.5%	2.8%		2.3%	2.7%	
COVERAGE BY IMPAIRMENTS						
Coverage of overdue loans > 90 days	289.3%	261.1%		441.9%	362.8%	
Coverage of overdue loans	242.2%	214.5%		409.9%	338.5%	
Coverage of NPL > 90 days	198.9%	178.5%		247.7%	211.8%	
Coverage of NPE	73.6%	64.5%		75.1%	63.6%	
Specific coverage of NPE	49.2%	47.3%		47.8%	45.1%	

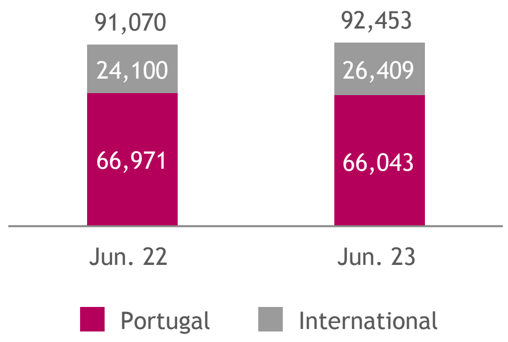
Note: NPE include loans to customers only, as defined in the glossary.

CUSTOMER FUNDS

Total customer funds showed a favourable evolution, with a growth of 1.5% compared to the 91,070 million euros calculated on 30 June 2022, standing at 92,453 million euros at the end of the 1st half of the current year, benefiting from the increase recorded in the international activity, despite the reduction seen in the activity in Portugal. In this period, there was an expansion of balance sheet customer funds, against a decrease in off-balance sheet customer funds.

TOTAL CUSTOMER FUNDS

Million euros



TOTAL CUSTOMER FUNDS

Million euros

	30 Jun. 23	30 Jun. 22	Chg. 23/22
BALANCE SHEET CUSTOMER FUNDS	**76,733**	**74,546**	**2.9%**
Deposits and other resources from customers	75,355	73,190	3.0%
Debt securities	1,378	1,356	1.6%
OFF-BALANCE SHEET CUSTOMER FUNDS	**15,720**	**16,524**	**(4.9)%**
Assets under management	5,366	5,173	3.7%
Assets placed with customers	5,415	5,458	(0.8)%
Insurance products (savings and investment)	4,939	5,893	(16.2)%
	92,453	**91,070**	**1.5%**
Of which:			
Activity in Portugal	66,043	66,971	(1.4)%
International activity	26,409	24,100	9.6%

Balance sheet resources increased from 74,546 million euros on 30 June 2022 to 76,733 million euros on 30 June 2023, mainly due to the expansion of deposits and other resources from customers, which in consolidated terms increased by 2,165 million euros compared to the same date of the previous year due to the performance observed in the international activity, since in the activity in Portugal they remained almost stable compared to the same date of the previous year.

Off-balance sheet customer funds showed a negative evolution compared to the previous year, showing a decrease of 804 million euros, standing at 15,720 million euros at the end of the 1st half of 2023, essentially due to the reduction recorded in the activity in Portugal, partly offset by the increase verified in international activity.

In the activity in Portugal, total customer funds amounted to 66,043 million euros as at 30 June 2023, showing a reduction of 1.4% compared to 66,971 million euros recorded at the end of June of the previous year. This evolution is explained by the decrease of 991 million euros in off-balance sheet customers funds (decrease observed in all segments, with the reduction registered in insurance products being the most significant), partially offset by the increases in deposits and other resources from customers and in debt securities (42 million euros and 22 million euros, respectively).

In the international activity, total customer funds stood at 26,409 million euros on 30 June 2023, showing an increase of 9.6% compared to 24,100 million euros recorded on the same date of 2022, mainly reflecting the positive contribution of the Polish subsidiary, partially offset by the decrease recorded in the subsidiary in Mozambique.

Balance sheet customer funds in the international activity stood at 24,778 million euros as at 30 June 2023, 9.4% above the 22,655 million euros recorded at the end of June of the previous year, with this evolution being explained by the increase in deposits and other resources from customers in the Polish subsidiary. Conversely, the subsidiary in Mozambique recorded a decrease in deposits and other resources from customers.

Off-balance sheet customer funds in the international activity registered an increase (more 187 million euros compared to 30 June 2022), standing at 1,632 million euros at the end of the 1st half of 2023. In terms of segments, there was an increase in assets under management and assets placed with customers and a decrease in insurance products (savings and investment).

As at 30 June 2023, on-balance sheet customer funds and deposits and others customer funds, in consolidated terms, represented 83.0% and 81.5% of total customer funds (81.9% and 80.4% respectively at 30 June 2022).

The loans to deposits ratio, in accordance with the Bank of Portugal’s Instruction no. 16/2004, stood at 74.8% on 30 June 2023, with the same ratio, considering on-balance sheet customers funds, standing at 73.4%. Both ratios show values below those obtained at the same date of the previous year, 77.9% and 76.5%, respectively.

SECURITIES PORTFOLIO

The securities portfolio 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.

The securities portfolio, as defined above, amounted to 23,363 million euros on 30 June 2023, showing an increase of 2,230 million euros in relation to the 21,133 million euros recorded on the same date of the previous year, representing 25.7% of total assets at the end of the 1st half of 2023 (22.0% at the end of the 1st half of 2022).

The portfolio allocated to the activity in Portugal went from 15,877 million euros on 30 June 2022 to 16,028 million euros at the end of the 1st half of 2023, with this increase being driven by public debt in the euro zone, namely French and Spanish public debt, despite a lower level of investment in Portuguese public debt.

The securities portfolio related with the international activity increased from 5,256 million euros at the end of the 1st half of 2022 to 7,335 million euros on 30 June 2023. Regarding the investment in public debt, there was an increase compared to the levels recorded in the previous year, due to the additions of Mozambican public debt and that of other countries, despite the lower investment in the Polish public debt.

SECURITIES PORTFOLIO

Million euros

	30 Jun. 23	30 Jun. 22	Chg. 23/22
Financial assets measured at amortised cost (1)	14,320	10,291	39.2%
Financial assets measured at fair value through profit or loss (2)	1,590	2,198	(27.7)%
Financial assets measured at fair value through other comprehensive income	7,453	8,645	(13.8)%
	23,363	**21,133**	**10.6%**
of which:			
Activity in Portugal	16,028	15,877	0.9%
International activity	7,335	5,256	39.6%

(1) Corresponds to debt instruments not associated to credit operations
(2) Excluding 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 and Corporate	Companies and Corporate Network of Millennium bcp (Portugal) Specialised Recovery Division Large Corporate Network of Millennium bcp (Portugal) Specialised Monitoring Division Trade Finance Department
Private Banking	Private Banking Network of Millennium bcp (Portugal) Millennium bcp Bank & Trust (Cayman Islands) (*)
Foreign Business	Bank Millennium (Poland) BIM - Banco Internacional de Moçambique Banco Millennium Atlântico (**) Millennium bcp Bank & Trust (Cayman Islands) (*)
Other	Comprises the activity carried out by Banco Comercial Português, S.A. not included in the commercial business in Portugal which corresponds to the segments identified above, including the activity carried out by Macao branch. Also includes all other business and unallocated values in particular centralized management of financial investments, corporate activities and insurance activity.

(*) For the purposes of business segments, Millennium bcp Bank & Trust (Cayman Islands) is included in the Private Banking segment. In terms of geographic segments, this operation is considered Foreign Business. It should be noted, however, the liquidation of this operation during the year 2022.

(**) 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 in Portugal was 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.

The information presented below for the individually more relevant business areas in Portugal and aggregately for the international activity 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 2023.

RETAIL

Mass Market

During the 1st half of 2023, the Mass Market segment focused its commercial activity on developing First Bank relationships with the Customer base, through various targeted marketing actions, increasing cross-selling, as well as the number of Customers with a domiciled salary.

Taking into account the current economic context of rising inflation, a new campaign was launched which allowed Customers (current and new) who paid their salary to benefit from a refund of 15% of the value of direct debits associated with household expenses (gas, electricity, water and telecommunications).

In attracting digital Customers, focus was given to opening an account on the Millennium App with Digital Mobile Key, through a campaign offering an Integrated Solution free of charge for the Customer for 12 months, as well as a non-financial offer.

In the youth segment, emphasis should be placed on positioning in the University Segment, with the promotion of the “Unni” Value Proposition, which includes a GO! University, non-financial offer aimed at the Segment, preferential conditions on personal training credit, discounts on specialization courses at partner Universities and insurance with coverage for protection needs during exchange programs (Erasmus).

At the same time, and with the aim of increasing cross-networking, targeted actions were taken to publicize and promote the exclusive offer for Employees of corporate Customers with a protocol agreement with the Bank - Plano Mais Emprego.

The strategy of increasing the digital involvement of Customers was also reinforced, through actions to collect/update information, adherence to the digital statement and activation/use of digital channels, with emphasis on the Millennium App. As a result of this action, the Bank managed to reach the historical milestone of 86% of active current accounts with a statement in digital format and 62% of M Customers using the App.

Prestige

In the 1st half of 2023, the Prestige Segment continued its path of growth in the Customer base, leveraging targeted actions to capture, loyalty and upgrades. Of note is the increase in the average involvement of Customers in the segment with the Bank, with positive developments in the penetration rates of Integrated Solutions, Payroll Payroll, Credit and Credit Cards, as well as the relative weight in the production of Mortgage Loans compared to the period homologous, showing a greater relationship as the first bank.

In the Investment component, the Bank also consolidated the success of the "Personalized Investment Service" which won the 5 Star award in 2022 in the category of "Financial Planning Simulator", as well as reinforced the Term Deposit offer, adapting it to different investment objectives.

The continuous improvement of the experience of Prestige Customers continued to be a priority, with emphasis on position #1 in satisfaction with the Account Manager among the 5 main Banks (measured by Marktest), the functionality of "service password in the App" with priority service to Prestige Customers and the features in the Millennium App that facilitate interaction with the Manager. The percentage of Prestige Customers active on the App continued to evolve positively in the Semester.

In Remote Customer Management, several initiatives were implemented to optimize the “Direct Prestige” service model, a service aimed at Digital Prestige Customers, which allows dedicated remote management over extended hours with an attractive and very competitive value proposition.

Portuguese Diaspora & Foreigners

In the 1st half of 2023, the strategy of the Portuguese & Foreigners Diaspora Segment focused on strengthening proximity to these Customers, in which the use of digital channels – Website and Millennium App – plays a central role.

Given the particularities of the Segment, efforts were made to develop the relationship with these Customers by promoting a differentiated offer, which seeks to satisfy the specific needs of those who live or have dealings with the Bank abroad.

The main initiatives that marked the 1st half of the year in this Customer Segment thus relate to the following campaigns and actions:

- Re-launch of the campaign “No Salto a Portugal, take the Leap to Digital”, with the aim of being always present in the daily lives of our Customers, boosting the use of Digital Channels, as well as adherence to the digital statement;
- Easter campaign “Solução Integrada Mais Portugal”, with the objective of promoting a solution designed specifically for Customers

residing abroad and which gives them access to a set of banking products and services with more advantageous conditions;

- Retirement Domiciliation Campaign aimed at Customers residing in Switzerland, capitalizing on the technological solution we provide to facilitate the transfer relationship;
- Millennium bcp continues to assert itself as the Bank of the Portuguese abroad, through its customized solutions, the constant development of Digital Channels that allow a daily and close relationship with Customers who are geographically distant, as well as the physical presence through Local network of Representative Offices.

Business

Throughout the 1st half of 2023, Millennium bcp maintained strong commercial dynamics, facing a challenging context of rising interest rates, prolonging the conflict in Ukraine and surplus liquidity. These factors required an additional commercial effort to maintain the loan portfolio.

With interest rates continuing to rise in the 1st half of the year, there was an increase in the importance of resources, due to their contribution to banking income. In this sense, there was an increase in the portfolio of total funds for business clients.

Attracting new customers continued to be one of the main components of the value chain, and the focus on acquiring new customers ensured another semester of expansion in the customer base.

Products

Loans to individuals

In the 1st half of 2023, the Bank continued to support its Customers' investment decisions through a wide range of credit solutions adjusted to different objectives. In order to improve the Customer's experience and convenience in their credit application journey, new functionalities were developed in the digital channels, especially in mortgage loans, the Customer's ability to accept the conditions of their loan (letter of approval) and also the possibility of carrying out deeds in a 100% remote format (Millennium bcp was the first Bank in Portugal to carry out the first deed of mortgage loans remotely).

In mortgage loans, the Bank maintains a very competitive range of products, seeking to promote a value offer, oriented to the “core” Customer segments and adjusted to the Customer's needs, namely expanding the mixed rate solutions available. Of particular note is the increased weight of mixed or fixed rate solutions in the Bank's total output.

Recognizing a pressing need for energy conversion, the currently available offers continued to be promoted, whether for Personal Loans, Car Loans or Mortgage Loans within the scope of these objectives of our Customers.

Within the context experienced in the first half of the year, in which there was an abrupt rise in Euribor rates and inflation, Millennium bcp sought to improve and streamline the prevention process in order to support the Customers most affected by the increase in mortgage loans instalments or the rate of inflation. Still in this context, and taking into account the published legislative initiatives, two new digital end-to-end journeys were developed in order to allow the Customer to request a restructuring solution or access to the approved extraordinary bonus.

Investment solutions

In the 1st half of 2023, in the investment component, the Bank sought to adjust its offer of investment products to the new context of interest rates, which justified a very dynamic performance in the range of products (on-balance sheet and off-balance sheet), seeking have the best offer for the different Customer Segments at all times. Emphasis on the launch of nine structured deposits, a sectoral bond fund, a new OT-indexed certificate product, and the launch of new time deposit solutions for different purposes, rewarding the relationship with the first Bank.

At the same time, and with a view to maximizing the savings of Millennium bcp Customers, a wide range of investment alternatives continued to be made available, in order to adjust investment strategies to different risk profiles.

The focus on digital continues to be clear with the launch of an automated investment service based on 3 investment strategies (Structure, Balance and Ambition) whose marketing is carried out exclusively on the App and also the provision of a service to help with savings using to the definition of objectives called Conta Apparte.

Integrated Solutions

In the 1st half of 2023, the strategy of valuing the offer associated with having an integrated solution was reinforced. The “Frequent Customer” and “Prestige Program” integrated solutions were reinforced with a new savings product with exclusive remuneration for the holders of these solutions.

As part of the Customer service strategy and the integration of journeys, the highlight is the process of opening a digital account via the App, in which it is possible to join the integrated solution most adapted to each Customer right away.

Throughout the first six months of the year, Millennium bcp continued to position itself as the Bank of Families, reinforcing the benefits extended to the family members of Customers with integrated solutions, with special emphasis on the benefits in a broad range of insurance.

Green products

Millennium bcp has been reinforcing its offer of products with Sustainability criteria, in particular green home loan solutions, green property development loans, but also credit and leasing aimed at electric mobility and personal loans for energy efficiency.

ActivoBank

In 2023, ActivoBank maintains as its main mission the growth of the Customer base and the development of the Customers captured, focusing on simple products that work to increase their loyalty.

In the 1st half of 2023, the bank attracted 34 thousand new Customers, which made it possible to reach a base of 486 thousand Customers.

The Customers captured are concentrated in the 25 to 44 age group and with a high level of education.

Campaigns focused on the brand's core values of simplification and digitization contributed to these results.

In terms of customer acquisition, account opening was launched using the Digital Mobile Key, which made it possible to reduce the time spent by Customers in this process and increase the concentration of accounts opened on digital channels as opposed to the physical channel, Pontos Activo.

In terms of notoriety, the semester was marked by the Activo Generation campaign where, with the motto “Who doesn't want a Bank, wants ActivoBank”, generation z was addressed as future ActivoBank Customers, addressing some of the main values and concerns of this generation.

In the 1st half of 2023, the growing focus was maintained on digital marketing actions that were present in most of the offer, with an average of 13 campaigns per month, and consistently supported the business capture regime.

Within the scope of savings and investment products, the strategy was focused on the term deposits portfolio and on strengthening the offer aimed at the Customers most loyal to ActivoBank.

In terms of investments, a new product was also launched, EasyInvest, a unit-linked insurance product where, given the profile and intended strategy, the Customer can invest automatically in the ActivoBank app.

Financial literacy actions were also reinforced with the launch of videos in Instagram reels format, for new investor Customer and new formats of the About Investments conferences, which made it possible to amplify the reach of these means of transmitting more information and training in these areas.

With regard to credit, new products were launched with new purposes, such as Crédito Saúde and Crédito Auto Motas, while at the same time reinforcing the product's digital marketing and CRM actions.

Until June 2023, the Personal Credit portfolio amounted to 178 million euros, representing a growth of 26% compared to the same period of the previous year. Personal Loans production grew by around 21% compared to the same period of 2022 as a result of greater commercial dynamics and marketing actions contextualized with the time of year.

The Mortgage Credit portfolio reached 687 million euros, an increase of 12% compared to the same period of the previous year.

Also during the 1st half of 2023, ActivoBank continued its positioning in the area of Sustainability.

Within the scope of the protection of the Oceans, through the production of the report on the observation and reforestation of the Base Ferry prairie, the previously defined objectives related to the identification and creation of scientific knowledge on the degree of conservation of the prairie were confirmed.

In the fight against cyberbullying, volunteer actions in schools in partnership with Be kind to raise awareness among younger segments stand out.

Additionally, a partnership was launched with Daniel Rodrigues, a Portuguese photographer, who crosses 11 African countries, for six months, on an electric bicycle, in a project that raises awareness of climate action.

The net result of ActivoBank in the 1st half of 2023 stood at 17.3 million euros, which represents an increase of 133.4% in relation to the net result achieved in the 1st half of 2022.

Microcredit

Millennium bcp maintained its support for economic agents that opted for Microcredit projects. However, its performance followed the established norm: during periods of economic growth, the demand for Microcredit registers a decrease, which was observed in the 1st half of 2023.

Million euros

RETAIL BANKING in Portugal	Jun 30, 2023	Jun 30, 2022	Chg. % 23/22
PROFIT AND LOSS ACCOUNT			
Net interest income	411	294	39.5%
Other net income	226	220	3.1%
	637	514	23.9%
Operating costs	175	162	8.2%
Impairment and provision	15	13	18.9%
Income before tax	447	339	31.6%
Income taxes	140	106	31.6%
Income after tax	307	233	31.6%
SUMMARY OF INDICATORS			
Allocated capital	803	602	33.3%
Return on allocated capital	77.0%	78.0%	
Risk weighted assets	6,549	6,392	2.5%
Cost to income ratio	27.5%	31.5%	
Loans to Customers (net of impairment charges)	26,177	25,925	1.0%
Balance sheet Customer funds	38,943	37,162	4.8%

Notes:

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

Income

As at 30 June 2023, income after tax from Retail Banking segment of Millennium bcp in Portugal totalled 307 million euros, showing a 31.6% increase compared to 233 million euros in the same period of 2022, reflecting higher net interest income. Regarding the evolution of the main income statement headings, the following aspects should be highlighted:

- Net interest income reached 411 million euros as at 30 June 2023, increasing 39.5% compared to the previous year (294 million euros), reflecting the effect of the normalization of interest rates, mainly benefiting the deposit portfolio, which was penalized in the previous context of near zero or negative interest rates.
- Other net income reached 226 million euros as at 30 June 2023, showing an increase of 3.1% compared to the amount attained in the previous year. This evolution mainly reflects the positive performance of commissions, mainly from cards, transfer fees and management and maintenance of accounts.
- Operating costs were 8.2% higher than the amounts recognized in the same period of 2022. Notwithstanding the disciplined management of costs and the commitment on improving efficiency, this evolution was strongly influenced by the inflation observed.
- Impairment charges amounted to 15 million euros at the end of June 2023, remaining at a low level relative to the loan portfolio size of this segment, in spite of the increase 18.9% compared to the amount of 13 million euros recorded in the same period of the previous year.
- In June 2023, loans to customers (net) totalled 26,177 million euros, 1.0% up from the position at the end of June 2022 (25,925 million euros), while balance sheet customer funds increased by 4.8% in the same period, amounting to 38,943 million euros by the end of June 2023 (37,162 million euros at the end of June of the previous year), mainly explained by the increase in customer deposits.

COMPANIES AND CORPORATE

BCP is a leading bank, with an annual market share of 17% in the placement of credit with mutual guarantee, in partnership with Banco Português de Fomento (BPF), confirming the Bank's role in supporting Portuguese Companies and Entrepreneurs. In the 1st semester, new lines of support were made available, with financial guarantee provided by BPF, with preferential conditions in the financing of Companies.

The Bank maintained leadership in placing European Investment Fund Guarantees, with the execution of the largest European FEI EGF contract, around 2,850 million euros.

In the Portugal 2020 Community framework, which is in the final stages of execution, Millennium bcp surpassed 6 thousand financed projects and led with a 45% share in the amount of investment applied for (taking as reference notices 12 and 13/SI/2021, according to the COMPETE report). The Bank continues to support all projects that are in the closing stage.

In the Recovery and Resilience Plan, the Bank has been playing a very important role in supporting the Entities that are responsible for executing the contracted Investments by the end of 2026, providing the expertise of its Teams and dedicated financial solutions.

The accumulated experience and the level of internal specialization leave Millennium bcp better prepared to support the economy and the Companies that are preparing and submitting applications under the new Community Framework, Portugal 2030. During the application phase, the Bank ensures the financial analysis and issues a statement of Intent for financing, allowing promoters to prove that the sources of financing are assured.

With European Funds as the central theme, in 2023, Millennium bcp continued its proximity initiatives with Portuguese Entrepreneurs, the Millennium Talks.

Millennium bcp maintains proximity to the primary sector, with a Team Specialized in Agriculture, dedicated financial solutions (of which the credit lines signed with the IFAP are an example) and a constant presence in the main national competitions in the sector, in which it gives up its space for visibility of Business Customers.

Leadership in Leasing, with 289 million euros of new production by June 2023 and 26% market share.[11]

In Furniture Leasing, Millennium bcp leads with a 49% market share, in Real Estate Leasing it has a 14% market share (according to statistical information from ALF, in November 2022). The Bank is currently undergoing the Leasing technological transformation process, with a view to optimizing the experience of Customers in all Business segments, with simplification and digitization of processes. The Leasing offer is now an integral part of the European Investment Fund guarantee lines made available by Millennium bcp, reinforcing the Bank's ability to meet the investment needs of SMEs.

Leadership in Factoring and Confirming, with 5 billion euros of invoicing taken in the 1st half of 2023 and 26% market share.[12]

In the Trade Finance business, Millennium bcp continued to reinforce its position as a Partner Bank of Exporting and Importing Companies:

- Maintenance of Leadership in Credit to Exporting Companies, with a 21% market share;
- +6% year-on-year growth in the Customer base with Trade Finance products, and +18% year-on-year growth in turnover, with emphasis on Export Documentary Credits, Export Remittances, Export Factoring, Foreign Exchange Confirming and Bank Guarantees;
- Global market share of 25.3% with a market share above 20% in almost all Trade Finance products, with emphasis on Documentary Credits and Documentary Remittances (based on SWIFT messages);
- Significant and sustained growth in sales of credit insurance in partnership with COSEC, with emphasis on the contracting of new policies in which the Bank exceeded 30% in the annual production quota.

In terms of sustainable business credit, Millennium bcp made available products within the scope of Green Mobility (Auto-Leasing, ALD, Renting), as well as Green Real Estate Promotion Credit and credit for investment projects.

Investment banking

The Bank participated in several projects in Portugal and in international markets.

In Corporate Finance, the Bank providing financial advisory to its Customers and to the Bank itself in various projects, involving researching, developing and completing M&A operations, valuation of companies, corporate restructuring and reorganization processes, as well as research and economic-financial analysis of projects. In the mergers and acquisitions segment, special mention should be made of providing exclusive

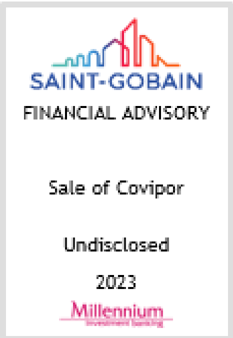
[11] Source: ALF (November 2022).
[12] Source: ALF (November 2022).

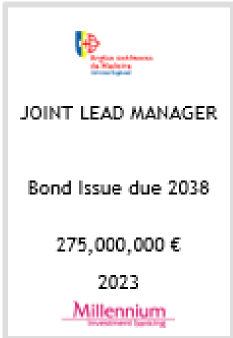
financial advice to the Saint-Gobain Group on the sale of 100% of Saint-Gobain's flat glass transformation operations in Portugal, operated by Covipor – Companhia Vidreira do Porto, Lda. The closing of this transaction is subject to authorization from the Portuguese Competition Authority and is expected to take place in the third quarter of 2023.

With regard to the Project Finance area, it has to highlighted the participation in the financing of the construction of a portfolio of small solar production units with 157 MW of installed capacity and the refinancing of two solar photovoltaic parks with a total installed capacity of 4.4 MW.

In the Structured Finance area, the Bank participated in the analysis, structuring, negotiation and setting up of new financing operations in Portugal, of which emphasis is given to financing the Electricity Company of Madeira and financing to the RNM group for the acquisition of two companies that allowed the expansion and diversification of its portfolio of products and services.

As regards Capital Markets activity, emphasis should be given to the joint leadership of the issue of “green” debt by EDP, in the amount of 750 million euros, and of an issue by the Autonomous Region of Madeira with the backing of the Republic, in the total amount of 275 million of euros. Several new Commercial Paper Programs were also contracted with a number of relevant national companies, among which a NOS Sustainability Linked Commercial Paper Program worth 75 million euros stands out.





Real estate business

Main lines of action during the 1st half of 2023:

Management of Properties available for sale - The Bank has been successfully developing its strategy of selling properties, managing to meet and even surpassing the objectives of reducing assets in the portfolio, despite the vintage of the properties and negative external factors, such as the rising construction costs, the lack of construction workers, rising inflation and interest rates, as well as the continuation of the war in Europe. These factors, with direct consequences on the sale of real estate assets, required the Bank's teams to constantly anticipate trends, as well as to adapt to new opportunities/needs, through the development of new commercial approaches, based on the experience and commercial relationship accumulated over the course of recent years, support of an essential trust for decision-making by Clients and other Market Agents. In this line, the Bank positions itself as a partner that offers investment solutions, behind the simple sale of a real estate asset. In terms of communication, a segmented approach to the market was maintained, adjusting messages and means of communication to the nature and characteristics of each product, having also made a constant presence in the market, either in person in forums, or through channels and digital supports.

Management of properties not available for sale – Consistent focus on a rigorous management of these assets, with the main objective of putting them up for sale in the shortest time and under the best negotiation conditions, promoting the due and necessary documentation, physical and legal regularization, with special concern to remove from the portfolio the properties with greater age and weight in the property portfolio.

Management of shareholdings controlled by the Bank in entities that manage real estate risk, funds and companies in a disinvestment strategy with preservation of value.

Interfundos

As at 30 June 2023, Interfundos had under management twenty-one (21) Alternative Real Estate Investment Organizations (Funds and Collective Investment Society), corresponding to 988 million euros of net assets under management, which compares with 1,126 million euros registered in the same period of 2022, showing a decrease of 12% in the volume of managed assets compared to the same period of the previous year.

Interfundos transferred the management of Multi24 - Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A. and liquidation of Fundo Imopromoção – Portuguese Real Estate Development Fund.

Following the resolution of the respective Participant, Interfundos proceeded to extend the duration of the Closed Real Estate Investment Fund – Imosotto Acumulação.

In the 1st half of 2023, global sales amounted to 83 million euros, corresponding to a total of 167 properties.

Interfundos' net income in the 1st half of 2023 amounted to 727 thousand euros, which corresponds to a decrease of 33% compared to the value calculated in the same period (1,084 thousand euros). This performance is mainly attributable to the unfavorable evolution of net commissions, resulting from the reduction of 139 million euros in assets under management and the increase in staff costs.

Net commissions recorded a 13% decrease, essentially explained by the reduction in assets under management arising, namely, from capital reduction operations in four Real Estate Investment Funds and the liquidation of two Real Estate Investment Funds in 2022 and 2023.Operating costs increased by 5%, due to the increase in staff costs partially offset by the reduction in Other Administrative Expenses and Depreciation. As a result of this situation, the efficiency ratio evolved from 46.2% to 53.6%.

Financial Institutions Group (FIG)

The 1st half of 2023 was characterized by the continued increase in interest rates and the consequent change in the income generation mix of this unit – specialized in monitoring financial entities – adding value to balance sheet Customers' funds. This market change was complemented by others of a regulatory nature, such as the publication of Decree-Law no. 27/2023, of April 28, which approves the Asset Management Regime (RGA), with potential impacts in custody activity, namely in the role of depositary bank for Venture Capital Funds.

The main lines of business include:

Trade finance and payments: Start of migration to the new ISO20022 payment standard which, along with other initiatives within the SWIFT network, aims to make international payments faster and more transparent. These new processes increase the efficiency and interoperability of the system, proceeding with the improvement of the central infrastructure to support correspondence relations, with direct benefits for economic agents.

In addition to the continuous improvement of infrastructure and support processes for international business, the Bank also pursued the development of new exchange rate solutions and the development of customized responses to the trade finance needs of Customers. Within this scope is also the dynamic management of correspondence relations with the deepening of partnerships with the main banks in the relevant markets for international trade or investment by Customers.

Custody: The Bank maintained its leading position in custody activity in Portugal, in a context of regulatory changes, with emphasis on the publication of the new Asset Management Regime. Emphasis on the provision of depositary bank services to venture capital fund management companies, where it continues to lead the market, with an increase in the number of funds and a new increase in total paid-in capital. This performance is the result of a value proposition based on a flexible service model, with follow-up and a customized offer along with competitive conditions.

Multilateral: Approval of the application for the InvestEU Program by the FEI, which allows the Bank to make available seven new lines of credit with a guarantee provided by the FEI and with preferential conditions. These lines - Competitividade das PME, Inovação & Digitalização, Sector Cultural e Criativo, Sustentabilidade, Setor Social, Educação e Formação e Microcrédito - are aimed mainly at SMEs and Small Mid Caps from different sectors.

Million euros

COMPANIES AND CORPORATE in Portugal	Jun 30, 2023	Jun 30, 2022	Chg. % 23/22
PROFIT AND LOSS ACCOUNT			
Net interest income	92	108	-14.4%
Other net income	81	106	-24.6%
	173	214	-19.5%
Operating costs	31	29	7.4%
Impairment and provision	88	124	-29.9%
Income before tax	54	61	-10.6%
Income taxes	17	19	-10.6%
Income after tax	37	42	-10.6%
SUMMARY OF INDICATORS			
Allocated capital	1,551	1,202	29.1%
Return on allocated capital	4.8%	7.0%	
Risk weighted assets	12,394	12,700	-2.4%
Cost to income ratio	17.9%	13.4%	
Loans to Customers (net of impairment charges)	11,597	12,104	-4.2%
Balance sheet Customer funds	10,377	10,106	2.7%

Notes:

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

Income

Companies and Corporate segment in Portugal income after tax of 37 million euros in June 2023, compared unfavourably to an amount of 42 million euros presented in June 2022. This evolution results from a lower net operating income, despite the lower level of impairment charges recorded. As at June 2023 the performance of this segment is explained by the following changes:

- Net interest income stood at 92 million euros as at 30 June 2023, 14.4% below the amount attained in the same period of the previous year (108 million euros), as the lower net interest income arising from the loan portfolio was only partially offset by the improvement in the margin on deposits, enabled by the normalization of interest rates.
- Other net income reached 81 million euros in June 2023, being 24.6% lower compared to the amount achieved in June 2022, which is mainly explained to the gains recognized with the sale of non-current assets held for sale recorded in the 1st half of 2022, substantially higher than those recorded in the 1st half of 2023.
- Operating costs totalled 31 million euros by the end of June 2023, 7.4% above the overall amount of costs recorded in the same period of the previous year.
- Impairments charges recorded 88 million euros in June 2023, decreasing from 124 million euros in the same period of 2022, an evolution explained by the impact of the significant reduction of legacy exposures occurred in 2022.
- As at June 2023, loans to customers (net) totalled 11,597 million euros, decreasing 4.2% from the position in June 2022 (12,104 million euros), influenced by the environment of lower demand for credit due to higher interest rates and delays in investment projects and, also, by the reduction of stock of NPE. Balance sheet customer funds reached 10,377 million euros, 2.7% above the amount recorded in June 2022, particularly through the expansion of the client's deposits base.

PRIVATE BANKING

At Millennium private banking, constant monitoring of Customers' assets was ensured, keeping them informed about market developments.

With the objective of being a partner to Customers, not only in the management of their financial investments, but also in the management of their day-to-day activities, focus was placed on positioning as a main Bank. This action, among other initiatives, included the promotion of digital channels among Customers who had not yet adhered to digital solutions, the increase in transactions through these channels and the improvement of the online experience of Customers in their relationship with the Bank, whether in terms of day-to-day, or in terms of savings and investments, designed to maximize the quality of customer service.

Millennium private banking was awarded within the scope of the PWM Wealth Tech Awards 2023. Millennium bcp was elected "Best Private Bank For Self-Directed Investments" in Europe by Professional Wealth Management magazine, a publication of the Financial Times group. This European distinction reflects the success of the transformational changes implemented in Millennium Private Banking, made with the future in mind, allowing Customers a differentiated and more personalized experience on digital channels, which is valued.

Keeping the focus on the relationship of trust between Private Bankers and Customers, Millennium Private Banking paid special attention to the following:

- Reinforcement of the Customer base;
- Quality of service reinforced by the adoption of new digital tools, of which we highlight App Millennium's remote investment hubs;
- Growing diversification of Customer assets;
- Cross selling.

Million euros

PRIVATE BANKING in Portugal	Jun 30, 2023	Jun 30, 2022	Chg. % 23/22
PROFIT AND LOSS ACCOUNT			
Net interest income	17	8	122.8%
Other net income	16	16	-3.1%
	33	24	36.9%
Operating costs	8	7	5.9%
Impairment and provision	0	0	
Income before tax	25	17	46.6%
Income taxes	8	5	46.6%
Income after tax	17	12	46.6%
SUMMARY OF INDICATORS			
Allocated capital	17	13	32.5%
Return on allocated capital	203.5%	183.9%	
Risk weighted assets	142	138	2.7%
Cost to income ratio	23.0%	29.8%	
Loans to Customers (net of impairment charges)	345	349	-1.0%
Balance sheet Customer funds	2,658	2,635	0.9%

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 17 million euros in June 2023, showing an increase of 46.6% compared to the net profit reached in the same period of 2022 (12 million euros). Considering the performance of the main items of the income statement, the relevant situations are highlighted as follows:

- Net operating revenues stood at 33 million euros in June 2023, 36.9% up from the same period of the previous year (24 million euros), driven by the growth shown in net interest income. Net interest income totalled 17 million euros in June 2023, comparing favourably to 8 million euros reached in June 2022, benefiting from the increase in interest rates and the corresponding improvement in the margin on deposits. Other net income amounted to 16 million euros in June 2023, reflecting a decrease of 3.1% compared to the same period of the previous year, mainly driven by lower commissions from asset management activity and from exchange and brokerage transactions.
- Operating costs amounted to 8 million euros in June 2023, being 5.9% above the operating costs recorded in June 2022.
- The impairment and provision charges had no material impact in the income statement on both periods.
- Loans to customers (net) amounted to 345 million euros by the end of June 2023, showing a decrease of 1.0% compared to the figures accounted in the same period of the previous year, while balance sheet customer funds grew 0.9% during the same period, from 2,635 million euros in June 2022 to 2,658 million euros in June 2023, mainly due to the increase in customer deposits.

FOREIGN BUSINESS AND OTHERS

Poland

- In the 1st half of 2023, net income amounted to PLN 358 million (77.3 million euros) which compares to PLN -263 million in the 1st half of 2022 (-56.7 million euros, excluding Foreign Exchange effect). Bank Millennium, in the 2nd quarter of 2023 reported positive results of PLN 106 million (23.7 million euros), thus presenting positive results for the last three quarters after a long period of quarters with negative results. In 2nd quarter of 2023, Bank Millennium results continued to be constrained by costs related to the mortgage loan portfolio denominated in CHF that amounted to PLN 808 million after taxes (174.5 million euros), including the impact of the application of more conservative adjustments to the provisioning model after the European Court of Justice ruling.
- In H1 2023, net profit without extraordinary items (mostly related to costs related to the mortgage loan portfolio denominated in CHF and the gain associated to the sale of 80% of Millennium Financial Services stake as a result of the strategic partnership in the bancassurance business) increased from PLN 949 million (204.9 million euros, excluding Foreign Exchange effect) to PLN 1,448 million (312.7 million euros), corresponding to a 52.6% change.
- Growth of the Banking Product benefiting from the net interest income, which increased by 21.4% in 2022.
- Operating costs increased by 15% in the 1st half of 2023, excluding mandatory contributions.
- Adjusted cost/income ratio[13] of 28.8% and stated cost/income ratio of 27.1%.
- Increase of 4.8% in Customers funds and reduction of 6.2% in the loan portfolio (excluding Foreign Exchange effect).
- NPL ratio more than 90 days overdue represents 2.1% of total credit in June 2023, which compares with 2.0% in June 2022.
- Coverage of NPLs over 90 days by provisions stood at 159% in June 2023, which compares with 147% in June 2022.
- Cost of risk stood at 45bp in the 1st half of 2023, compared to 37bp in the 1st half of 2022.
- At the end of June 2022, the provisions of the portfolio originated by Bank Millennium amounted to 1,373.3 million euros, equivalent to coverage of 64.7% of the gross mortgage loan portfolio denominated in CHF.
- At the end of June 2023, capital ratios improved significantly, once again standing above the regulatory minimum requirements.
- CET1 ratio of 11.7% and total capital ratio of 14.8%, above the minimum requirements (8.3% and 12.7% respectively).

Mozambique

- Net profit of 48.5 million in the 1st half of 2023, an increase of 3.3% compared to the same period of the previous year.
- Banking Income increased by 8.3% in the 1st half of 2023, excluding the exchange rate effect, benefiting from the 13.4% growth in net interest income and 5.9% in commissions, excluding the exchange rate effect.
- Operating costs increased by 13.5%, excluding currency effects, in the 1st half of 2023.
- Stated cost/income ratio increased from 43.2% in the 1st half of 2022 to 45.3% in the 1st half of 2023.
- Customer Resources decreased by 4.8%; loan portfolio grew by 11.4% (excluding Foreign Exchange effect).
- NPL ratio over 90 days stood at 7.1% in June 2023, with coverage of 117% on the same date.
- Risk cost of 153bp in the 1st half of 2023, which compares with 211bp in the 1st half of 2022.
- Equity ratio of 41.9%.

Macao[14]

- Net profit amounted to 9.1 million euros in the 1st half of 2023, an increase of 24.4% compared to the same period of the previous year, mainly due to increases in net interest income (+44.7%), and gains in trading and commissions (+71.6%) that more than offset the increase in impairments.
- The branch's performance as a support platform for the business of Portuguese companies in Macau and mainland China.
- Trade finance operations to support Portuguese companies with exports to and/or imports from China.
- Acquisition of trading companies with international trade operations with China.
- Attracting Chinese Customers wishing to invest in Portugal, either individually or at a corporate level.

[13]Extraordinary items: Bancassurance transaction income (PLN597mn before tax), costs related to FX mortgages and linear distribution of BFG resolution fund commission and theoretical bank tax in 1H23.

[14] For the purpose of the computation of the net income generated by business segments, Macao activity is included in the "Other" segment, since it is carried out through a branch.

- Promotion of contacts between Millennium bcp's investment banking area and Chinese companies in the search for investment solutions in Portuguese-speaking countries.

Milhões de euros

Poland	Jun 30, 2023	Jun 30, 2022	Chg. % 23/22
PROFIT AND LOSS ACCOUNT			
Net interest income	561	461	21.6 %
Other net income	196	-40	
	757	421	79.6 %
Operating costs	194	169	14.8 %
Result on modification	-12	-2	>200%
Impairment and provision	384	250	52.7 %
Income before tax	167	-1	
Income taxes	90	56	61.4 %
Income after income tax	77	-57	
BALANCE SHEET			
Loans to Customers (net of impairment charges)	16,735	16,892	-0.9%
Balance sheet Customer funds	22,771	20,463	11.3%

Note: The accounts presented are in accordance with the Consolidated Accounts of the Group, and may differ from the accounts disclosed locally.

Milhões de euros

Mozambique	Jun 30, 2023	Jun 30, 2022	Chg. % 23/22
PROFIT AND LOSS ACCOUNT			
Net interest income	106	92	14.7%
Other net income	29	31	-6.0%
	135	123	9.4%
Operating costs	61	53	14.7%
Impairment and provision	6	7	-9.8%
Income before tax	68	63	7.1%
Income taxes	20	17	14.2%
Income after tax from continuing operations	48	46	4.6%
Income from discontinued operations	—	—	-100.0%
Income after income tax	48	46	4.4%
BALANCE SHEET			
Loans to Customers (net of impairment charges)	665	610	9.1%
Balance sheet Customer funds	2,007	2,192	-8.4%

Note: The accounts presented are in accordance with the Consolidated Accounts of the Group, and may differ from the accounts disclosed locally.

Million euros

FOREIGN BUSINESS	Jun 30, 2023	Jun 30, 2022	Chg. % 23/22
PROFIT AND LOSS ACCOUNT			
Net interest income	667	555	20.2 %
Other net income (*)	225	-12	
	892	543	64.2 %
Operating costs	255	222	14.5 %
Result on modification	-12	-2	>200%
Impairment and provision	393	361	9.1 %
Income before tax	232	-42	
Income taxes	109	72	50.6 %
Income after tax from continuing operations	123	-114	
Income from discontinued operations	—	1	-100.0 %
Income after income tax	123	-113	
SUMMARY OF INDICATORS			
Allocated capital (**)	1,848	2,295	-19.5 %
Return on allocated capital	13.4%	-9.9%	
Risk weighted assets	14,646	16,256	-9.9%
Cost to income ratio	28.5%	40.9%	
Loans to Customers (net of impairment charges)	17,400	17,502	-0.6%
Balance sheet Customer funds	24,778	22,655	9.4%

(*) 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, was 123 million euros in June 2023, comparing favourably with a negative amount of 113 million euros achieved by the end of June 2022. This favourable evolution is mostly explained by the higher level of the net operating income, partially offset by a higher level of impairment.

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

- Net interest income stood at 667 million euros in June 2023, which compares to 555 million euros achieved in June 2022. Excluding the impact arising from foreign exchange effects, it would have increased 20.1%, reflecting mainly the performance of the Polish subsidiary, driven by increases in the reference interest rates that have been taking place between the last quarter of 2021 and the third quarter of 2022, while net interest income at the subsidiary in Mozambique also increased, albeit to a lesser extent.
- Other net income attained 225 million euros in June 2023, increasing when compared to the 12 million euros negative recorded in the same period of the previous year. Excluding foreign exchange effects, other net income would have increased similarly, determined by the recognition of the gain obtained with the sale of 80% of the shares of Millennium Financial Services sp. z o.o. by Bank Millennium in Poland, by the reduction in costs incurred by this subsidiary in converting mortgage loans granted in Swiss francs, following the agreements with customers with these loans, and by the reduction of the mandatory contributions.
- Operating costs amounted to 255 million euros as at 30 June 2023, 14.5% up from June 2022. Excluding foreign exchange effects, operating costs would have increased 14.4%, reflecting similar evolutions in the subsidiaries in Poland and Mozambique. Wages increase in Poland impacted staff costs of the local subsidiary, although the subsidiary in Mozambique also recorded an increase in this item, albeit with a smaller magnitude. In other administrative expenses, the general price increase had repercussions both on the Polish subsidiary and on the subsidiary in Mozambique, despite the optimisation of the branch network verified in the Polish subsidiary.

- Results on modification totalled a negative amount of 12 million euros in the 1st semester of 2023, which compares with an also negative amount of 2 million euros recorded in the same semester of the previous year. In both periods, the amounts are associated with contractual modifications, namely those negotiated with customers with foreign exchange mortgage loans.
- Impairment and provision charges at the end of June of 2023 presented a 9.1% growth compared to the figures reported in the same period of 2022, corresponding essentially to the reinforcement of the provision, booked by the Polish subsidiary to address the foreign exchange mortgage legal risk, an increase that influenced by the fact that the 1st half of 2022 was penalized by the recognition of impairment of the goodwill of the this subsidiary.
- Results from discontinued operations in 2022 reflects adjustments to the gain arising from the sale of Banque Privée BCP (Suisse) SA, and to the investment held in Seguradora Internacional de Moçambique, S.A..
- Loans to customers (net) stood at 17,400 million euros at the end of June 2023, below the amount attained as at 30 June 2022 (7,502 million euros). Excluding foreign exchange effects, the loan portfolio decreased 6.0%, influenced by the evolution of the Polish subsidiary. The Foreign business' balance sheet customer funds increased 9.4% from 22,655 million euros reported as at 30 June 2022 to 24,778 million euros as at 30 June 2023. Excluding the foreign exchange effects, balance sheet customer funds increased 4,1%, mainly driven by the performance of the subsidiary in Poland.

BANCASSURANCE BUSINESS

During the 1st half of 2023, the partnership in the sale of insurance maintained a high dynamic, with novelties in the offer, but also with several process improvements. It stands out:

- In addition to extending the age limit for subscription and permanence, reinforcement of Médis' value proposition, with the launch of mental health coverage, the Traveler's consultation in the Online Doctor service and the launch of the Medis Dental and Light health offer for the business segment;
- Availability of new financial products, following ESG principles;
- Reinforcement of digital capabilities, with the launch of the Móbis car insurance subscription in the Bank's app, of a new exclusive financial product in the APP (EasyInvest) and with the development of pending Operations for health products without a medical questionnaire (possibility of starting the process in branch and finalize the subscription through the App/ website).

Through boosting actions focused on the digital channel with associated campaigns, it was also possible to increase the weight of digital sales in Insurance products.

Strategic Plan 2021-2024

The Strategic Cycle launched in 2021 reflects its determination to accelerate Millennium bcp's development so that it's in a strong position for the future, ready to face and overcome the challenges that are shaping both the macro-economic environment and the competitive landscape for banking.

Successfully executing on the priorities and key levers of Millennium bcp's previous Strategic Plan Cycle was crucial for setting the Bank on a solid normalization path by significantly reducing its legacy exposures. It also laid important foundations for the future by a substantial acceleration in the Bank's level of digitization.

This trajectory was particularly influenced by developments in Portugal (a 40% reduction of NPEs compared to 2018 and mobile customers up by 48% in 2020) where the bank managed to recover its volume growth trend (~5% p.a. growth in lending and deposits over 2018-20) and increase its share of revenues (+0.6pp in 2018-20) in an environment of margin compression and continued low interest rates.

In Poland, despite a positive operational performance and the swift integration of EuroBank, the bottom-line result was hindered by negative developments in FX mortgages (despite the bank having stopped writing new FX mortgages in 2008).

The bank faces an environment of economic turmoil, with the prospects of recovery on the immediate horizon promising growth opportunities. Greater customer expectations, more digital and e-commerce activity, the increasing threat of tech platforms and digital attackers and the overriding requirement of sustainability will together present significant challenges but also major opportunities.

The Bank's profitability performance is also constrained by legislative developments in Portugal in relation to contributions to the National Resolution Fund and limitations regarding fair commissions and fees.

The update of the Strategic plan was designed to preserve relevant priorities from the previous cycle, build on what's already been achieved and add new elements that respond to the environment at that time.

This plan targets Millennium bcp with achieving robust profitability and balance sheet positions while accelerating its competitive differentiation in efficiency and customer engagement levels, supported by targeted human touch and new mobile/digital solutions and business models, enabled by a highly skilled and effective talent base, while at the same time addressing societal sustainability challenges with a focus on climate change risks and the opportunities that may unfold in mitigating them.

The main strategic priorities for Millennium bcp in Portugal have been set out for this Cycle, preserving a balance between continuity and bolder moves to reinforce its competitive edge and innovation:

Serving the financial and protection needs of customers with personalized solutions which combine targeted human touch with a leading mobile platform: aiming to expand relevance and develop high engagement relationships that empower our customers in their financial lives.

This priority is about serving customers in meeting all of those profitable retail needs in which Millennium holds a leadership position: investment management, bancassurance and personal lending solutions.

Being a trusted partner for corporate recovery and transformation: supporting customers' pursuit of opportunities driven by EU funding to the economy (PRR, PT 2030), while enabling solutions fit for a more digitized, competitive and export-oriented corporate landscape.

Capital and risk resilience: reinforcing balance sheet and ensuring readiness for the post-pandemic world, strengthening both our risk and capital management practices.

Best in class efficiency: realizing cost savings enabled by productivity gains already achieved in the previous Cycle by several transformational changes including the full exploitation of mobile and automated capabilities, increased efficiency in the branch network and tech and data-driven process reengineering and automation.

Data and technology edge: focusing efforts on the implementation of our next-generation data platform while scaling advanced analytics models to gain differentiating mass personalization capabilities, intelligent automation and informed and agile business and regulatory management. In parallel, the Bank will expand the deployment of its new technology foundations by advancing its cloud platform, using modular IT building blocks augmented by the digital experience platform and new cybersecurity solutions, designed to deliver agility and speed to market, scale, resilience and cost efficiency.

Capability building and talent renewal: reinforcing Millennium's ability to attract, develop and retain the best talent to embrace modern challenges in critical domains and adapt working practices to reflect the new paradigm while promoting an equal-opportunity environment.

Sustainability-driven: adapting our business model to increase differentiation towards the community's and our customers' rising expectations of sustainability while capturing associated business opportunities as well as addressing regulatory demands.

Finally, Millennium's innovation efforts enable the bank to explore broader opportunities, going beyond traditional banking, not only in order to go on delivering a superior customer experience but also to support our income growth and cost-containment goals.

The execution of these priorities for Portugal will be combined with ongoing efforts to explore prudently the full growth potential of the international operations, continuously looking for ways to optimize their footprint.

This will enable Millennium bcp to deliver against a set of bold targets for 2024. The Group aspires to improve C/I (to ~40% in 2024) and profitability (aiming at a ROE of ~10%). In parallel, Millennium bcp will focus on risk management, aiming to significantly lower the cost of risk (to ~50 bps) and the NPE ratio (to ~4%), while keeping a prudent CET 1 ratio (>12.5%).

Additionally, there will be continued investment in increasing our mobile penetration (from 48% to more than 65%) and maintaining our leading digital customer satisfaction (#1 in digital NPS).

Targets for 2024

The new Strategic Plan Cycle aims to speed up Millennium bcp's transition to a position of strength and readiness for the future in Portugal, notwithstanding the risks that shape the macro-economic environment and the competitive landscape.

Our aspiration can be synthesised as:

i) Achieve robust levels of profitability, asset quality and capital, managing the impact of the crisis caused by the pandemic and the effects of the war in Ukraine and the distribution crisis and prices inflation;

ii) Accelerating Millennium bcp's competitive differentiation in efficiency and customer engagement, supported by targeted human touch, mobile/ digital solutions and in business models supported in a talent base of excellence;

iii) Respond to social, environmental and corporate governance challenges with a focus on the risks arising from climate change and the opportunities associated with the adoption of mitigation and adaptation solutions to this new reality.

In the international business, Millennium bcp will continue the journey started in 2018, making adjustments in the face of recent developments. In Poland, where it is implementing a resilience plan, the focus is on responding to the risks of exposure to mortgage loans in Swiss francs, actually reducing the need for provisions for this risk, ensuring the continued development of the commercial franchise and Customer satisfaction. In Mozambique, it will continue to adapt the business model to improve the service and respond to the evolving needs of Customers, maintaining a strong commitment to profitability, efficiency and the model of risk control.

The successful execution of Millennium bcp"s strategic priorities will reinforce its franchise position and business model sustainability.

By 2024, the Group's bold ambition is to improve C/I to ~40% and to grow ROE profitably to ~10%. In parallel, Millennium will focus on risk management, with the goal of reducing the cost of risk (to ~50 bps), its NPE ratio (to ~4%) and a prudent objective for the CET 1 ratio (>12.5%). Finally, there will be a continued investment around rising levels of mobile penetration (from 48 to >65%) and a focus on delivering leading digital Customer satisfaction.

Ambitious goals aligned with strategic priorities — Group level

	H1 2023	2024
C/I ratio	32%*	**~40%**
Cost of risk	50 bps	**~50 bps**
ROE	16.8%	**~10%**
CET1 ratio	14.0%	**>12.5%**
NPE ratio	3.7%	**~4%**
Share of mobile customers	66%	**>65%**
Growth of high engagement customers (vs. 2020)**	+11%	**+12%**
Average ESG rating***	69%	**>80%**

*Adjusted cost to income: without the positive one-off effect of 127 million related with the sale of Millennium Financial Services stake (80%).
**Active Customers with card transactions in the previous 90 days or funds > €100 (>MZM 1,000 in Mozambique)
***Average of Top 3 indices (DJSI, CDP and MSCI) | NPE include loans to Customers only.
The bank expects to achieve the strategic objectives in 2024, as measures are being taken in this direction.

Risk and Outlook

Internal Control System

The internal control system governance model encompasses the organizational structure, the lines of reporting and levels of authority, the set of lines of responsibilities and processes, that result from the applicable laws and regulations, as well as the Bank's by-laws and internal regulations, to ensure a prudent and effective management of the Bank and adequate checks and balances.

The governance model promotes a conduct and risk culture across all the areas of the Bank, which is materialized in an overarching set of principles, strategies, policies, systems and functions.

The Board of Directors promotes a strong governance and internal control culture, embedded in all levels of the organization, and based on high standards of ethical behaviour, with rules established in the applicable legislation, in particular in Aviso 3/2020 of the BdP, and in the Code of Conduct, available in the Bank's site.

The Board of Directors provides the Bank's governance, guidance and oversight and sets the broad strategies and major policies of the organization, approves the overall organizational structure, and has the ultimate responsibility for ensuring that adequate governance and internal controls system are established and maintained, being supported in this function by the Audit Committee.

The Audit Committee plays a central role in the development of a governance culture and an internal control system with a direct relation with the Board of Directors, the Bank's internal control units and the external auditors.

The current management of the Bank is delegated in the Executive Committee. This Committee established different specialized commissions, with the participation of two or more Executive Directors, and first line Managers who directly report to them.

The organizational structure of the Group is based on the principle of the segregation of functions between the business units and internal control functions, aiming that any situations of potential conflict of interests are identified in advance, minimized and subject to careful and independent monitoring.

The internal control system includes a 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 codes of conduct, standards and practices, internal and statutory rules, guidelines 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.
- An effective Risk Management Function (RMF) with well-defined processes to identify, manage, monitor, and report the risks that the Group is exposed.
- A Compliance Function ensuring the alignment with legal, regulatory, and statutory requirements, and with internal rules, including rules of conduct and relationship with Clients, Investors, Supervisors' Entities, and others, which rules are established in a Code of Conduct.
- An Internal Audit Function ensuring the effectiveness and consistency of the internal control processes and mechanisms.
- The alignment of subsidiaries operating model with the organizational and managerial principles defined by the Bank, as the consolidating Entity.
- The adoption of sound sustainability principles, namely regarding Environmental, Social and Governance (ESG) factors, and its coherence with the Group's activity.

To achieve these objectives, the internal control system is based on the compliance function, the risk management function and internal audit function. The Heads of these three divisions are appointed by the Bank's Board of Directors, by proposal of the Committee for Nominations and Remunerations, after an opinion from the Audit Committee and of the Committee for Risk Assessment.

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 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 by the Group's Employees in general, and by the people who hold senior or managerial positions, including members of the management bodies.
- A governance model that defines that the business areas are responsible for risk taking, ensuring the effective monitoring, control and management of the risks assumed, and supporting the independent review of the risk levels incurred as compliant with the Risk Appetite Framework.
- The internal control system is consistently applied across all Group entities, supported on group codes issued by BCP defining global policies, principles, and rules, considering, and complying with local, legal or regulatory requirements of the countries where operations are based.

Three lines of defence model

The Bank's internal control system is based on the "Three Lines of Defence Model", aiming to ensure:

- A clear accountability of the business areas for the respective assumption of risks.
- The effective monitoring, control and management of the risks assumed.
- An independent evaluation, to be reported to the Board of Directors and to the Executive Committee, of the levels of risk assumed, their compliance with the Risk Appetite Framework and the effectiveness of the established internal control systems.

The business lines, as the first line of defence, take risks and are responsible for their operational management directly and on a permanent basis. For that purpose, business lines have appropriate processes and controls in place that aim to ensure that risks are identified, analysed, measured, monitored, managed, reported and kept within the limits of the institution's risk appetite and that the business activities comply with the external and internal requirements.

The risk management function and the compliance function form the second line of defence.

The risk management function facilitates the implementation of a sound risk management framework throughout the institution and has responsibility for further identifying, monitoring, analyzing, measuring, managing, and reporting on risks and forming a holistic view on all risks on an individual and consolidated basis. It challenges and assists in the implementation of risk management measures by the business lines to ensure that the process and controls in place at the first line of defence are properly designed and are effective.

The compliance function monitors the Bank's compliance with legal, regulatory, and internal policies requirements, including the reputational protection of the Bank, comprising, among others, the prevention of financial crime activities. It provides advice on compliance matters to the management body and establishes policies and processes to manage compliance risks and to ensure an overall compliance culture within the Bank.

Both the risk management function and the compliance function intervene to ensure the improvement and strengthening of internal control and risk management systems interacting with the first line of defence whenever necessary.

The internal audit function, as the third line of defence, conducts risk-based audits and reviews the internal governance arrangements, processes, and mechanisms to ascertain that they are sound and effective, implemented and consistently applied, to assess the suitability and efficiency of the organizational culture, of the risk management process, of the internal control system and of the governance models in place. The internal audit function performs its tasks fully independently of the other lines of defence.

Internal Control subsystems

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

Risk management system

The risk management system corresponds to the set of integrated and permanent processes which enable the identification, assessment, monitoring and control of all risks, 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 takes into consideration the BCP risk taxonomy which includes the risks identified by the Regulatory and Supervisory Authorities, as well as all other risks which, in view of the specific situation of the Group's institutions, could become materially relevant. The Risk Office is responsible for keeping the BCP risks taxonomy updated as well as for promoting and conducting the regular risk identification process in the Group.

The risk management system takes into consideration the credit risk, market risk, interest rate risk, foreign exchange rate risk, liquidity risk, compliance risk, operational risk, information technology risk, strategy risk and reputation risk, as well as all other risks that, in view of the institution’s specific situation, may prove material for its feasibility and sustainability. Environmental and social aspects are included in the assessment of these risks, once they are considered risk drivers that are transversal to all risk types.

The risk management system ensures the segregation between the risk management function and the risk-generating business activities, respectively the second and first lines of defence. The internal audit, as third line of defence, ensures independent analysis concerning the risk activity of the first and second lines. The credit analysis and granting process ensure the segregation and independence between the credit analysis and rating structures and the business origination units.

The risk management system ensures timely reaction to changing circumstances and conditions that engenders new risks and change the risk profile of the Bank.

Management information and reporting system

The management information and reporting system ensures the existence of information, which is substantive, up-to-date, understandable, consistent, timely and reliable, 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 Group and the behaviour and prospective evolution of relevant markets and risks.

The output of the system is an information flow enabling the management with a global and comprehensive view on the Group’s financial standing, non-financial information and risk data on the compliance with the obligations assumed before third parties, legal and regulatory, and the regular monitoring of the activity, the implementation of the defined strategy and objectives so as to support decision-making processes, and also on the Group’s overall risk profile, in aggregate terms and detailed by risk; and the performance, evolution and risk profile of the market(s) in which the Group operates.

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 participants, both internal and external. An adequate organizational structure promotes the necessary data flow between the relevant parties in a process and ensures the necessary confidentiality in information flows.

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 Bank and its subsidiaries, in accordance with the rulings and policies issued by the Board of Directors and the Executive Committee.

Clear duties and responsibilities are set for each organizational unit in the information and communication processes and in the decision-making process.

Planning process

The Group planning process defines a long run sustainable strategy, compatible with the corporate vision and previously established goals, with its market positioning, approved risk profile and with the implemented internal control system.

The planning process is based on properly grounded assumptions, subject to sensitivity analysis and on reliable and understandable information. As a result, clear, precise, and sustainable objectives are defined for the global activity and for each business area, including the products, activities, systems and processes of the Group and the human and material resources, namely the adequate levels of capital and liquidity, necessary to fulfill the defined strategy are identified.

The planning process complies with the Risk Policy of the Group, as per the Risk Appetite Framework, ensuring that the profitability levels are aligned with the risks involved.

The Group's planning process includes the preparation of the annual and three-year budget, the verification of the sufficiency of capital and liquidity (ICAAP e ILAAP), the execution of stress tests within the internal or supervision scope, the preparation of the Funding and Capital Plan and of the Recovery Plan, the activities deriving from the resolution planning and remaining initiatives that, at each moment, are required to be implemented to comply with the requirements issued by the Supervision Authorities.

The Chief Financial Officer and Chief Risk Officer of the BCP, are responsible for the different elements of the Group's planning process, together with the Chief Financial Officers of the main subsidiaries.

The Group's strategy is communicated, by the adequate means and detail, to all the Employees of the Bank.

Monitoring process

The monitoring and correcting system includes all the control and assessment actions to ensure the permanent effectiveness and adequacy of the internal control system, namely, through the identification of deficiencies in the system - in terms of its design, implementation and/or use.

This process is continuously executed and complemented by independent, periodical and or extraordinary evaluations made by the Internal Audit.

The frequency of the control and assessment actions depend on the nature and magnitude of the risks inherent to the activity carried out and the effectiveness of the associated specific controls.

All internal control of deficiencies and events of non-compliance are duly recorded in a deficiencies data base at Group level, documented, and reported to the appropriate management levels to enable the adoption of correction measures in line with the respective remediation plan. Processes for the follow-up and validation of the measures implemented are established with clear deadlines according to the inherent risk level.

Internal control system governance

The internal control system is supported by a governance model that defines the responsibilities for the assumption of risks by the Business Areas, and ensures an effective follow-up, control and management of the risks assumed, and an independent evaluation of the risk levels assumed as per the Risk Appetite Framework.

The key pillars of the governance model implemented in the Bank are:

- Clear, transparent, and understandable rules are set and communicated to all employees to enable supporting the development of the activity while ensuring an adequate broad and effective internal control system.
- Coherent, clear, and objective definition of the competences and responsibilities of each structure unit and/or function, reporting lines and authority levels, information flows, are communicate across the organization, including an appropriate segregation of potentially conflicting functions or duties, also ensure that any potential conflict of interests is identified in advance, minimized and subject to an independent and careful monitoring.

- Sufficient and appropriate material and human resources are provided at all levels of the organization for the execution of the responsibilities, activities, and tasks inherent to the internal control system.
- Physical and functional segregation of the business activities and the respective operational and control services, avoiding possible conflict of interests through ensure robust control activities, including regular reviews, physical controls, authorization, verification, and reconciliation.

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 reporting 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 Accounting Division and the Studies, Planning and ALM Division receive and centralize the financial information of all subsidiaries.

The corporate areas of the Bank, namely the Research, Planning and ALM Division, Accounting and Consolidation Division, the Treasury, Markets and International Division, the Compliance Office, the Risk Office, and the Audit Division ensure the existence of the procedures necessary to obtain all relevant information for the consolidation, accounting and financial information and remaining elements supporting the management, as well as the supervision and control of the risks at Group’s level. These procedures include:

- The definition of the contents, the terms, and the format of the information to be reported by the companies included in the consolidation perimeter of the parent-company, 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 relevant accounting and financial information is consistent between the different subsidiaries, so that it is possible to measure and monitor the evolution and profitability shown by each business, verify the 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.
- Timely communication of extraordinary events which are relevant in terms of risk for the subsidiary or for the Group.
- A financial information and reporting system that is supported by adequate contingency arrangements.
- Validating and monitoring the implementation of the corrective measures to resolve internal control deficiencies that have a material potential impact.

The Audit Department is responsible for an on-site control function of the internal system, exercising this function transversally on a permanent and independent basis, assessing, always and pursuant to the established plan, the adequacy and effectiveness of the different components of the internal control system, issuing recommendations based on the outcome of those assessments. The Audit Division 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.

Common principles across the Group

To foster Group coherence, an organizational model similar to that of BCP is established in the subsidiaries abroad and in the entities in Portugal in which the Group participates and which are part of the Group, such as ActivoBank, at the level of the internal control system, providing for the existence of an Audit Committee and a Risk Assessment Committee, or equivalent bodies. The local supervisory bodies have, with regard to the internal control system of each subsidiary, the mission to verify its quality, integrity and effectiveness, as well as to assess its consistency and adherence to the internal control system of BCP and the Group.

The Bank's governance model and internal control system is extended to all subsidiaries, in a way which is compatible with their nature, complexity and business model, ensuring the maximum possible level of coherence and alignment:

- The CRO of BCP is responsible for coordinating the risk management system at Group's level through the Risk Officers and the Compliance Officers of each subsidiary.
- The CFO of BCP is responsible for coordinating the financial and accounting information system as well as for the planning process at Group's level.
- There is always at least an Executive Board member of BCP representing the parent company in each subsidiary's Board of Directors, being responsible for monitoring the overall performance of the entity.
- Notwithstanding, to ensure the maximum consistency of the criteria, methods, processes, and models used in all subsidiaries, the CRO of BCP is appointed as a non-executive director of the subsidiary's management body, with supervision functions, being also designated for the subsidiaries' Audit Committee and Risk Assessment Committee when these governance bodies exist.

The Bank, as the Group's parent company, ensure that all subsidiaries implement internal control systems that are coherent with each other, proportionate to the risks undertaken and with the local regulations and legislation in force.

Whistleblowing

The Group has in place and maintains a Whistleblowing Policy and procedures, which are available for staff or any person regardless of their relationship with any entity of the Group to report potential or actual breaches of regulatory or internal requirements, through specific, independent, and autonomous channels.

The Whistleblowing Policy covers eventual or potential irregularities, the acts and omissions, both with malicious intent or negligence, related with management, accounting organization, internal supervision or serious evidence of breaches of duties that, in a serious manner, are susceptible namely of infringe the law, articles of association, the regulations and other rules in effect, endanger, directly or indirectly, the assets of the Customers, of the Bank and of the Shareholders or cause reputational damage to Bank.

The Whistleblowing procedures ensure, among others the protection of the identity and personal data of both the person who reports the breach and the natural person who is allegedly responsible for the breach, through which the Entity shall adopt the highest form of anonymity legally available and that the person reporting the breach is appropriately protected from any negative impact (e.g. retaliation, discrimination or other types of unfair treatment). Any information about irregularities provided through the whistleblowing procedures is analyzed by the Audit Committee, supported by the Compliance Office and the Audit Division, ensuring that the potential or actual breaches raised are assessed and escalated, including as appropriate to the relevant competent authorities.

Main Risks and Uncertainties

Risk	Sources of Risk	Level of Risk	Trend	Interactions/Mitigations
Regulatory and legal	• General increase in regulatory complexity; in particular with government and supervisory authorities' focus on ESG objectives • Provisioning requirements to address the impacts of the current geopolitical context and its repercussions • Increasing regulatory requirements of AML nature and greater complexity of restrictive measures stemming from international sanctions • Pressure on capital ratios, including those that may arise from regulation under climate and environmental risk factors • Possible impacts of Central Bank Digital Currency (CBDC) on the commercial banking model, if not correctly implemented.	Medium		▪ Culture of compliance and anticipation of capital requirements ▪ Rigorous and efficient management of capital and its implications on the business model ▪ Increasing capital buffer vs regulatory minimum ▪ Execution of the Bank Millennium Recovery Plan (PL) ▪ Assessment and classification of climate and environmental factors in the Bank´s risks and definition of mitigation measures ▪ Promotion of strategics and commercial solutions that promote the transition to low carbon production models. ▪ Development of more sophisticated AML models and adoption of practices in compliance with regulatory requirements, ensuring adequate prevention and compliance with restrictive measures
Sovereign	▪ Impact of rising interest rates on the cost of sovereign debt ▪ Uncertainty about timing of ECB monetary policy normalization ▪ Possible budgetary impacts of measures to support the economy to address the challenges of the current context ▪ Impacts on the budgets of European states resulting from support for Ukraine in the geopolitical conflict ▪ Exposure to Portuguese and other Eurozone, Polish and Mozambican sovereign debt ▪ Unfavourable evolution of the rating assigned to the State of Mozambique, with the attribution of selective default by S&P ▪ Volatility in credit spreads	High		▪ Positive fiscal impact via tax revenue and favourable trend in the stock of public debt ▪ Implementation of contingency measures at European and national level ▪ Diversification of the sovereign debt portfolio ▪ Adoption of hedging measures of portfolio interest rate risk ▪ Reduction of the size of the portfolio classified to FVOCI

Risk	Sources of Risk	Level of Risk	Trend	Interactions/Mitigations
Operational	▪ Rising cybersecurity threats,exploiting the growing weight of digital channels and possible increase in attacks due the geopolitical context ▪ Growing number of digital Customers and increase in internet and mobile transactions, requiring the maintenance of a high level of availability and effectiveness of the ICT systems (Information and Communication Technologies) ▪ Implications of the acceleration of automation, integration and digitalization of processes, on the operational resilience of the banking sector ▪ Increase in information needs for reporting, implying a greater rigour in the management and control of data	Medium		▪ Permanent monitoring of the alignment between the technological development plan with the business strategy ▪ Increase of skills regarding the mitigation and the protection against cybersecurity risks ▪ Reinforcement of the culture and awareness regarding an adequate internal control environment ▪ Implementation of a comprehensive technology renewal program ▪ Development of processes for continuous improvement of Data Quality, in accordance with the principles of BCBS239 ▪ Reinforcement of the structure and procedures of personal data protection
Credit	▪ No prospects of a short-term resolution of the geopolitical conflict in Eastern Europe ▪ Uncertainty about the medium and long-term impact of maintaining high interest rates and inflation ▪ Potential deterioration of the economic and financial situation of less robust companies, due namely to the impacts of increased financing costs. ▪ Slowing of the world economy growth ▪ Decrease in household´s disposable income, due to inflation and rising interest rates ▪ Delay in implementing the Recovery and Resilience Plan (PRR) ▪ Limitations on access to available and qualified labor; ▪ Credit risk spreads impacted by strong competitive environment due to over-liquidity in the market ▪ Impact of ESG risk drivers on the loan portfolio ▪ Impact of government measures aimed at mitigating the effects of the increase in indexes on mortgage credit	High		▪ Positive and recurrent track record in the execution of the NPA reduction plan ▪ Significant reduction in the NPE ratio standing at 3.2% in Portugal ▪ Adequate level of coverage of the NPE's portfolio by impairments and collateral ▪ Favourable indicators regarding the evolution of inflation levels and GDP growth in Portugal ▪ Additional support to the economy through the Recovery and Resilience Plan (PRR) and measures to minimize the impacts of interest rate increase on households. ▪ High level of collateralization of corporate credit exposures (notably with state or multilateral guarantees) ▪ Rigorous approach to loan origination and monitoring ▪ Incorporation of ESG risk drivers in credit policies ▪ Relatively low volume of exposures to sectors exposed to high transition risks ▪ Establishment of impairment overlays to address the uncertainties of macroeconomic scenarios ▪ Proactivity in the monitoring and implementation of credit restructuring solutions, namely in individuals;
Market	▪ Volatility in capital markets ▪ Rising interest rates ▪ Uncertainty regarding the near-term monetary policy trajectories, namely in the Eurozone ▪ Uncertainty on economic growth and inflation, as well as the implications of lasting geo-political tensions	Low		▪ Limited exposure to trading portfolios ▪ Balance sheet hedging of interest rate risk ▪ Hedging of foreign exchange risk arising from financial participations ▪ Preference for placing lower risk products on Customers

Risk	Sources of Risk	Level of Risk	Trend	Interactions/Mitigations
Liquidity and Funding	▪ Volatility in financial markets may cause widening of spreads, reduction of eligible collateral after haircuts, margin calls from derivatives and reduced liquidity in WSF debt market ▪ Increase in the cost of customer funds in a context of rising interest rates and more aggressive competition from banks and non banks ▪ Need to comply with MREL requirements and difficulty in market access, notably in Poland ▪ Restrictive Monetary Policy, with systemic impacts ▪ Change in customer deposits' structure	Low	↑	▪ On-balance sheet Customer funds, mainly retail, decisive in the funding structure and its stability ▪ Increase in the cost of funds with no expected material impact on liquidity ▪ Large size of the portfolio of discountable assets with the ECB ▪ Daily monitoring of deposit inflows and outflows ▪ Rigorous management of the transformation ratio in Mozambique
Litigation associated with the CHF loan portfolio in Poland	▪ Increasing in the number of open court cases of legal proceedings against the banking system in Poland ▪ Growing share of cases with court decisions against the banks ▪ Risks related to verdicts issued by Polish courts in lawsuits against Bank Millennium ▪ Complexity and uncertainty regarding the outcome of judicial proceedings	High	↔	▪ Decrease of the overall CHF loan portfolio ▪ Increase of coverage by provisions of the CHF loan portfolio ▪ Out of court settlements with debtors with mortgage loans in CHF
Pension Fund	▪ Effect of rising inflation on wage and pension dynamics and consequently on the volume of liabilities ▪ Uncertainty about the evolution of the price of coverage costs	Medium	↓	▪ Integrated management of assets and liabilities in order to obtain an adequate balance between risk and return ▪ Comfortable coverage ratio of the fund's liabilities by the assets ▪ Review of the Defined Benefit Fund´s management policy Review of the Defined Benefit Fund ´s management policy

Risk	Sources of Risk	Level of Risk	Trend	Interactions/Mitigations
Real estate and other investments	▪ Uncertainty regarding the development of real estate activity ▪ Uncertainty related with market and regulatory trends in terms of environmental awareness ▪ Risks related to the Bank's collaterals and properties ▪ Impact of legislative measures for housing support ▪ Uncertainty about price evolution in the real estate market	Medium		▪ Positive track record in reducing the assets portfolio ▪ Moderate expectation of new entries of foreclosed assets ▪ Impact of insurance policies in the mitigation of real estate assets ▪ Reduction of exposure to Restructuring Funds according to divestment plans ▪ Relatively low value of the portfolio of real estate and other assets.
Recurring profitability/ Business Model	▪ Regulatory limitations on fees and commissions ▪ Impact of economic deterioration on asset value ▪ Wholesale funding cost ▪ Inflationary pressures on operating costs ▪ New global players and competition from Big Techs ▪ Pressure to increase rates of return on deposits	Low		▪ Strict management of net interest income ▪ Strict cost structure control ▪ Control of the objectives defined in the strategic plan

Risk management

Framework

Risk appetite

The BCP Group carries out its business activities in a prudent and sustainable manner, always based on the adequacy and compatibility between the business objectives 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 may be subject, based on its “Risk Appetite Statement” (RAS) which concurs 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 Group RAS is composed by a broad set of indicators that are considered of primary importance and representative of risks assessed as "material", due the formal risks’ identification and quantification process, that is regularly updated. The RAS metrics are grouped in five blocs covering solvency, funding, profitability, reputation and franchise and also sustainability risks.

For each indicator, 2 levels of limitation are established: an 'alert level', up to which the level of risk is still acceptable, but from which corrective measures must be taken to make the level of risk regress to a level of comfort, and a 'level of disruption', which requires immediate measures aimed at correcting a risk situation considered excessive.

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 in the day-to-day approach to the risks’ control of business processes, based on specialized metrics and with a marked technical nature. All risk limits are approved by the competent Governance bodies defined in the internal regulations 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 and Mozambique, some of which are part of the Corporate RAS, which is a set of obligatory metrics for all geographies (but with appropriate limits for each of the operations and structure in question), disaggregating the Group’s risk appetite into the local geographies risk appetite. Besides the Corporate RAS metrics, local RAS can include other metrics aiming to measure idiosyncratic risks in each geography.

Risk strategy

The delimitation of risk appetite, translated into the RAS, is one of the guiding vectors of the Group's "Risk Strategy", which is approved by BCP's Board of Directors, by proposal of the Executive Committee, after hearing the Risk Assessment Committee. In fact, from the RAS, the main lines of action to be developed are established in order to address the mitigation and/or control of all identified risks, which together constitute the Group's Risk Strategy. The RAS and the Risk Strategy are inseparable elements to the control and mitigation of the risks classified within the scope of the process of identifying them.

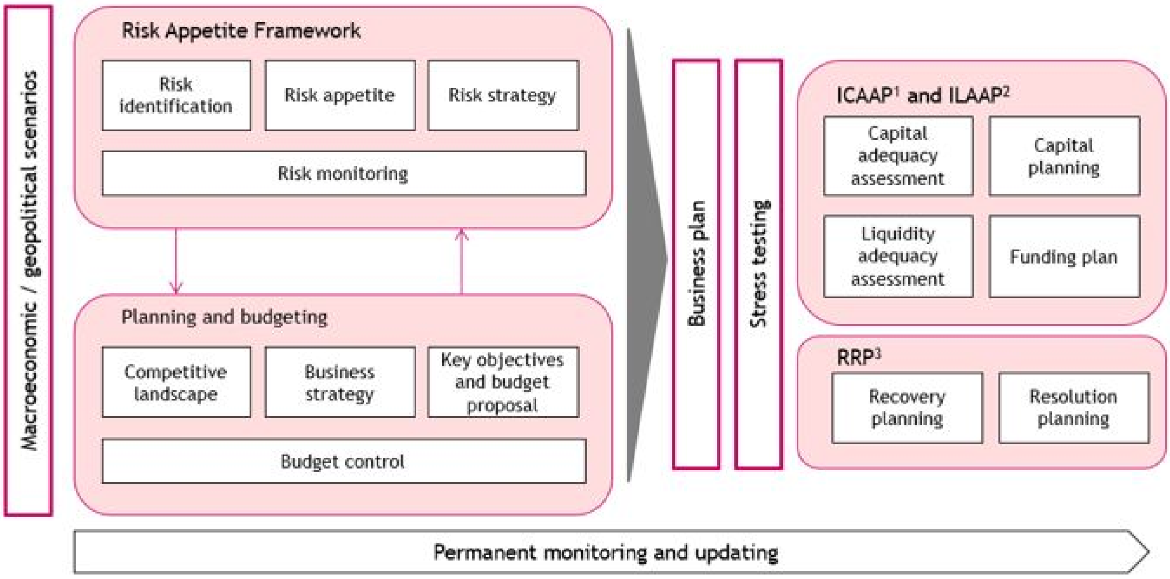
In this context, it should be noted that the Group, in the revision of the RAS for 2023, it was adopted a conservative approach in setting the generality of risk tolerance, approving tighter thresholds than those in force in 2022, in particular with regard to the indicators of capital, interest rate risk in the banking portfolio, NPE, other non-productive assets, among others, reflecting a continuity orientation to promote the process of reducing the Group's risk profile and improving capital ratios.

Integration between the business and risk management

The risk appetite framework – which includes the identification of material risks, the RAS and the Risk Strategy – is reviewed quarterly. The RAS and the risk strategy provide the reference framework for the establishment of business objectives, which will have to respect the risk appetite and strategy approved by the Board of Directors.

The planning and risk appetite processes are the foundations for all the activities and business lines developed, also guiding the overall controls on the robustness of the Group, such as the stress tests and the internal processes for assessing the adequacy of Capital (ICAAP) and Liquidity (ILAAP), as well as the Recovery Plan and the activities within the scope of resolution planning.

The following figure summarizes 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

Risk management Governance

The composition, capacities and responsibilities of the management and control bodies that intervene in the risk management governance are the following:

Board of Directors

The ultimate body of the BCP Group's risk management structure is the Board of Directors, which, within the scope of the functions assigned to it by the Bank's Articles of Association, has the leading role in the risk management and control structure. The Board of Directors is responsible for defining the Group's global strategic guidelines and objectives, the profile and risk appetite, promoting the risk culture and risk strategy, reserving for itself the approval of group codes that establish policies, principles, rules and risk limits. The Board of Directors monitors the evolution of metrics and risk indicators translated into the RAS (including the approval of remediation measures in case of breaches to the limits) approves the conclusions of the ICAAP and ILAAP processes and the performance of the Internal Control System.

Risk Assessment Committee

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

- Evaluate the integrity and adequacy of the Risk Management function.
- 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 the 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.
- Oversee the implementation of the strategies for capital and liquidity management as well as for all other relevant risks to the Group, such as market, credit, operational (including legal, IT and compliance), and reputational risks, in order to assess their adequacy against the approved risk appetite and strategy.
- Monitoring the capital and liquidity planning processes (ICAAP and ILAAP), providing an opinion to the BoD concerning the respective conclusions, as well as analyzing 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 Risk Management System (RMS).

Audit Committee

The BoD's Audit Committee is elected by the Shareholders' General Meeting and is composed by three to five non-executive Directors, mainly independent. Within the competences of this Committee, this Committee has global corporate supervising capabilities - e.g. in what concerns financial information, namely risk levels follow-up - as well as those that are attributed within the Internal Control System, namely:

- Overseeing the management activity of the Bank;
- Monitoring the suitability and effectiveness of the Bank's organizational culture, governance models and internal control and risk management systems, including the prevention of money laundering and terrorist financing;

- Monitoring the accounting policies and processes adopted by the Bank, the financial reporting process and submit recommendations aimed at ensuring its integrity;
- Overseeing the performance of the Compliance and Internal Audit functions;
- Supervising and controlling the effectiveness of the risk management system, in conjunction with the Committee for Risk Assessment ; as well as the internal control system in its different aspects and also the internal audit system itself;
- Issuing an opinion in relation to operations of acquisition of goods and services and involving related parties, aiming to avoid conflicts of interests;
- Analyzing the information is received through the whistleblowing mechanism as well as the clients claims.
- Monitor the activity of the External Auditor and periodically assess its independence and objectivity in the exercise of its activity.

The Audit Committee holds regular meetings with the Heads of the Audit Division, the Risk Office and the Compliance Office.

The Compliance Officer participates in the meetings of this Committee, 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 risk management system, issued within the scope of internal control or by the supervisory/regulatory authorities.

The Head of Audit Division reports regularly to the Audit Committee on interactions and the status of the recommendations of the prudential supervision entities, as well as on the audits carried out on the Bank's processes.

Committee for Corporate Governance, Ethics and Sustainability

This Committee, appointed by the Board of Directors, is composed of a minimum of three and a maximum of five non-executive directors.

Amongst other that may be delegated by the Board of Directors, the competences of the Committee for Corporate Governance, Ethics and Sustainability include:

- Recommend the adoption by the Board of Directors of policies, that observe the ethical and professional conduct principles and best corporate governance practices and social responsibility.
- Support the Board of Directors and its Committees in the evaluation of the systems that identify and solve conflicts of interest.
- Assess the compliance function, analyzing the procedures in place and the identified non-compliances.
- Issue opinions addressed to the Board of Directors on the Code of Conduct and on other documents defining business ethical principles.
- Every time it deems necessary, submit to the Board of Directors a report on the evaluation and monitoring of the structure, ethical and professional conduct principles and corporate governance practices of the Bank and on the company's compliance with the legal, regulatory and supervisory requirements on these issues.
- Issue an opinion for the Board of Directors on the Annual Corporate Governance Report.
- Issue an opinion on the Annual Sustainability Report, concerning issues for which it is responsible.
- Time it deems necessary, submit to the Board of Directors a proposal on the guidelines for the Company's policies, based on a culture identified with the ethical and professional conduct principles targeted at contributing for the pursuit of social responsibility and sustainability goals. Proposing, particularly, guidelines for the social responsibility and sustainability policies of the Company, including, among other, the values and principles for safeguarding the interests of the shareholders, investors and of those interested in the institution and also principles of social charity and environmental protection.

- Issue an opinion on the Group Codes and respective annexes whenever this competence has been delegated to it by the BoD.

Committee for Nominations and Remunerations

This Committee, appointed by the Board of Directors, is composed of a minimum of three and a maximum of five non-executive Directors.

The BoD delegates in the Committee for Nominations and Remunerations the monitoring on issues related with human resources, assessment and composition of the Board of Directors and of its Committees, reviewing the Remuneration Policies of the Directors and Employees, including the Key Function Holders (KFH), and monitoring their respective implementation, in accordance with the powers conferred to it by the law and its own Regulations.

Other functions of this Committee:

- Monitor the existence of specific policies related with selection and recruitment, evaluation of performance, promotion and career management, training, and development of competences.
- Elaborate and report to the BoD recommendations on the candidates to members of the Governance and Supervisory bodies of the Bank, ensuring the Fit & Proper assessment process.
- Issue an opinion to the BoD on the Selection, Assessment and Succession policies for members of the Governance and Supervisory bodies and responsible for control functions.
- Prepare and maintain a succession plan for members of the Board of Directors and KFH.

Executive Committee

The Executive Committee is responsible for the daily management of the Bank aiming to pursue the corporate objectives within the risk limits approved and defined by the Board of Directors. Particularly regarding the risk management function, the Executive Committee is responsible for:

- Implement the Bank's general business strategy and main policies, considering the Bank's long-term financial interests and solvency.
- Implement the global risk strategy approved by the BoD and ensure that management devotes sufficient time to risk issues.
- Ensuring an adequate and effective internal governance model and an internal control framework, including a clear organizational structure and independent internal risk management functions.
- Promote the risk culture across the BCP Group, addressing risk awareness and appropriate risk-taking behaviour.
- Promote a corporate culture and values that foster the ethical and responsible behaviour of employees.
- Promote the development, implementation and maintenance of formal processes for obtaining, producing and processing substantive information, appropriate to the size, nature, scope and complexity of the activities carried out, as well as to the institution's risk appetite, which ensure its reliability, integrity, consistency, integrity, validity, timeliness, accessibility and granularity.

The Executive Committee is supported, to carry out its responsibilities, by several management commissions in a wide range of dimensions: Business Activity; Credit Decisions; Risk and Compliance Management; Planning, Costs and Investments; Capital Structure and Liquidity Management; Human Resources Management; Operational Resilience. These management commissions can benefit from the presence of one or more internal control function units (Risk Office, Compliance Office and Internal Audit) which ensures timely detection of any potential internal control deficiencies.

The Executive Committee delegates in the Risk Commission, the Compliance and Operations Risk Commission (CORC) and the Operational Resilience Commission, the mission of monitoring the risks the Group is exposed to as well as the deficiencies identified regarding the internal control system. These commissions are also responsible for monitoring the adoption of corrective measures and the overall progress of open recommendations. Furthermore, the CORC may also evaluate and propose improvements to be introduced to the internal control system.

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 by the Board of Directors.

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.

Models Monitoring and Validation Sub-commission

The Models Monitoring and Validation Sub-Commission monitors the performance and confirms the validity of the rating systems and models used by the Bank within the scope of its risk management functions and informs the Risk Commission on their adequacy. Moreover, it presents the model's risk management results and suggests improvement measures to increase the model's performance and adequacy.

Credit and Non-Performing Assets 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 evolution of the credit exposure and the credit underwriting process.
- Monitoring the evolution of the credit portfolio's quality and of the main performance and risk indicators.
- Monitor the results achieved by the credit monitoring systems.
- Follow-up the counterparty risk and the largest exposures concentration risk.
- Monitoring the impairment evolution and the main cases of individual analysis.
- Assessment of the recovery procedures performance.
- Monitoring the divestment in the foreclosed assets portfolio.
- Follow-up the execution of the operational plans to be developed within the scope of credit at risk and reduction of certain asset classes.

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;
- Approving changes to the Fund's actuarial assumptions.

Compliance and Operational Risks Commission

This Commission, appointed by the EC has a number of tasks and responsibilities, with a view to ensuring that the Bank's activity contributes to an adequate culture of risk and internal control, including ensuring and monitoring the adoption and compliance by all the Group's institutions with the internal and external rules that shape its activity, the relevant contractual commitments and ethical values of the organization, in order to contribute to the mitigation of compliance and operational risks, strengthening the internal control environment, mitigating or eliminating the imputation of significant sanctions or property or reputational losses.

Operational Resilience 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.
- Monitoring of performance metrics of information security systems, physical security and protection and data quality;
- Review of the results of information security evaluation and business continuity;
- Follow-up of initiatives and projects in the area of systems/data security, physical security and data protection and monitoring of the respective performance metrics;
- Approval of the annual plans for the exercises of security assessment, Disaster Recovery Plan (DRP) and business continuity, and their respective quantitative/qualitative evaluation;
- Articulation with subsidiaries on the themes of physical security policies, information security, business continuity and protection and data quality.

Corporate Risk Monitoring Commission

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

- Monitor the evolution recorded by the main performing corporate Clients credit exposures, particularly assessing the implications from the COVID-19 pandemic versus the specific risk factors of each client (sector of activity, financial standing, cost structure, etc.), issuing opinions regarding the credit strategy to adopt.
- Follow-up the counterparty risk and the largest exposures concentration risk.

Sustainability Commission

This Committee is responsible for defining and monitoring the initiatives that allow the implementation of the Sustainability Master Plan (SMP), in its strategic components (Environmental, Social and Corporate Governance), in compliance with the guidelines of the Plan approved by the Executive Committee.

It has the following attributions and responsibilities:

- To assist the EC in integrating the principles of Sustainability (Environmental, Social and Corporate Governance) in the decision and management processes of the Bank;
- To assess and approve the initiatives required to implement the actions defined to materialize the strategic axes of the Sustainability Master Plan in force, as well as other changes or adaptations necessary to meet the defined objectives;
- To follow-up and monitor the progress of approved initiatives, compliance with the respective deadlines and budgets and the evolution of the results achieved, as well as the key performance indicators of the plan's dimensions.

CALCO

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 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 and structural FX risk management, as well as of the respective policies and limits, taking into account the market conditions at any given moment.

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 the subsidiary companies of the Group entities.

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 Executive Committee, the Committee for Risks Assessment, 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.
- Promoting the revision of the Group’s Risk Appetite and the risk identification process.
- Issuing opinions related with the Group Strategic Plan and compatibility of the risk management decisions considering the approved RAS limits.
- Participate in the definition of the risk strategy and decisions related with risk management.
- Issuing opinions on the assumption of significant risks by the Bank and its subsidiaries, ensuring they are properly identified and adequately assessed.
- Coordinating the NPA (non-performing assets) Reduction Plan and of the ICAAP and ILAAP processes.
- 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 and participating in the Credit Commission, CALCO, Operational Resilience, Compliance and Operational Risk and Corporate Risk Monitoring Commission .

The Risk Officer is appointed by the BoD, and reports to the CRO of the Group.

Compliance Office

The Compliance Office (COFF) is part of its organizational structure, construed upon “3 lines of defence model”. It ensures the compliance function assigned to the “second line of defence”, which includes control and regulatory compliance activities, analysing and advising the corporate bodies and the various Divisions of the Bank prior to the making of decisions that may involve the assumption of specific risks which are monitored by the compliance function.

Furthermore, the COFF has also the mission to:

- Verify if the respective regulatory requirements are complied with, as well as the ethical values of the organization, fulfilling all the attributions that are legally conferred on it, ensuring the existence of a culture of internal control, thus contributing to the mitigation of the risk of attribution to the Group Entities of sanctions or significant assets or reputation damages.

- Promoting the preparation, approval, application, verification of compliance and periodic updating of the Code of Conduct.
- Ensure compliance with the regulatory framework on the prevention and fight against money laundering and terrorism financing (hereinafter "AML/CTF").
- Participate in the definition of policies and procedures related with Conflicts of Interest and transactions with Related Parties, following-up their implementation and effective application.
- Ensure the management and controls adequacy of the whistleblowing process.
- Provide support to the International Entities in the development of their activities, seeking to normalise their action principles, systems and processes, in compliance with local regulatory specifications.

The Compliance Officer is appointed by the BoD, reports directly to the Executive Committee 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 compliance risk, for the risks associated with money laundering and the financing of terrorism, with conduct and market abuse, with conflict of interests 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 functions attributed to the COFF are exercised in accordance with the law or with other applicable normative source, as well as by the Bank's corporate bodies, and the performance of the Compliance Office should be based on a risk approach, at the level of the business, Customers and transactions, allowing the identification, assessment, monitoring and control of compliance risks that may influence the strategy, reputation and objectives defined for the Bank.

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 products and services approval process, corporate 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 Combating the Financing of Terrorism (AML/CFT);
- The mitigation of reputation risk at all Group entities, aiming at the alignment of concepts, practices and goals in these matters.

In compliance with the Principle of Coherence of the Group's internal control, the 1st responsible for the Compliance Officer of BCP is also responsible for the follow-up and monitoring of the compliance activities and Policies at Group level, highlighting the follow-up and monitoring of the AML/CFT risk through the International AML/CFT Committees, with the participation of the management and Compliance Bodies of the local units.

The COFF is also responsible for coordinating the process of structuring, drafting and approving the annual self-assessment reports on the effectiveness of the organisational culture and the governance and internal control systems, both individual and consolidated, and on the ML/FT prevention system to be submitted to the Banco de Portugal and the Securities Market Commission, under the terms of the respective Notices and Regulations, and as well 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 fosters, 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/CFT.

Audit Division

The Audit Department (DAU) provides functions of the third line of defence, under the scope called "Model of the 3 lines of defence" and is responsible for assessing the adequacy and effectiveness of the risk management process, the internal control system and the governance models. DAU performs its function on a permanent and independent basis and in accordance with the internationally accepted principles and best practices of internal auditing, carrying out internal audit inspections to assess the systems and processes of internal control and risk management which can give rise to recommendations aimed at to improve its efficiency and effectiveness.

The main functions of the DAU in the scope of risk management are to ensure that:

- The Risks are properly identified and managed and that the controls implemented are correct, adequate and proportional to the Bank's risks.
- The Bank's internal capital assessment system is adequate in terms of the risk exposure level.
- Transactions are recorded correctly in the systems of the Bank, and the operational and financial information is true, appropriate, material, accurate, reliable and timely.
- The Employees perform their duties in accordance with internal policies, codes of conduct, rules and procedures and with the legislation and other applicable regulations.
- The goods and services necessary for the Bank's activity are purchased economically, are used efficiently and are properly protected.
- The Legal and regulatory provisions with a significant impact on the organization are recognized, properly assimilated, and integrated into the operational processes.
- The Bank's governance model is adequate, effective, and efficient.

The Head of DAU reports hierarchically to the Chairman of the Board of Directors and functionally to Audit Commission, is responsible for the general supervision and coordination of the internal audit activities of the BCP Group subsidiaries and attends the meetings of the Audit Committee of the subsidiaries of the BCP Group.

Main developments and accomplishments in the 1º semester 2023

In the 1st half of 2023, the Risk Management Function maintained focused on the continuous improvement of the Group's risk control framework, on permanently monitoring the risk levels in relation to the RAS tolerance limits, while ensuring, at the same time, full compliance with regulatory and supervisory requirements, updating the internal risk management, control policies and regulations.

The most relevant activities developed during the 1st half of 2023 were, synthetically, as follows:

- Monitoring the level of compliance with risk limits, in particular the RAS, at consolidated and at the main geographies level;
- Development and validation of new methodologies for calculating economic capital;
- Completion of the ICAAP and ILAAP reports, and while performing their ongoing monitoring to ensuring the Group's capital adequacy and liquidity continuously.
- Preparation of quarterly Risk Assessment Reports updating the outlook for the evolution of the risks to which the Bank is subject in its activity and the risk strategy to address them;
- Continuous improvement of the internal governance model, management, measurement and risk control at Group level, with special focus on strengthening the credit risk function monitoring and the inclusion of climate and environmental risk factors in the risk management framework;
- Close monitoring of customers' financial situation, in order to identify potentially the most affected by the macroeconomic context, anticipating possible difficulties in fulfilling their responsibilities;
- Consolidation of the process of attribution of credit strategies to corporate segment clients, with differentiated review periods according to the selected strategy' level of risk;
- Review of the parameters of the impairment models with update of the macroeconomic scenarios;
- Maintenance of the overlays approach in order to incorporate uncertainty associated with relevant risk factors in the current macroeconomic and geopolitical environment;

- Review, update and implementation of the NPA/NPE Reduction Plans and Restructuring Funds for the period 2023/25;
- Pursuit the plan for the integration of sustainability themes (ESG) in the Bank's risk management framework and monitoring its implementation within the Bank's RAS;
- Participation in the CDP – Carbon Disclosure Project and Corporate Sustainability Assessment (S&P Global) questionnaires;
- Publication of the Annual Report of Market Discipline;
- Execution of EBA's capital stress tests;
- Continuous improvement of liquidity and funding risk management and control systems at Group level;
- Obtaining an authorisation granted by the ECB in March 2023 to apply Article 352(2) of the CRR for the exclusion of structural foreign exchange positions from the calculation of net open currency positions;
- Continued projects aimed at the improvement of data quality to support decisions and risk control metrics according to BCBS239 and development of the technology platform upgrade to support management risk;
- Continuous improvement of the quality and scope of reporting information to the Management Bodies and Specialized Committees and Commissions, Supervisory entities and market disclosures;
- Presentation of the results for the annual self-assessment exercise of risks in operational processes (RSA-Risk Self-Assessment);
- Improvement of the Outsourcing risk control and monitoring framework;
- Project of renovation and reformulation of the Business Continuity Management System (BCMS);
- Consolidation of the ICT and cybersecurity risk monitoring framework;
- Participation on the Data Quality Special Audit of ECB/Banco de Portugal.

In the 1st half of 2023, the compliance function maintained its focus on the continuous improvement of the Group's compliance risks´s control environment, ensuring, full fulfillment with regulatory and supervisory requirements and updating the internal regulation’s structure that is appropriate for compliance risk management and control.

The most relevant activities and initiatives developed during the 1st half of 2023 were, as follows:

- In the context of AML/CFT, the COFF's action, based on a risk-based approach, focused on complying of the following duties:
  - Of identification and diligence for the appropriate pre-validation, substantive and formal, in the establishment of business relationships in the maintenance of entities and accounts, in the analysis of credit operations and in the presence of occasional transactions, in a context of increased risk, highlighting the effect of the war in Ukraine.
  - Of examination of operations, highlighting the process of filtering operations, an essential process for compliance with the systems of sanctions and embargoes decreed by the competent national and supranational authorities, and their monitoring, with a view to detecting and preventing potentially irregular situations.
  - Of control, with the improvement of IT systems and monitoring mechanisms, adapting them to the new regulatory requirements and new risk factors, contributing to the effectiveness of the AML/CFT risk management model.
  - Of communication, by adopting appropriate governance and processes, to timely inform the competent authorities whenever there are suspicions or sufficient reasons to suspect that certain funds or other assets, regardless of the amount or value involved, come from criminal activities or are related to financing, in a context of growing risk factors in this area.
  - Duty to cooperate with the Directorate-General for Foreign Policy of the Ministry of Foreign Affairs and the Planning, Strategy, Evaluation and International Relations Office of the Ministry of Finance, ensuring compliance of the regulatory and legal framework on restrictive measures.
  - Of training, by complying with a training and communication plan.
- Compliance with the AML/CFT duties defined by law is based on dedicated technological solutions, in the definition and management of risk models in accordance with the evolution of the various competing variables for the establishment of scorings to be applied to operations. Also noteworthy is

the development of new, more efficient solutions, based on automation processes for the analysis of risk factors inherent to new account openings and transaction screening, and the effort to update internal rules to align them with recent changes in the legislative environment. Among the various initiatives undertaken in the1st half of 2023, we highlight the following:

- The implementation of improvements in the automatic processes related to transaction filtering, in order to ensure permanent and timely compliance with the restrictive measures decreed by the various international institutions, in a more demanding international context resulting from the war in Ukraine.
- The reinforcement of the control of the AML/CFT risk in terms of Customer onboarding, regarding the segments and the highest risk jurisdictions involved in the business relationships.
- The optimisation of the alarm system and monitoring of business relations with the objective of increased efficiency in the alerts generated.
- The introduction of improvements in the technological platform and in the processes that promote the updating of Customers' information and supporting documentation in the Bank, in compliance with AML/CFT - related regulations.
- The continued strengthening, training and specialization of the Compliance Office teams within the scope of AML/CFT, in its various dimensions.
- Implementation of the Training and Communication Plans on compliance matters for all the Bank's Employees and commercial structures, with the most important aspects to be taken into account both in terms of the risk of financial crime and in terms of other compliance and regulatory risks.

- Regarding the updating of internal regulations in the 1st half of 2023, it should be noted:
  - Changes in the Related Parties Policy, clarifying the concept of Bank and governing bodies and the classification of some transactions, as well as the obligation to submit to the management body transactions related to some entities covered by the IFRS / IAS 24 regime.
  - Changes to the Whistleblowing Policy, which now includes the separation of the whistleblowing process between Group Entities in Portugal, as well as the clarification that the deadlines for acknowledgment of receipt and response to the whistleblower may not apply if the irregularity does not fall within the terms defined in the legislation in force.
- Proceeding with the alignment of strategies and priorities in the risk management of the Group's Operations, efforts continued to update the Group's policies, also applicable to International Operations. In addition, the Compliance Office strengthened its monitoring of the Compliance function's activity in those Operations, supporting its plans to improvement of the internal control system related to AML/CFT, towards full alignment with Group policies and full compliance with new local and international regulatory requirements.

Credit risk

The materialization 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.

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 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 December 31, 2022 and June 30, 2023, in terms of EAD (Exposure at Default) (*), in the three main geographies in which the Group operates - Portugal, Poland and Mozambique - which represented the Group's total EAD by June 30, 2023.

(million euros)

Geography	Jun. 23	Dec. 22	Change	
			Amount	%
Portugal	60,926	61,716	(790)	(1.3)%
Poland	26,005	24,023	1,982	8.2%
Mozambique	2,411	2,446	-34	(1.4)%
TOTAL	**89,342**	**88,185**	**1,158**	**1.3%**

* The EAD represents the expected exposure if the customer defaults. 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.
The figures included in the table do not include impairment deductions, including those with a standard method regulatory treatment, including all risk classes (i.e. besides credit to Customers, debt positions from Sovereign entities and Institutions are included).

Considering the position on December 31, 2022 as a basis for comparison, the Group's loan portfolio, measured in euros (EUR), registered an increase of 1.3% during the 1st half of 2023. This evolution is explained by decreases in Portugal and in Mozambique, offset by growth in Poland.

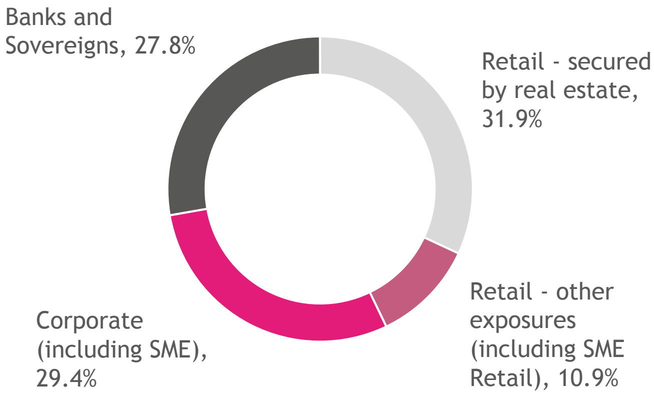
The decrease in Portugal is primarily due to a reduction in the exposure to Central Banks and Sovereigns, which decreased by approximately 1.4 billion euros, notably in exposures related to the Portuguese Central Bank, which decreased by 2.2 billion euros. As for the Retail and Corporate segments, there were increases of 433 million euros and 212 million euros, respectively.

In Poland's loan portfolio there was an increase of 8.2%, measured in euros, largely explained by the increase in exposure to Sovereigns, which amounted to approximately 1.7 billion euros, accompanied by a growth in credit exposure to Corporate and Retail, which amounted to 292 million euros. The overall growth of the portfolio converted into euro is the result of the appreciation of the zloty, as there was a reduction in the portfolio in local currency.

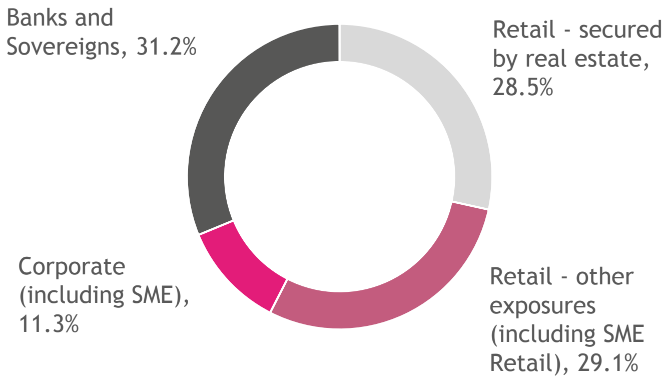
Regarding Mozambique, there was a decrease in the loan portfolio of 1.4%, measured in euros, mainly related to the decrease in Sovereign and Institution exposures, countered by an increase in the exposure to Corporates and Retail.

The portfolio composition by risk classes is illustrated by the following graphs, representing the portfolio structure on June 30, 2023:

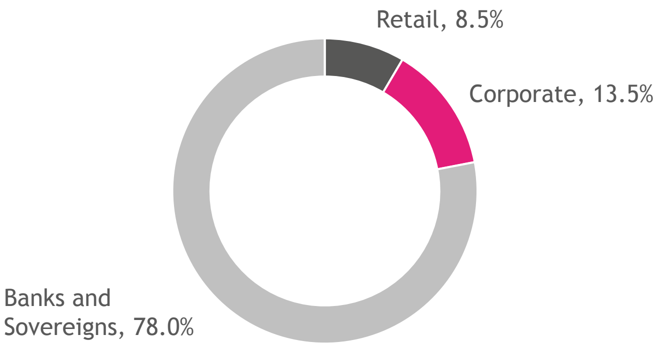
Portugal



Poland



Mozambique



In what concerns the structure of portfolios by counterparty segment, in Portugal the most significant portion continues to be assumed by the retail segment with 42.8% of the total, 31.9% of which relates to exposures related to mortgages. The Corporate segment has a weighting of around 29.4%, slightly higher than at the end of 2022, highlighting the decrease in the weight of the Banks and Sovereigns segment, which recorded a decrease in its representativity to a level close to 27.8%, from a weight of 29.7% on December 31, 2022.

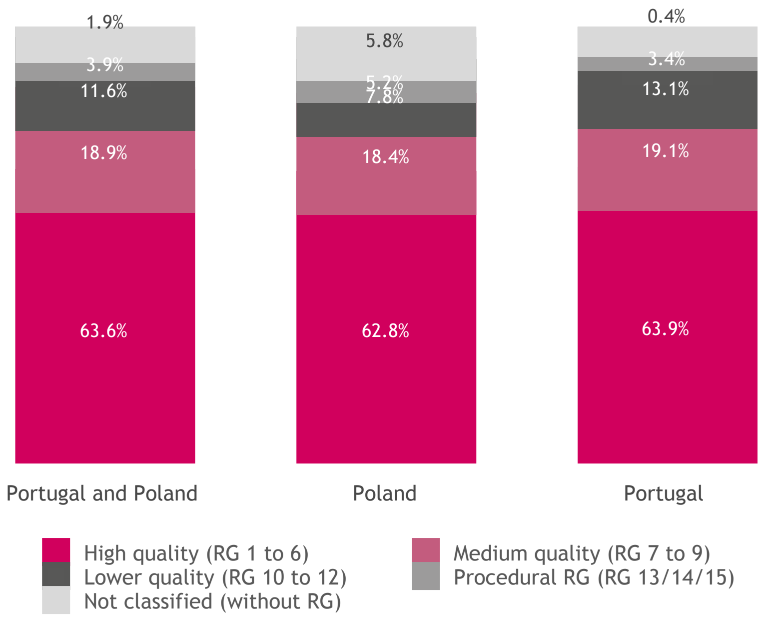
In Poland we highlight the Retail segment, with a weight of 57,6%, observing a slight decrease in the weight of exposures collateralized by mortgage guarantee to 28.5%, an equally slight reduction in the representativeness of the Corporate segment and an increase in the Banks and Sovereigns component, ending the 1st half of 2023 with weightings of 11.3% and 31.2%, respectively.

Regarding Mozambique, the structure remained stable, with emphasis on the relevance of the weight of the Banks and Sovereigns segment which amounted to 78% of the portfolio. The Corporate and Retail segments assumed a representativity of 13.5% and 8.5%, respectively.

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 along the last years, reflecting a clear trend of improvement in the portfolio's quality. In the 1st half of 2023, there was a reversal of this trend for retail segment PDs, as well as a slight overall LGD worsening.

The following graph illustrates the distribution of the portfolio amounts, in terms of Exposure at Default (EAD) by the risk grades (internal ratings) attributed to the holders of credit positions in Portugal and Poland, on June 30, 2023. 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.



As shown in the chart above, the weight of EAD corresponding to risk grades of medium and higher quality, in the two geographies concerned, represented 82.5% of total EAD on June 30, 2023, with the structure remaining close in both geographies, with a slight decrease in the weight of risk grades between 1 and 6 in both Portugal and Poland, to 63.9% and 62.8%, respectively. This weighting compares with year-on-year weights of 82.3%, 80.9%, 80.7% and 76.8% at the end of 2022, 2021, 2020 and 2019, respectively, reflecting a consistent favourable evolution.

With regard to the weight of exposure in the set of the two main geographies corresponding to Customers with procedural Risk Grade (without access to new credit), it is verified that it reached a value of 3.9% as of June 30, 2023, maintaining the downward trajectory that already came from previous years: 4.2% (2022), 4.8% (2021), 5.9% (2020) and 7.8% (2019). In the case of Portugal, the trend of a more accelerated reduction in exposure to Clients with Procedural Risk Grade also continued: 3.4% (June 2023), 3.7 (2022), 4.7% (2021), 6.1% (2020) and 8.8% (2019).

Regarding the LGD parameters, which represent the expected losses in the event of default and which, to a large extent, reflect not only the efficiency of credit recovery according to the different types of credit segments/products, but also the levels of collateralization of credit operations, the following table shows the respective average values (weighted by EAD) at the end of June 2023 and 2022:

	Mortgages	SME Retail	Retail (other)	Real Estate Promotion	SME Corporate	Corporate	GLOBAL AVERAGE
30 June 2023	16.1%	32.7%	37.2%	38.7%	47.1%	32.4%	26.3%
30 June 2022	16,2%	32,1%	34,6%	37,0%	46,0%	32,4%	25,4%

Thus, in June 2023, LGD parameters in Portugal show values close to those observed at the end of 2022, with a slight increase in overall terms, improving in the segments with mortgage loans.

It should also be noted that about 1/3 of the corporate loan portfolio in Portugal benefits from guarantees issued by various entities (Mutual Guarantee Societies; European Investment Fund and European Investment Bank), which provide an additional level of protection in the event of default.

Main credit risk indicators

The following table shows the quarterly evolution of the main credit risk indicators between June 30, 2022 and June 30, 2023, for the Group and for the portfolios of Portugal, Poland and Mozambique, which is influenced by the current macroeconomic context:

	Jun 23	Mar 23	Dec 22	Sep 22	Jun 22
CONSOLIDATED					
NPE/Gross credit	**3.7 %**	3.8 %	3.8 %	4.1 %	4.3 %
NPL > 90 days / Gross credit	**0.9 %**	0.9 %	0.9 %	1.1 %	1.1 %
Past due credit / Gross credit	**1.1 %**	1.0 %	1.0 %	1.2 %	1.3 %
Impairment / Gross credit	**2.7 %**	2.7 %	2.6 %	2.7 %	2.8 %
PORTUGAL					
NPE/Gross credit	**3.2 %**	3.2 %	3.4 %	3.7 %	4.0 %
NPL > 90 days / Gross credit	**0.5 %**	0.4 %	0.4 %	0.7 %	0.7 %
Past due credit / Gross credit	**0.6 %**	0.5 %	0.5 %	0.8 %	0.8 %
Impairment / Gross credit	**2.4 %**	2.4 %	2.3 %	2.5 %	2.6 %
POLAND					
NPE/Gross credit	**4.4 %**	4.5 %	4.5 %	4.5 %	4.3 %
NPL > 90 days / Gross credit	**1.6 %**	1.6 %	1.6 %	1.7 %	1.6 %
Past due credit / Gross credit	**2.1 %**	2.1 %	2.0 %	2.1 %	2.2 %
Impairment / Gross credit	**3.3 %**	3.2 %	3.1 %	3.1 %	2.9 %
MOZAMBIQUE					
NPE/Gross credit	**15.3 %**	15.6 %	16.3 %	14.8 %	16.4 %
NPL > 90 days / Gross credit	**7.1 %**	7.4 %	7.8 %	8.9 %	9.1 %
Past due credit / Gross credit	**7.4 %**	7.6 %	7.8 %	9.0 %	9.2 %
Impairment / Gross credit	**8.2 %**	8.3 %	8.1 %	10.0 %	9.8 %

Gross credit = Direct credit to clients, including credit operations represented by securities, before impairment and fair value adjustments. NPE include loans to Customers only.

The evolution of credit risk indicators during the 1st half of 2023 was favourable for the NPE/gross credit ratio, with a reduction of 0.1 percentage points at consolidated level and 0.2 percentage points in Portugal.

The ratio of loans overdue by more than 90 days remained below the 1% threshold at consolidated and individual level, with a slight increase of 0.1 percentage points in Portugal to 0.5%. As for the Past due credit ratio, there was a slight increase of 0.1 percentage points at consolidated level and in Portugal, respectively to 1.1% and 0.6%.

The very low value of the non-performing loans ratio in Portugal (0.5%) when compared to the NPE ratio (3.2%) shows that a very significant part of the NPE portfolio is associated with "unlikeness to pay" situations.

It should also be noted that, despite the slight increase in the 1st half of 2023 of the 'Impairment/Gross Credit' ratio consolidated and in Portugal, of 0.1 percentage points to 2.7% and 2.4%, respectively, these values that are in line with the trajectory of reduction of the relative weight of the portfolio of loans in default observed over the last few years.

In Poland, there was an improvement of 0.1 percentage points in the NPE/gross credit ratio, a maintenance of the ratio of loans overdue by more than 90 days and a slight increase of 0.1 percentage points in the Past due credit/gross credit indicator.

Despite the persistence of a challenging economic and financial environment, the operation in Mozambique recorded a reduction in the 'NPE/Gross Credit' ratio by 1 percentage point, as well as an improvement in the other indicators of 'Past Due/Gross Credit' and 'NPL > 90 days/Gross Credit' during the 1st half of 2023, as a result of a prudent policy of granting new loans.

NPA Reduction Plan

The implementation of the Group's NPA (non-performing assets) Reduction Plan remained a priority throughout the 1st semester of 2023, in its two aspects - problematic loans (NPE-non performing exposures) and assets received as repayment of loans (FA-foreclosed assets) - focusing mainly on the NPE loan portfolios and FA properties held for sale, in Portugal.

The NPA Reduction Plan is framed by a specific Governance model and a robust management framework, based on specialized credit recovery areas and systematized recovery strategies - both arising from automatic analysis and decision models (for Retail) and based on the relationship of recovery managers with their Corporate Clients, with tailor-made solutions.

The FA management is based on a specialized 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 is supported by a set of operational initiatives designed with the objective of promoting an increasing effectiveness in the management of credit processes and foreclosed asset management.

The fulfilment of the reduction targets of each area involved in the reduction of NPA is measured on a monthly basis and reported to senior management, namely to the Credit and Non-performing Assets Commission.

The following table presents the evolution of NPE volumes between June 30, 2022 and June 30, 2023, for the Group and for Portugal:

(Million euros)

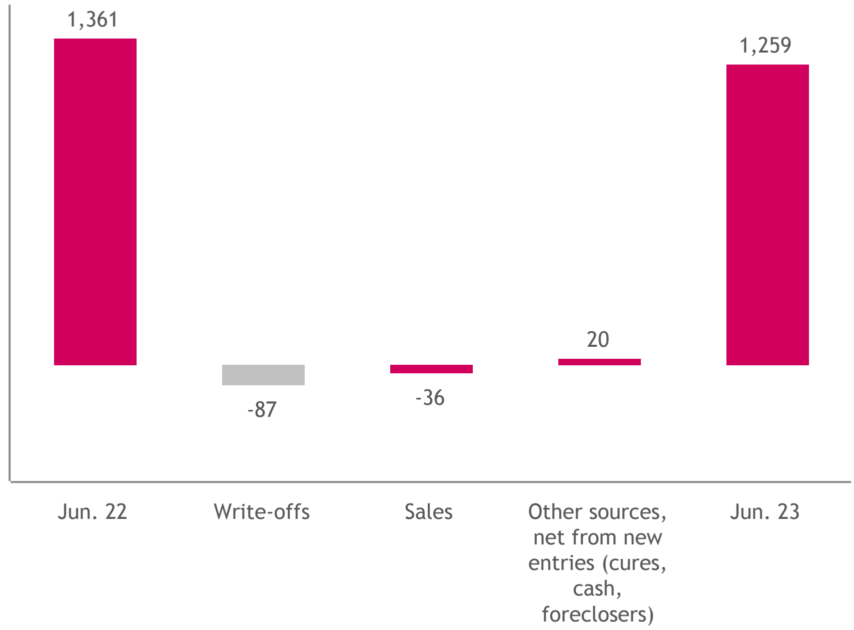
		Jun 23	Mar 23	Dec 22	Sep 22	Jun 22
CONSOLIDATED		**2,139**	2,169	2,218	2,424	2,502
	Change YoY	-79		(535)		
PORTUGAL		**1,259**	1,276	1,361	1,537	1,635
	Change YoY	-102		(517)		

Comparing the size of the exposure of Customers classified as NPE at the end of the 1st half of 2023 with that at the end of 2022, there is a positive evolution, with a reduction of 79 million euros at the consolidated level and 102 million euros in the activity in Portugal, which corresponds to a contraction of 3.6% and 7.5%, respectively. Although with lower proportions than in historical figures, given that the stock of NPE exposures corresponds to a more limited size, this result reflects the maintenance of the successful path carried out over the last few years in identifying and implementing solutions that allow the reduction of these non-performing assets, even in an adverse context.

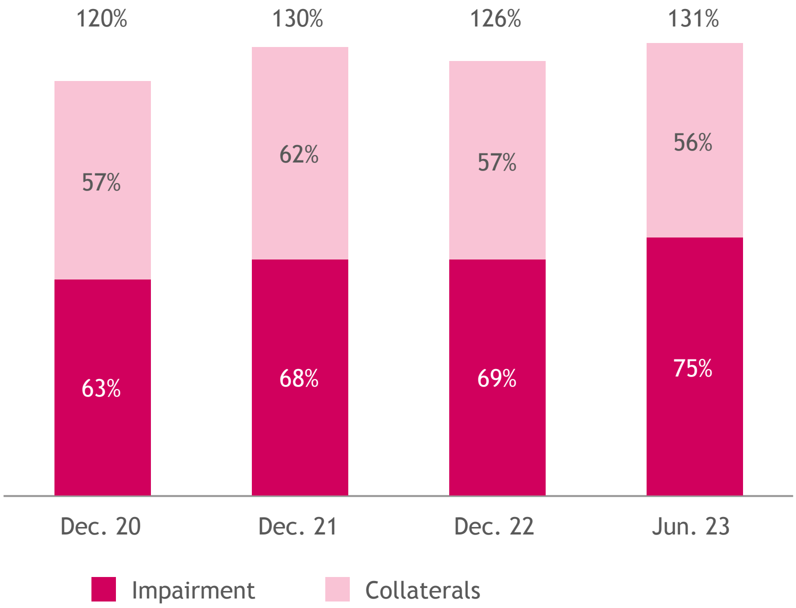
It should be noted that the evolution described above was consistent with expressive values in the two 1st quarters of the year.

Regarding the type of operations that explain the reduction of NPEs in Portugal during the 1st half of 2023, the graph below highlights the contribution of write offs, which amounted to 87 million euros. The gross value of sales amounted to 36 million euros, with the combined effect of other sources of NPE reduction and new entries having an additional impact of 20 million euros, and it should be noted that there were no new entries in NPE of significant individual value.

(million euros)



Despite the weight of the reduction in NPEs due to write-offs, the impairment reinforcement effort allowed the coverage ratio of the NPE portfolio by impairment in Portugal to increase to 75%. The following chart, which refers to domestic developments, shows the five percentage point increase observed in the total coverage ratio (impairments + collateral) to 131% at end-June 2023, followed by a slight reduction in the weight of collateral coverage.



The trend observed in the 1st semester of 2023 regarding assets on the balance sheet resulting from credits repayment (foreclosed assets - FA) was favourable, as shown in the following table, which presents the evolution of the total stock of FA in Portugal and its breakdown into the different types of assets, as well as the aggregate value of assets of this nature of subsidiaries abroad (amounts before impairment):

(Million euros)

	Jun. 23	Dec. 22	Dec. 21	Dec. 20
Real estate properties	191	262	565	809
Real estate Funds and companies	182	182	205	246
Other assets (non-Real estate)	73	73	81	92
SUB-TOTAL - Portugal	**445**	**517**	**851**	**1,146**
Other geographies Foreclosed Assets	67	65	65	40
GROUP TOTAL	**512**	**582**	**916**	**1,186**

Compared to the position at the end of 2022, there was a 12% reduction in the FA portfolio as of 30 June 2023. The overall reduction in Portugal amounted to 72 million euros, mainly explained by the Real Estate component, which amounted to 71 million euros.

During the 1st half of 2023, the Bank continued to pursue the objective of reducing the non-current asset portfolio, in particular real estate received as a payment in kind.

In this period the decrease in the stock of these assets amounted to a gross amount of 76 million euros, with a high commercial sales momentum and rather low volumes of new inflows, which are explained by the reduction in the size of the NPE loan portfolio, the sale of corporate loan portfolios with real estate collateral in previous periods and the proper functioning of judicial sale instruments to third parties.

The assets received in the 1st half of 2023, amounting to 4 million euros, consist mainly of residential properties (2.4 million euros)..

It is also worth noting the reduction in the volume of properties still being prepared for sale, by 29 million euros between December 2022 and June 2023, to a value of 64 million euros, corresponding to a reduction of more than 30% in these assets in the semester.

It should also be noted that the reduction in the gross values of the foreclosed assets portfolio was accompanied by an increase in the level of coverage by impairments, from 38% in December 2022 to 42% in June 2023.

Credit concentration risk

The following chart presents the weights, in total exposure, of the Group's 20 largest performing exposures (non-NPE), as at June 30, 2023, in terms of EAD and using the concept of "Groups of Clients/ Corporate Groups", excluding the risk classes of "Banks and Sovereigns":

	Jun. 23	Dec. 22
Client Groups	Exposure weight in total (EAD)	Exposure weight in total (EAD)
Client group 1	0.9%	0.9%
Client group 2	0.6%	0.8%
Client group 3	0.5%	0.7%
Client group 4	0.5%	0.4%
Client group 5	0.4%	0.3%
Client group 6	0.3%	0.3%
Client group 7	0.3%	0.3%
Client group 8	0.3%	0.3%
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%	0.2%
Client group 13	0.2%	0.2%
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%	0.1%
Client group 19	0.2%	0.1%
Client group 20	0.2%	0.1%
Total	**6.6%**	**6.4%**

Overall, the 20 largest productive exposures represented 6.6% of total EAD on June 30, 2023, compared with a weight of 6.4% on December 31, 2022. Hence, there was a slight increase in the concentration of credit in the 20 largest productive exposures, measured in terms of EAD

It should be noted that, in addition to complying with the regulatory limits on Large Exposures, the Group defines specific objectives for controlling credit concentration, materialized into RAS metrics. Furthermore, other indicators are periodically monitored for various types of credit concentration: single-name, by sectors of activity, by country, for Institutions and for Sovereign risks.

In the case of the single-name concentration, the limits are 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, promoting the continued improvement of the control environment. This framework has a variety of features, such as: functions segregation, definitions for lines of responsibility and respective authorisations' levels, tolerance limits for exposure to risks, appropriate internal regulations' framework (including ethical codes and codes of conduct), risks self-assessment (RSA) exercises, technological assets, information security and Outsourcing risks' assessment, key risk indicators (KRI), access controls (physical and logical), reconciliation activities, exception reports, loss events data capture, a structured process for new products and services 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 an end-to-end processes' structure. Each geography adapts its own processes' structure, which is regularly reviewed/updated. This approach, transversal to the functional units of the organisational structure, is 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 the operations' areas and the process owners (seconded by process managers), whose mission - beyond the management of their processes' effectiveness and efficiency - 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, thus contributing to the strengthening of control mechanisms and the improvement of the internal control environment.

Operational losses capture

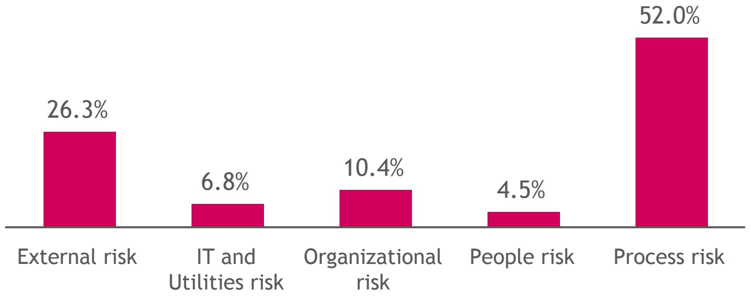
The operational losses data capture (i.e. the identification, registration and typification) of operational losses and of the originating events aims at the strengthening of the awareness to this risk and to provide relevant information for process owners to incorporate within their process management. 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.

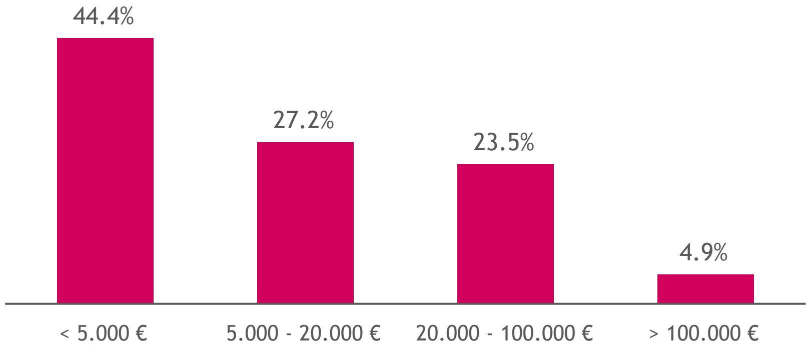
The identified events in which the losses, effective or potential, exceed the defined materiality limits (for each geographical area) are characterised by the process owners and process managers of the processes to which the losses are related, including the description of the respective cause-effect and, when applicable, the valuation of the loss and the description of the improvement action 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 at the specialised Compliance and Operational Risks Commission). The lessons learned reports include an action plan to mitigate the risks that led to the losses, where appropriate.

The following graphs present the profile of the losses captured in the respective database in the 1st half of 2023:

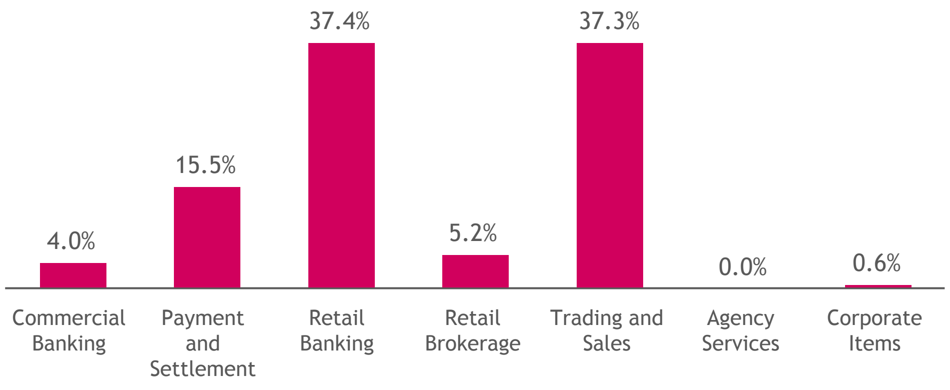
LOSSES AMOUNTS DISTRIBUTION
By cause



LOSSES AMOUNTS DISTRIBUTION
# of events by amount range



LOSSES AMOUNTS DISTRIBUTION
By business line



The profile of losses recorded in the 1st half of 2023, was influenced in terms of geography by Poland and in what concerns the losses distribution by cause and business line, was influenced by the losses registered in cards fraud and in compensations paid to clients regarding investment products discontinued more than 10 years ago (in Portugal and Poland).

Regarding the profile of losses recorded in the first half of 2023, it was influenced and with regard to the distribution by cause and by segment of activity for losses

In what concerns the distribution of losses by class of amount (in number of losses), there was no change in the typical profile of the distribution of operating losses, with significantly more cases of low amounts than those of high amounts.

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. 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

In Portugal, at the beginning of 2023, the Bank began a project to renew and redesign its Business Continuity Management System (SGCN), with the aim of simplifying and optimising its operating and governance models.

The initiatives developed required the participation of the various areas of the Bank that assume relevant roles in business continuity management: operational risk (Risk Office), information and communications technologies (IT and Technology Division), information security (Information Security Division), institutional and customer communication (Communication Division) and business and support areas. Among the activities included in the project, the following stand out:

- The assessment of the current level of maturity of the SGCN in relation to best practices and regulations in force;
- The review of risk scenarios to be considered in Business Continuity planning;
- The redesign of the operating and governance models according to the latest developments and threats;
- Review and creation of internal regulations to support the SGCN;
- The development of a proof of concept to test the adequacy of the ongoing revamping, namely in terms of the grading of the scenarios considered and the priorities defined for recovery.

In Poland, business continuity was evaluated in the 1t half of the year in line with the usual cycles and in the usual terms, with the execution of a business impact analysis (BIA) for the risks of 91 operational processes (2 of these new), the results of which were presented to Bank Millennium's Process and Operational Risk Committee, with no changes in severity registered. In the 1st semester, there was also an inspection visit by the Polish Central Securities Depository (KDPW), which resulted in a positive assessment by the inspectors involved regarding the Bank's alternative spaces for the continuity of its operations.

In Mozambique, in the 1st half of 2023, the Millennium bim team was mainly involved in documentation management, carrying out a review of the Business Recovery Plans of the business units involved in critical processes, in terms of human and technological resources. Regarding the equipment of alternative spaces, efforts were made to restore the capacity to provide computer equipment at those premises, together with the capacity to mobilise employees, within 24 hours (as it existed before the pandemic), as it was recognised that there is a need proceed with integrated exercises, with evacuation drills and the provision of technological means, within the indicated recovery period.

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 mitigation - 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 approved by the EC.

Legal, Compliance, Conduct and Financial Crime risks

Banco Comercial Português´s activity 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. With the purpose 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/CFT), 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 communication.

For an effective and efficient AML/CFT 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, these risks’ management system was enhanced in the first half of 2023, 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:

- The continued strengthening, training and specialization of the Compliance Office teams within the scope of AML/CFT model, in its various dimensions.
- Monitoring of legislative and regulatory changes, the main highlights of which included:
  - Issuance by the European Banking Authority (EBA) of guidance on AML/CFT risk factors applicable to non-profit organizations for the effective management of BC/FT risk by financial institutions when providing financial services.
  - The publication of Notice 1/2023 related to compliance with preventive AML/CFT duties in the context of activities carried out by entities with virtual assets.
  - The publication of Law 24/2023, updating the rules for the protection of consumers of financial services.

- The continued establishment of sanctions and embargoes due to the conflict resulting from Russia's invasion of Ukraine.

- As a result of the establishment of the referred sanctions and embargoes, development of enhanced controls to identify transactions and risk entities, ensuring compliance with restrictive measures.
- The implementation of a new AML/CFT Client risk model, which includes a set of new risk factors, in compliance with the latest regulatory requirements.
- The introduction of improvements in the technological platform and in the processes that promote the updating of information and supporting documentation of Customers in the Bank, in compliance with the regulations related to AML/CFT.
- Amendment of the internal regulations on Related Parties, clarifying the concept of Bank and governing bodies and the classification of some transactions, as well as the obligation to submit to the management body transactions related to some entities covered by the IFRS / IAS 24 regime.
- Amendment of the Whistleblowing Policy, which now includes the separation of the whistleblowing process between Group Entities in Portugal, as well as the clarification that the deadlines for acknowledgment of receipt and response to the whistleblower may not apply if the irregularity does not fall within the terms defined in the legislation in force.
- Implementation of the Training and Communication Plans on compliance matters for all the Bank's Employees and commercial structures, with the most important aspects to be considered, both in terms of the risk of financial crime and in terms of other compliance and regulatory risks.

Market risks

Market risks refer to potential losses in a portfolio due to fluctuations in interest rates, exchange rates, and financial instruments prices, considering both correlations volatility among these instruments.

The following management areas are defined for each Group entity for the objectives of profitability analysis and market risk measurement and control:

- Trading - Management of positions aimed at achieving short-term gains through sale or revaluation. These actively managed positions are tradable without restrictions and are regularly and accurately valued. 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 positions in securities intended to be held to maturity (or for a longer duration), or those that 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 management areas enables effective management separation of the trading and banking books, as well as for the correct allocation of each transaction to the most appropriate management area, based on its context and strategy.

To ensure that the risk exposure in the Group’s portfolios aligns with defined risk tolerance levels, specific market risk limits are established, at least annually. These limits are applicable to all portfolios within the respective risk management areas. The Risk Office actively monitors these limits on a daily basis (or intra-daily in the case of financial markets areas).

In financial markets’ areas, stop loss limits are established based on multiples of the risk limits defined for those areas. These limits aim to restrict maximum losses. Whenever these stop loss limits are reached, a mandatory review of the strategy and assumptions related to managing the positions is conducted.

Trading Book market risks[15]

The daily measurement of general market risks, encompassing interest rate risk, exchange rate risk, equity risk, and price risk of credit default swaps, uses a VaR (value-at-risk) model, considering a time horizon of 10 business days and a significance level of 99%.

The Group also uses an integrated market risk measurement approach that allows for the monitoring of all relevant risk subtypes. This comprehensive measurement encompasses the assessment of the following risk types: general risk, specific risk, non-linear risk and commodity risk. Each risk subtype is individually measured using appropriate risk models. The integrated measurement combines the results of each subtype without considering diversification between the four subtypes, adopting a “worst-case scenario” approach.

For non-linear risk, an internally developed methodology is applied, that replicates the impact of main non-linear elements of options on the profit or loss (P&L) results of various portfolios in which they are included. This methodology in analogous to the VaR approach, utilizing the same time horizon and significance level.

Specific and commodity risks are measured using standard methodologies as defined in applicable regulations, with due consideration for an appropriate change of the time horizon.

The Group continues to present limited risk exposure in the regulatory trading book. The table below presents the amounts at risk for the Trading Book as measure by the aforementioned methodologies on December 31, 2022 and June 30, 2023:

(Thousand of euros)

	30 June 2023	Max of global risk in the period	Min of global risk in the period	31 December 2022
Generic Risk (VaR)	1,694	5,294	1,049	3,945
Interest rate risk	1,461	3,842	962	2,949
FX risk	270	3,309	482	2,557
Equity risk	913	185	589	402
Diversification effects	*(950)*	*(2,041)*	*(984)*	*(1,963)*
Specific Risk	575	22	15	28
Non-linear Risk	0	0	0	0
Commodities Risk	—	—	—	—
Global Risk	**2,270**	**5,316**	**1,063**	**3,973**

Starting in the second quarter of 2022, international financial markets have experienced increased concerns regarding inflationary pressures, rising interest rates, and heightened volatility amidst economic uncertainty.

VaR model monitoring and validation

The Group conducts several validations of the internal VaR model overtime to assess the appropriateness of risk management. These validations include back testing, estimation of diversification effects and analysis of risk factor comprehensiveness.

The VaR model’s hypothetical back testing exercise for the Portugal’s Trading Book, in the annual period ended 30 June 2023, resulted in four negative excesses (and two positive) over the model’s predicted results in 259 days of observation. These back testing results affirm the model’s suitability for measuring the risk exposure effectively

Trading Book Stress Tests

In addition to VaR assessment, the Group continuously performs stress tests using a wide range of scenarios to identify risk concentrations that may not be fully captured by the VaR model.

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

As of June 30, 2023, the results of the stress tests of the Group's Trading Book indicated the following impacts on the portfolio's results:

(Thousand EUR)

	Negative impact scenario	Impact
STANDARD SCENARIOS		
Parallel shift of the yield curve by +/- 100 bps	+ 100 bps	-1,844
Change in the slope of the yield curve (for maturities from 2 to 10 years) up to +/- 25 bps	- 25 bps	-31
4 combinations of the previous 2 scenarios	+ 100 bps & + 25 bps	-1,807
	+ 100 bps & - 25 bps	-1,879
Variation in the main stock market indices by +/- 30%	+30%	-3,037
Variation in foreign exchange rates (against the euro) by +/- 10% for the main currencies and by +/- 25% for other currencies	-10%, -25%	-1,580
Variation in swap spreads by +/- 20 bps	-20 bps	-369
NON-STANDARD SCENARIOS		
Widening/narrowing of the bid-ask spread	Widening	-1,877
Significant vertices (1)	VaR w/o diversification	-2,623
	VaR w/ diversification	-2,000
Historical scenarios (2)	15 July 2011	-3,637
	27 January 2012	-3,176

(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 Eurozone Sovereign Debt crisis (from 2010 onward)

These results demonstrate that the exposure of the Group's trading book to various risk factors remains relatively limited. The primary adverse scenarios of concern refer to a general increase in interest rates, either as a parallel shift or accompanied by a change in the yield curve slope. Non-standard scenarios highlight one of the historical scenarios as the main loss case.

Interest rate risk in 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 and the economic value of the Group, 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. In 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). Additionally, 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 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) and impacts of any potential prepayments on credits with defined maturity.

The result of this analysis for a +100 b.p. change in the level of the Euro interest rates (for all maturities, i.e. assuming a parallel shift of the yield curve), in the Banking Book portfolio as of June 30, 2023 consists of a positive impact on the balance sheet's economic value of around 50.6 million euros. On the other hand, the impact of a generalized drop in Euro rates of -100 b.p., would be around -61.6 million euros. This exposure level represents only about 1% of the Group's Tier 1 own funds, thus demonstrating the limited exposure of the Group's economic value to changes in the interest rate level.

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. This exercise assumes a static balance for 12 months in which, for each amortization, an exposure with the same features of original 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.

Considering a variation in market interest rates combined with the scenario for the coefficients that transmit the market variations over the deposit´s rates and other interest-generating liabilities ('betas'), the evolution of the sensitivity of the net interest margin is assessed.

Foreign exchange and equity risk of the banking book

The foreign exchange 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 balance sheet foreign exchange risk. Structural foreign exchange exposures, particularly those arising from financial holdings in subsidiaries, are not included in the transfer and are hedged through market operations. This approach aligns with the defined strategy for managing structural foreign exchange risk, aiming to hedge against volatility in the CET1 ratio that stems from foreign currency exchange rates changes. As at 30 June 2023, and excluding the financial holdings from participations in foreign subsidiaries, the Group's exposure to foreign exchange risk presents a limited sensitivity.

On 24 March 2023, the Group has been formally granted permission to exclude these positions of a structural nature, deliberately taken or maintained by the Group to hedge against the adverse effect of exchange rates on the capital ratio, from the calculation of the net open currency positions used to determine the capital requirement for foreign exchange risk.

Regarding equity risk, the Group holds a set of small-sized and low-risk equity positions, primarily in the investment portfolio, namely resulting from execution/payment processes. A specific area of the Group oversees the management of these positions, with daily risk control based on predefined indicators and market risk limits.

Liquidity risk

Liquidity risk consists of the Group's potential inability to meet its financing repayment obligations without incurring significant losses, either due to onerous financing conditions (funding risk) or by selling assets at lower than market values (risk of market liquidity).

The Consolidated Liquidity Plan, which forms an integral part of the budgeting process and is formulated at the level of the Group and for the main subsidiaries, includes the projection of the wholesale funding structure, including the use of market financing, and also the forecast of the internal and regulatory liquidity indicators, ensuring its compliance with the regulatory and internally defined requirements. The preparation of this plan is coordinated by the Group Treasurer, and its execution is continuously monitored throughout the year, with the respective revision being carried out whenever necessary.

In the1st half of 2023, the Group's three operations maintained robust liquidity positions, based mainly on retail deposit bases endowed with high stability and resilience. This characteristic was once again demonstrated by the immunity they revealed to the sequence of liquidity events that affected banks in the US and Europe throughout the1st half of 2023.

As a result, the liquidity risk indicators of each of the operations continued to comply by a very comfortable margin with all the regulatory minimums and the stricter requirements imposed by the Group's risk appetite framework.

Accordingly, the Liquidity Coverage Ratio (LCR) on a consolidated basis reached 214% as at 30 June 2023, compared to 261% one year before, comfortably exceeding the 100% regulatory minimum requirement, based on a highly liquid assets portfolio in an amount compatible with a prudent management of the Group's short-term liquidity.

The Group reinforced its stable funding base, characterized by a large share of customer deposits in the funding structure, supplemented by collateralized funding and medium and long-term instruments, which enabled the stable funding ratio (Article 428 of Regulation (EU) 2019/876) as at 30 June 2023 to stand at 155% (153% on 30 June 2022).

The Group's liquidity profile, structurally comfortable, is also demonstrated by a loan to deposit ratio of 75% (calculated in accordance with Bank of Portugal Instruction No. 16/2004), lower than the figure of 78% recorded in year before.

In Portugal, and despite the significant migration of deposits that began in the 1st quarter of 2023 to non-banking savings products and the early amortization of credit, BCP's balance sheet customer resources still show in June 2023 a slight increase on an annual basis, due to the strong growth observed along the second half of 2022. This evolution has corresponded to an increase in BCP's market share in balance sheet customer funds, a trend that prevailed until the end of the 1st quarter of 2023.

Still in Portugal, and with regard to the wholesale funding structure, after the early repayment at the end of 2022 of the first tranche of the Targeted Longer-Term Refinancing Operation III (LTRO III, "T LTRO III" in English abbreviation), in the gross amount of 7,55 billion euros, the Bank reimbursed the remaining tranche in January 2023, in the amount of 600 million euros. As at 30 June 2023 BCP held a long position with the ECB of 855 million euros. The 1st half of 2023 also marked the return of BCP to the repo market, in operations with a balance in excess of one billion euros.

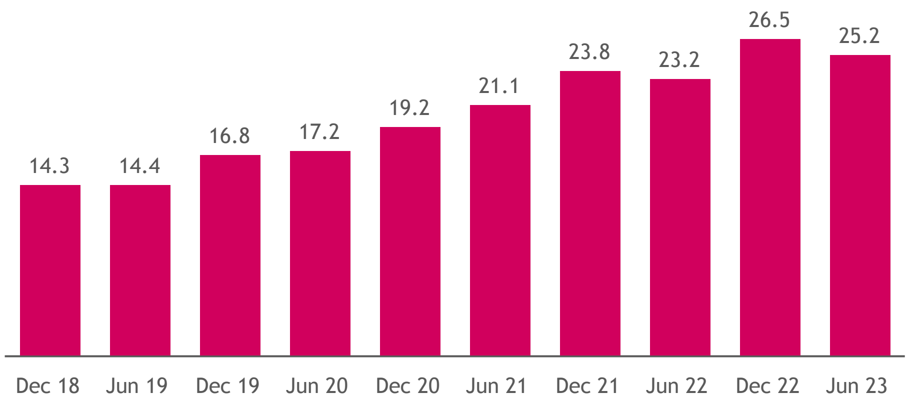
The evolution described above is reflected in the table below, which represents the evolution of the wholesale funding (net) consolidated, between 31 December 2022 and 30 June 2023, in terms of each of the instruments used:

(Millions euros)

	Jun. 23	Dec. 22	Variation
Interbank monetary market (Net)	-90	-157	42.5%
ECB (Net)	-855	-2574	66.8%
Repos	1128	0	0.0%
Loan agreements	336	377	-10.8%
Senior Debt	1350	1350	0.0%
Subordinated Debt	1795	1777	1.0%
Total	3664	773	374.2%

The liquidity buffer available for discount with the ECB stood at 25,2 billion euros on 30 June 2023, 1,3 billion euros below the value held at the end of 2022. This evolution resulted from the unfavourable evolution of the commercial gap from a liquidity perspective (mainly due to the reduction in the deposit base) and to the reversal of the haircuts applicable to securities eligible for discount for pre-pandemic levels, factors moderated by the favourable evolution of liquidity affecting derivatives margin accounts and some market price increase in the securities portfolio. It should be noted that, despite its decrease, the value observed for the liquidity buffer at the end of the 1st half of 2023 is materially higher than that of all recent half-yearly closings, with the exception of the end of 2022, thus reflecting the solidity of BCP's liquidity position.

ECB liquidity buffer
(Billion Euros)



As at 30 June 2023, Bank Millennium and BIM also held resilient liquidity positions, supported by robust buffers discountable at central banks, with all regulatory and internal indicators in their respective comfort zones.

In consolidated terms, the refinancing risk of medium and long-term instruments will remain at low levels over the next three years, with annual values with no material expression.

The conclusions of the ILAAP process reiterate the adequacy of the liquidity and is low risk management process, as well as the compliance of its practices with the requirements defined by the supervision.

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 lies with the Pension Funds Risk Monitoring Commission.

In the 1st half of 2023, the BCP Group Pension Fund achieved a return net of commission of +3%.

This performance is explained by the positive contribution of all asset classes, with the performance of international equity and fixed-rate classes being of greater relevance.

The equity component contributed positively to profitability, recording gains in both the European and international components. At the end of the 1st half of the year and with the adaptation to the new investment policy, the Fund reduced its exposure to equities to around 20%, complied with the increase in exposure to fixed-rate assets.

This point is of particular relevance since the composition of the Fund changed substantially during the 1st half of the year, with an increase in the fixed rate composition both in terms of exposure and duration, thus reducing the Fund's profile and risk, since the long-term interest rate is one of the main vectors for determining liabilities.

The evolution of market interest rates in 2023 led to the update of the discount rate for the calculation of the Fund's liabilities. Thus, the discount rate in effect on December 31, 2022, from 4.17%, was changed to 4% on June 30, 2023.

As at 30 June 2023, the pension fund's liabilities coverage was over €563 million, corresponding to 20% of total liabilities.

Integration of ESG Factors in Risk Management

In its risk classification, Millennium BCP recognises the ESG category which includes factors associated with the climate and environmental components, and also with social and governance aspects.

These factors are not considered separately; in fact, they are seen as elements likely to affect positively or negatively the financial performance and solvency of the Bank's customer's and counterparties. This way, the materialisation of their impacts occurs by means of the traditional risk categories: credit, market, operational & reputation, liquidity and financing.

Within this context, and with the purpose of promoting the integration of ESG factors in risk management, the Bank implemented a set of processes and methodologies to identify, assess, manage and monitor the impact of the ESG risk factors in overall risk, in accordance with the framework and policies already established for the remaining financial and non-financial risks.

Governance Model

The governance model for risks arising from ESG factors follows a structure based on three lines of defence which, under the leadership of the Board of Directors (and respective delegations on the Executive Committee), ensure its adequate assessment and management.

The first-line functions comprise all the departments and business areas that interact with the Bank's customers, counterparties and suppliers, collect the information and data that support the assessment of their risk profiles (and of their respective operations) and structure the commercial solutions with characteristics associated with the ESG factors and with the promotion of control of their impacts on the Bank's risk profile.

The Sustainability Function lies in the first-line of defence and its responsibilities include a) the overall management of the sustainability strategy and plans of Millennium BCP and of its financial group; b) the direct orientation and operational support to the first and second lines of defence in the performance of their main responsibilities in this area; c) the development of policies, methodologies, analysis and reports that address ESG issues; and d) the management of commitments and external communications by the Bank and the Group in this area.

In the second line of defence, the responsibility for risk control, is assumed by the Risk Office and by the Compliance Office. These functions ensure the procedures for the design, implementation of the policies/ methodologies/ risk management models, which are paramount in keeping the risk profile of the Group in appropriate levels.

Among other, these responsibilities, include:

- Integrate the ESG dimension in risk appetite (Risk Appetite Framework - RAF);
- Integrate the assessment of climatic and environmental factors materiality into the regular processes of risk assessment and management
- Carry out stress tests focused on climatic and environmental risk factors;
- Introduce the ESG dimension in capital and liquidity adequacy exercises.

Specifically in terms of compliance, we emphasise the following controls:

- Compliance with regulations relating to sustainability and risk management arising from ESG factors;
- Quality in the external reporting and disclosure of information;
- Design and labelling of the commercial and investment products;
- Incorporation of ESG related requirements and conditions in the Bank's contracts;
- Prevention of conflicts of interest in the provision of services and products related with ESG.

The third line of defence assumes responsibility for the independent review of all ESG aspects through the annual work plans of the Internal Audit Function.

Identification of ESG risks

Climate changes and environmental degradation factors are elements that can affect economic activity, through climate change factors (mitigation, and adaptation),the sustainable use and protection of hybrid and marine resources, the transition towards a circular economy, the prevention and control of pollution, the protection/restoration of biodiversity (cf.EU taxonomy).

The materialisation of these risks fundamentally stems from the exposure banking´s portfolio to customers, counterparties and invested assets whose performance may be affected by or contribute to the negative impacts of climate change and other environmental factors.

These factors may generate negative financial impacts which are identified and assessed by means of two main dimensions:

- Physical risks factors: arising from the effects of climate change and environmental degradation. They are categorized as a) severe risks, if they arise from extreme weather events such as fires or floods; b) chronic risks, if they arise from progressive changes in weather and climate patterns or from a gradual loss of ecosystems;
- Transition risks factors: are the risks of any negative financial impact arising from the effort, in progress or to happen in the future, of transition into a low-carbon and environmentally sustainable economy. These may result, for example, from technological changes, the impact of public policies or behavioural changes in terms of demand for goods or services (including banking services).

The materialisation of social risks factors is also assessed, considering the issues related with rights, well-being and interests of persons and communities and include factors such as (in)equality, health, diversity, inclusion, labour relations, workplace health and safety, human capital and communities.

In addition, the governance risk factors are also identified, through issues relating to leadership, management and prevention of conflicts of interest, quality of internal control and independent reviews, transparency and good practices, for example.

A methodology for assessing the materiality of ESG risk factors was developed in order to determine the potential impact of those risk factors on the Bank's profile.

Management and monitoring principles

The management of the impact of the ESG risk factors must be appreciated in varying timeframes. In contrast, the materialization of ESG risks is expected to occur over extended timeframes, which is why the establishment of strategy and risk appetite follows different timeframes. For example, if the assessment of physical (severe) risks can determine an action strategy more focused on the short term (e.g., considering the establishment of additional mitigation measures, at the level of policies for granting credit and insurance policy), the transition risks justify a more structural approach, based on collecting information, evaluating customers and monitoring their performance over time.

From this perspective, management of ESG impacts follows the following principles:

- Establishment of a responsible corporate financing policy, which excludes or conditions the Group's operations in sectors and/or activities with greater environmental and social impact;
- Integration of the strategy for managing risks arising from ESG factors into the Bank's global sustainability plan, which steers the integration of the ESG dimension into business processes, establishing goals, timelines and a model for controlling proper observance;
- Transparent communication. The Bank publicly discloses its sustainability and ESG impact management goals and key practices, allowing all stakeholders to evaluate the robustness of its approach, including its exposure to ESG risks;
- Regular monitoring of exposure to risks arising from ESG factors through the management information routines already established for each of the risk categories;
- Internal standardisation of ESG references, through a corporate taxonomy that allows the identification and classification of the exposures that are proven to have characteristics that promote the transition of the Portuguese and European economy;
- Focus on credit risk management, through models that promote the integration of the ESG dimension in the risk assessment of the Bank's companies/customers, ensuring that business decisions include an assessment of the main impacts of ESG factors;
- Information gathering and structuring, using public sources and information provided directly by customers, as a means of improving knowledge of customers' environmental performance and the possible financial impacts associated with any limitation on this performance.

The implementation of these principles, is promoted through an internal policy of management of the risks arising from ESG factors, which establishes the following main risk tools:

- Regular assessment of the materiality of the risks incorporating ESG factors to confirm alignment with risk appetite and the need to implement mitigation actions;
- Risk assessment methodologies arising from ESG factors integrated in the credit risk assessment models;
- Risk classification methodologies at portfolio level, enabling the identification of sectors, companies and exposures more susceptible to transition and/or physical risks;
- Quantification models for financed GHG emissions, promoting strategic discussion regarding the management of these emissions and their alignment (in time) with the Paris Agreement targets;
- Sensitivity analyses and stress tests focusing on climate risks.

Stress testing with a focus on climate risk

The Bank uses methodologies for analysing sensitivity and conducting stress tests to the risks arising from ESG factors (with a focus on the climate risk component).

Considering the ESG risk materialisation horizons, this is an important risk management technique, which allows assessing the potential impacts of climate change (and respective scenarios) on the financial variables that affect the value of BCP's banking portfolio.

Based on its results, risk exposures may be identified that require the Bank to take additional management measures to mitigate the potential impacts of climate risks.

This function is ensured by the bank's Risk Office.

Models validation and monitoring

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

GAVM acts as the second line of defence, within the scope of the model risk management framework, 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 risk quantification methodologies and internal models used in BCP and other Group entities in Portugal, as well as to independently ensure the assessment of the quality and adequacy of the risk management framework in what concerns internal models, metrics and completeness of the associated data, according to the Model Risk Management (MRM) framework.

GAVM scope of action encompasses, inter alia, the validation of the methodologies and internal models for credit risk (including Probability of Default (PD), Loss Given Default (LGD), Credit Conversion Factors (CCF) and Expected Credit Loss (ECL) models, under the IFRS scope), market risk (in the trading book), interest rate risk in the banking book (IRRBB) and for the risks included in the 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. Additionally, GAVM participates occasionally, depending on the agenda, in the Risk Assessment Committee (CAvR) to report the unit's activity.

Besides the activities directly related with the monitoring and validation of models, in terms of their performance and quality, GAVM is responsible for the coordination of the 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 a model management and risk assessment tool implemented at the Bank to support the MRM framework.

In the first semester of 2023, several actions were carried out to monitor and validate the internal models in use by the Bank, including the regulatory report of the templates with the validation results of the credit risk internal models, according to the 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 business adequacy and their compliance with the applicable regulatory requirements and best practices, as well as to reinforce the identification and adaptability to changes in their predictive quality.

Within the scope of models' validation, a highlight is made to the validation of the risk quantification methodologies under the scope of the ICAAP, namely of the Pension Fund risk,FX risk in the Banking Book,Traded Market risk,Credit Concentration risk, Sovereign and Central Banks risks, Credit risk and Litigation risk(CHF mortgage portfolio). Validations were also carried out to the methodology of Adverse Scenarios and to the quantification framework of IRRBB. Additionally, GAVM performed the validation (Limited Review) to the 2023 ICAAP. The annual subsequent validations to the PD credit risk models applicable to Corporate segments and Project Finance, calculation of benchmarks for financial ratios, sectorial parameters adjustments and Triad Score transformation were also performed.

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

As part of the model's monitoring activities, GAVM also ensured, among others, the quarterly report to the Risk Commission regarding the performance and quality of the internal models used under the IRB and IMA approaches for, respectively, credit and market risk, the annual Model Risk Assessment (MRA) exercise applicable to all current IRB, IMA and IRRBB models, as well as the reporting of the 2023 regulatory Credit Risk Benchmarking exercise promoted by EBA.

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 set of recovery options that could be implemented in a timely manner to respond to financial stress circumstances that may be originated by events of both idiosyncratic and/ or systemic order is identified.

Considering that the Recovery Plan aims to restore the financial viability of the Group, several scenarios are defined, supported on hypothetical and forward-looking events, against which the impacts of recovery options, the Recovery Plan feasibility and the overall recovery capacity are tested.

In order to monitor the performance of the Group's business activity, a set of quantitative and qualitative key indicators is presented in the Recovery Plan, in line with the guidelines defined by the European Banking Authority (EBA). This set of indicators is 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.

The priorities, responsibilities and specific measures to be taken in a capital and/or liquidity contingency situation are defined by the Recovery Plan, which complements the 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.

The Recovery Plan includes components of Bank Millennium's Recovery Plan (Poland) and information from Millennium bim's Recovery Plan (Mozambique). It 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) and the results from the capital and/or liquidity adequacy assessment processes already mentioned (ICAAP e ILAAP).

Ratings assigned to BCP

The prospects for the Portuguese banking sector benefited from the significant improvement in Portugal's rating and the conditions of the Portuguese Republic, visible in the budgetary and public debt results, despite the challenging external context, and which point to greater resilience and credit risk reduction. Public finances benefited from solid economic growth, increased tax revenues and reduced spending related to the crisis situation. The budget deficit was consolidated at 0.4% of GDP in 2022, and could reach a position of balance or surplus this year. The combination of stable economic growth and strong primary surpluses resulted in a sharp drop in the public debt ratio, which the Bank of Portugal (BdP) expects to reach 92.5% by 2025.

The profitability, asset quality and capitalization of the Portuguese banking sector have improved significantly since 2016, which has significantly strengthened the resilience of Portuguese banks. The Portuguese banking sector is therefore less sensitive to foreign investor confidence and asset quality shocks than in the past.

Portuguese banks benefited from a strong economic recovery and interest rate hikes in 2022. They entered a more challenging environment in 2023, which should, however, continue to support the performance and risk profiles of Portuguese banks.

BCP has made very significant progress in recent years:

Asset Quality – Continuous improvement despite macroeconomic challenges. The NPE ratio is below the target set for 2024 of 4%.

Profitability – Strong operational efficiency supports the improvement in profitability, despite the high legal risk impairment charges in Poland. BCP's pre-provision profit compares well with most other medium-sized peers in southern Europe due to high operational efficiency and some diversification of the business model.

Capitalization and leverage – Improved organic generation of capital and adequate buffers on SREP requirements.

Funding and Liquidity - Stable funding and adequate liquidity profile.

Developments in the 1st half of 2023:

On March 17, Fitch Ratings upgraded BCP's long-term deposit rating to 'BBB-' and its long-term Issuer Default Rating to 'BB+', with a stable outlook. The upgrade of BCP's ratings mainly reflects the improvement in the quality of the bank's assets, the improvement in capital levels and the resilience of earnings before impairments, resulting from a leading franchise in Portugal and solid operational efficiency.

S&P Global Ratings, DBRS and Moody's have revised the Outlook to Positive on April 17th, May 24th and May 26th, respectively.

Moody's	
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	Ba2
Counterparty Risk Assessment LT/ ST	Baa2(cr)/ P-2(cr)
Counterparty Risk LT / ST	Baa2 / P-2
Deposits LT / ST	Baa2 / P-2
Senior Debt	Baa3 / P-2
Senior Non Preferred	Ba2
Outlook deposits / senior	Positive
Subordinated Debt - MTN	(P)Ba3
Subordinated Debt	Ba3
Additional Tier 1	B2(hyb)
Other Short Term Debt	P(NP)
Covered Bonds	Aa2

Rating Actions

On May 26, 2023, Moody's Rating Agency revised the Outlook from stable to positive.

Standard & Poor's	
Stand-alone credit profile(SACP)	bb+
Resolution Counterparty Credit Rating LT/ ST	BBB/A-2
Issuer Credit Rating LT/ ST	BB+/B
Senior Debt	BB+
Senior Non Preferred	BB-
Outlook	Positive
Subordinated Debt	B+
Additional Tier 1	B-

Rating Actions

On April 17, 2023, Rating Agency S&P revised the Outlook from stable to positive.

Fitch Ratings	
Viability Rating	bb+
Support	ns
Support Floor	No Floor
Deposits LT/ ST	BBB-/F3
Senior Debt LT/ST	BB+/B
Senior Non Preferred	BB
Outlook	Stable
Subordinated Debt Lower Tier 2	BB-
Additional Tier 1	B
Covered Bonds	A-

Rating Actions

On March 17, 2023**,** Fitch upgraded BCP's long-term deposit rating to 'BBB-' and the long-term Issuer Default Rating to 'BB+', with a stable outlook. The upgrade of BCP's ratings mainly reflects the improvement in the quality of the bank's assets, the improvement in capital levels and the resilience of earnings before impairments, resulting from a leading franchise in Portugal and solid operational efficiency.

DBRS	
Intrinsic Assessment(IA)	BBB(low)
Critical obligations	BBB (high) / R-1 (low)
Deposits LT/ST	BBB/R-2 (high)
Senior Debt LT/ ST	BBB (low)/ R-2 (middle)
Senior Non Preferred	BB (high)
Trend	Positive
Dated Subordinated Notes	BB
Additional Tier 1	B
Covered Bonds	A

Rating Actions

On May 24, 2023, the Rating Agency DBRS revised the trend from stable to positive.

Capital

The estimated CET1 ratio as at 30 June 2023 stood at 14.0% both phased-in and fully implemented, reflecting a change of +249 and +268 basis points, respectively, compared to the 11.5% and 11.3% phased-in and fully implemented ratios reported in the same period of 2022, comfortably above the minimum regulatory ratios defined within the scope of SREP (Supervisory Review and Evaluation Process) for the year 2023 (CET1 9.41%, T1 11.38% and Total 14.00%) and in line with the medium-term solvability targets.

The evolution of capital ratios in the period continued to be significantly conditioned by the impacts on Bank Millennium, related to the increase in provisions for legal risks associated with loans in foreign currency and with the new regime of moratoriums on mortgage loans adopted in Poland. These effects were, however, more than offset by the positive performance of the recurrent activity in Portugal and by the careful management of capital, including the supervisory authority's approval of the request for the application of CRR article 352 (2) to exclude from the market risk weighted assets certain structural currency positions, kept with the purpose to immunize regulatory ratios against exchange rates' changes.

SOLVABILITY RATIOS (Euro million)

	30 Jun. 23	31 Dec. 22	30 Jun. 22	30 Jun. 23	31 Dec. 22	30 Jun. 22
	PHASED-IN			FULLY IMPLEMENTED		
OWN FUNDS						
Common Equity Tier 1 (CET1)	5,862	5,442	5,320	5,855	5,382	5,221
Tier 1	6,361	5,939	5,828	6,353	5,875	5,728
TOTAL CAPITAL	7,676	7,279	7,146	7,670	7,241	7,060
RISK WEIGHTED ASSETS	41,847	43,103	46,208	41,815	43,106	46,131
CAPITAL RATIOS (*)						
CET1	14.0%	12.6%	11.5%	14.0%	12.5%	11.3%
Tier 1	15.2%	13.8%	12.6%	15.2%	13.6%	12.4%
Total	18.3%	16.9%	15.5%	18.3%	16.8%	15.3%

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

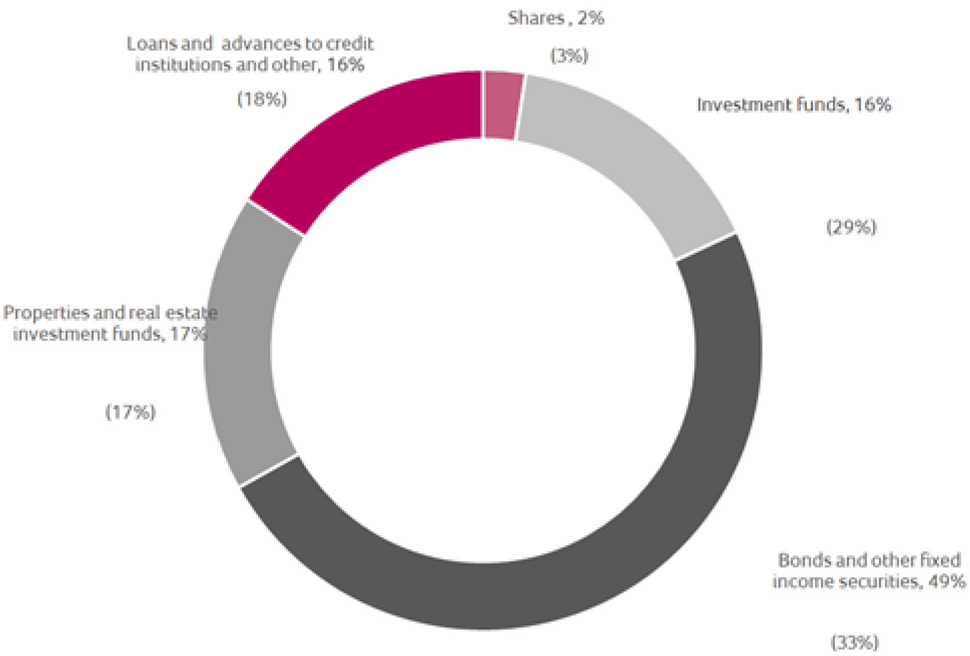
Pension Fund

The liabilities assumed by the Group Banco Comercial Português with pensions on retirement and other benefits are related with the payment to Employees of pensions on retirement, permanent disability pensions and orphan and widow benefits.

As at 30 June 2023, the Group's liabilities stood at 2,841 million euros, comparing to 2,791 million euros at the end of previous year. The Pension Fund's assets which are financing the above-mentioned liabilities reached 3,409 million euros by the end of the 1st half 2023 (3,384 million euros as at 31 December 2022).

As at 30 June 2023 and 31 December 2022, the main asset categories in the Pension Fund's portfolio presented the following distribution:

STRUCTURE OF THE PENSION FUND'S ASSETS AS AT 30 JUNE 2023



(xx%) Proportion as at 31 December 2022

As at 30 June 2023, the structure of the Pension Fund's asset portfolio shows, when compared to the prior year, reductions in exposure to participation units in investment funds, in loans and advances to credit institutions and others and in shares, in contrast to the increase in investment in bonds and other fixed income securities. Investment in real estate and real estate funds remained unchanged compared to the end of the previous year.

The actuarial assumptions considered by the Group for calculating the liabilities with pension obligations were based on market indicators, reflecting particularly long-term debt yield of Euro Zone issuers considered to be at good risk, 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 1st half of 2023 and for the year ended in 2022 are shown below:

Assumptions	30 Jun. 23	31 Dec. 22
Discount rate	4.00%	4.17%
Increase in future compensation levels (a)	2,25% in 2024 and 1% following years	3,75% in 2023; 2,25% in 2024 and 1% following years
Rate of pensions increase (a)	2% in 2024 and 0,75% following years	3,0% in 2023; 2% in 2024 and 0,75% following years
Projected rate of return on fund's assets	4.00%	4.17%
Mortality tables		
Men	TV 88/90 less 1 year	TV 88/90 less 1 year
Women (b)	TV 99/01 less 2 years	TV 99/01 less 2 years
Disability rate	Non applicable	Non applicable
Turnover rate	Non applicable	Non applicable
Normal retirement age (c)	66 years and 4 months	66 years and 7 months
Total salary growth rate for Social Security purposes	1.75%	1.75%
Revaluation rate of wages / pensions of Social Security	1.00%	1.00%

a) The mortality table considered for women corresponds to TV 99/01 adjusted in less than 2 years (which implies an increase in hope life expectancy compared to that which would be considered in relation to their effective age).
b) Retirement age is variable. The normal retirement age increases one month for each civil year and cannot be higher than the normal retirement age in force in the General Social Security Regime (RGSS). The normal retirement age in the RGSS is variable and depends on the evolution of the average life expectancy at 65 years of age.
In 2022 the retirement age was 66 years and 7 months. For 2023 and 2024, the normal retirement age in the RGSS is 66 years and 4 months. The reduction in the retirement age was due to the evolution of the average life expectancy at 65 years in Portugal.
For the projection of life expectancy's increment, it was considered an increase of one year in every 10 years, with the maximum retirement age being set at 67 years and 2 months.
c) This rate refers to the growth for the years following the reporting year.

The actuarial differences recorded as of 30 June 2023 were negative by 38 million euros, before taxes (positive in 376 million euros, before taxes, as at 31 December 2022) includes: i) 57 million euros of actuarial losses, as a consequence of the decrease in the discount rate from 4.17% as at 31 December 2022 to 4.00% as at 30 June 2023, ii) 28 million euros of positive financial deviations related to the difference between the expected return and the effective return of the Pension Fund; iii) 9 million euros of negative deviations, as a result of differences between expected and actual liabilities.

The main indicators of the Pension Fund at the end of the 1st half of 2023 and at the end of 2022 are as follows:

MAIN INDICATORS	30 Jun. 23	31 Dec. 22
Liabilities with pensions	2,841	2,791
Minimum level of liabilities to cover*	2,807	2,757
Value of the Pension Fund	3,409	3,384
Coverage rate	120.0%	121.3%
Coverage rate of the minimum level of liabilities*	121.4%	122.7%
Return on Pension Fund	3.0%	(5.1%)
Actuarial (gains) and losses	38	(376)

* According to the Bank of Portugal requirements (assuming the application of the minimum requirement to all Group companies)

As of 30 June 2023, the Group's liabilities showed a 120.0% coverage level, being funded at a higher level than the minimum set by Banco de Portugal.

In 2023, negotiations continued with all the unions subscribing to the Group's Collective Labour Agreements, for the conclusion of the full review of the respective clauses, negotiations that are still ongoing.

At the same time, negotiations took place with all the unions subscribed to the Group's Collective Labour Agreements for the revision of the Salary Tables and other clauses of pecuniary expression relative to the years 2023, negotiations that are still ongoing.

Although no agreement has yet been reached, the Group unilaterally decided to carry out in March 2023, with retroactive effects to 1 January 2023, a provisional update of the Salary Tables, including diuturnities and the Bank's Contributions to SAMS by 3.00%, with the increase from 10.50 euros to 11.50 euros in lunch subsidy, corresponding to a growth of 9,52%. No adjustment was made to the values of the remaining pecuniary expression clauses. For the purposes of calculating liabilities, the assumption of a 3.5% salary increase for 2023 was considered.

Regarding the revision of the Salary Tables and other clauses of pecuniary expression for 2022, the agreement of unions SNQTB – Sindicato Nacional dos Quadros e Técnicos Bancários and SIB – Sindicato Independente da Banca, has not yet been reached on the proposal presented by the Group on 22 June 2022, the content of which corresponds to that agreed with the other unions, hence the negotiations are still ongoing.

Information on trends

Framework

The Bank of Portugal forecasts that in 2023, Portuguese GDP will growth 2.7%, benefiting from the favourable evolution of exports associated with tourism services and the dynamism of investment, driven by the projects of the Recovery and Resilience Plan (PRR). However, this forecast is subject to important downside risks mainly related to the increase in financing costs and the slowdown in external demand, given the highly restrictive global monetary policy. With regard to prices, the inflation rate maintained its downward path during the 2^{nd} quarter, standing at 4.7% in June. For the year as a whole, the Bank of Portugal forecasts that the inflation rate will be around 5.2%.

The interest rate hikes by the FED and the ECB, in the 1st half of 2023, maintained the emphasis recorded during 2022. Thus, the FED carried out three increases of 25 basis points during the 1st half of the year, while the ECB carried out four hikes, two of 50 basis points and two of 25 basis points. The expectation for the 2^{nd} half of the year is that the upward trend will continue, as inflation remains at high levels, with the objectives of the respective Central Banks still not being achieved.

The profitability of Portuguese banks should continue to improve in 2023. The rise in interest rates should continue to benefit the banking system, despite a progressive adjustment of the remuneration payable on deposits being expected. Inflation will continue to put pressure on operating costs. However, Portuguese banks are expected to remain efficient, with the system's cost-to-income ratio below 50%.

The cost of risk should maintain the normalization trend, with no significant impact expected from an eventual deterioration in the quality of assets in 2023. Portuguese banks have solid lending policies due to the Bank of Portugal's macro prudential recommendations issued in 2018 .

Portuguese banks have improved their funding profile over the past decade, with bank deposits representing the bulk of their funding structures. The loan-to-deposit ratio is expected to remain below 80% in 2023.

The sector has improved its asset quality and capitalization since 2016 and is now more resilient.

Impact on the Group's activity

In 2023, BCP should continue the path of convergence to achieve the objectives of its Strategic Plan.

The Bank should improve its profitability, benefiting from the environment of higher interest rates in the geographies in which it operates, and from strict control over the evolution of operating costs. The cost of risk should maintain the normalization trend, even in a context of deceleration of the Portuguese economy, given the level close to full employment.

BCP reinforced its liquidity position in the 1st half of 2023. On-balance sheet resources grew by 2.9% in June 2023 compared to the same period of the previous year. Liquidity indicators stood in June 2023 well above regulatory requirements: LCR at 214%, NSFR at 155% and Loans-to-Deposits ratio at 75%. Assets available for financing from the ECB stood at 24.2 billion. And simultaneously, at Group level, the Customer base increased by 3.7%, to more than 6.5 million, with emphasis on the 13% increase in mobile Customers compared to June 2022, which represent 66% of the Group's total active Customers (55% in Portugal). As a result of the higher interest rate environment, credit is decreasing moderately. In 2023, the Bank should continue to present a solid liquidity position.

The BCP Group has been pursuing a path of improving asset quality, particularly in Portugal, with the NPE ratio standing below 4% at the end of June 2023, an objective set out in the Strategic Plan. A significant deterioration in asset quality is not expected even in a scenario of economic slowdown.

In the 1st half of 2023, BCP was able to demonstrate its ability to generate organic capital, with the CET1 ratio reaching the strategic objective established for 2024. In 2023, the Bank does not anticipate any adverse effect in terms of the evolution of the capital and should continue to generate capital organically. In steady state, BCP should be able to distribute dividends, according to a dividend payout ratio in line with the benchmark for the sector.

Consolidated financial statements

BANCO COMERCIAL PORTUGUÊS

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE SIX MONTHS PERIODS ENDED 30 JUNE 2023 AND 2022

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Interest and similar income	2,038,806	1,141,684
Interest expense and similar charges	(664,446)	(156,526)
NET INTEREST INCOME	1,374,360	985,158
Dividends from equity instruments	1,175	12,873
Net fees and commissions income	387,048	387,583
Gains/(losses) on financial operations at fair value through profit or loss	5,928	6,810
Foreign exchange gains/(losses)	10,644	14,811
Gains/(losses) on hedge accounting	823	(3,673)
Gains/(losses) arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss	107,086	24,276
Gains/(losses) arising from derecognition of financial assets at fair value through other comprehensive income	0	0
Other operating income/(losses)	(85,507)	(189,326)
TOTAL OPERATING INCOME	1,801,557	1,238,512
Staff costs	307,971	284,152
Other administrative costs	184,917	162,569
Amortisations and depreciations	68,613	69,475
TOTAL OPERATING EXPENSES	561,501	516,196
NET OPERATING INCOME BEFORE PROVISIONS AND IMPAIRMENTS	1,240,056	722,316
Results on modification	(11,597)	—
Impairment of financial assets at amortised cost	(146,359)	(183,203)
Impairment of financial assets at fair value through other comprehensive income	114	1,366
Impairment of other assets	(14,093)	(125,129)
Other provisions	(388,125)	(244,410)
NET OPERATING INCOME	679,996	170,940
Share of profit of associates accounted for using the equity method	29,422	20,464
Gains/(losses) on disposal of subsidiaries and other assets	13,322	12,100
NET INCOME BEFORE INCOME TAXES	722,740	203,504
Income taxes		
Current	(126,474)	(44,930)
Deferred	(119,525)	(110,836)
NET INCOME AFTER INCOME TAXES FROM CONTINUING OPERATIONS	476,741	47,738
Net income from discontinued or discontinuing operations	(9)	1,479
NET INCOME AFTER INCOME TAXES	476,732	49,217
Net income for the period attributable to:		
Bank's Shareholders	423,249	62,184
Non-controlling interests	53,483	(12,967)
NET INCOME FOR THE PERIOD	476,732	49,217
Earnings per share (in Euros)		
Basic	0.054	0.006
Diluted	0.054	0.006

BANCO COMERCIAL PORTUGUÊS

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2023 AND 31 DECEMBER 2022

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
ASSETS		
Cash and deposits at Central Banks	3,884,338	6,022,001
Loans and advances to credit institutions repayable on demand	238,861	213,460
Financial assets at amortised cost		
Loans and advances to credit institutions	570,552	963,434
Loans and advances to customers	54,396,653	54,675,793
Debt securities	16,247,089	13,035,582
Financial assets at fair value through profit or loss		
Financial assets held for trading	1,482,890	766,597
Financial assets not held for trading mandatorily at fair value through profit or loss	505,064	552,679
Financial assets designated at fair value through profit or loss	21,968	—
Financial assets at fair value through other comprehensive income	7,452,868	7,461,553
Hedging derivatives	45,593	59,703
Investments in associated companies	313,017	314,919
Non-current assets held for sale	155,001	499,035
Investment property	14,825	15,217
Other tangible assets	604,389	574,697
Goodwill and intangible assets	188,170	182,687
Current tax assets	12,818	17,945
Deferred tax assets	2,849,544	2,938,986
Other assets	1,966,454	1,582,455
TOTAL ASSETS	90,950,094	89,876,743
LIABILITIES		
Financial liabilities at amortised cost		
Resources from credit institutions	2,094,824	1,468,360
Resources from customers	73,680,329	75,430,143
Non-subordinated debt securities issued	1,486,507	1,482,086
Subordinated debt	1,349,805	1,333,056
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	274,804	241,506
Financial liabilities at fair value through profit or loss	3,052,680	1,817,678
Hedging derivatives	103,393	178,000
Provisions	636,276	561,786
Current tax liabilities	162,592	23,680
Deferred tax liabilities	8,746	11,708
Other liabilities	1,523,167	1,391,973
TOTAL LIABILITIES	84,373,123	83,939,976
EQUITY		
Share capital	3,000,000	3,000,000
Share premium	16,471	16,471
Other equity instruments	400,000	400,000
Legal and statutory reserves	316,375	268,534
Reserves and retained earnings	1,521,407	1,272,262
Net income for the period attributable to Bank's Shareholders	423,249	197,386
TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS	5,677,502	5,154,653
Non-controlling interests	899,469	782,114
TOTAL EQUITY	6,576,971	5,936,767
TOTAL LIABILITIES AND EQUITY	90,950,094	89,876,743

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 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 aforementioned guidelines, in addition to the alternative performance measures, detailed below, additional information is presented throughout this document, in the respective chapters, 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 customers (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.

Million euros

	30 June 23	30 June 22
Loans to customers (net) (1)	56,336	57,039
Balance sheet customer funds (2)	76,733	74,546
(1) / (2)	**73.4%**	**76.5%**

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.

Million euros

	6M23	6M22 (restated)
Net income (1)	423	62
Non-controlling interests (2)	53	(13)
Average total assets (3)	90,057	94,894
[(1) + (2), annualised] / (3)	**1.1%**	**0.1%**

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.

Million euros

	6M23	6M22 (restated)
Net income (1)	423	62
Average equity (2)	5,085	5,269
[(1), annualised] / (2)	**16.8%**	**2.4%**

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.

Million euros

	6M23	6M22 (restated)
Operating costs (1)	562	516
of which: specific items (2)	12	6
Net operating revenues (3)	1,844	1,273
of which: specific items (4)	127	—
[(1) - (2)] / [(3) - (4)]	**32.0%**	**40.1%**

* Specific items: positive impact of 115 million euros, recognised in the first half of 2023, including income of 127 million euros related to the sale of 80% of the shares in Millennium Financial Services sp. z o.o. recognised in the international activity, mainly as net trading income and costs of 12 million euros recognised as staff costs in the activity in Portugal. In the first half of 2022 the impact was negative in the amount of 6 million euros, recognised as staff costs in the activity in Portugal.

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 recognised in the period (net of reversals and recoveries of credit and interest) and the stock of loans to customers at the end of that period.

Million euros

	6M23	6M22
Loans to customers at amortised cost, before impairment (1)	57,893	58,602
Loan impairment charges (net of recoveries) (2)	146	179
[(2), annualised] / (1)	**50**	**61**

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).

Million euros

	30 June 23	30 June 22
Non-Performing Exposures (1)	2,142	2,502
Loans to customers (gross) (2)	57,912	58,653
(1) / (2)	**3.7%**	**4.3%**

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.

Million euros

		30 June 23	30 June 22
Non-Performing Exposures (1)		2,142	2,502
Loans impairment (balance sheet) (2)		1,576	1,615
	(2) / (1)	**73.6%**	**64.5%**

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, from financial assets held for trading and, until 2017, from financial assets available for sale.

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 and results from derecognition of financial assets and financial liabilities not measured at fair value through profit or loss.

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, debt instruments at amortised cost associated to credit operations 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, at amortised cost not associated with credit operations and available for sale, in the latter case until 2017), 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 (only until 2019), 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.

Performing loans - loans to customers (gross) deducted from Non-performing exposures (NPE).

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, assets with repurchase agreement, financial assets available for sale and financial assets held to maturity (in the latter two cases until 2017).

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 funds.

Accounts and Notes to the Interim Condensed Consolidated Accounts

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE SIX MONTHS PERIODS ENDED 30 JUNE 2023 AND 2022

(Thousands of euros)

	Notes	30 June 2023	30 June 2022 (restated)
Interest and similar income	2	2,038,806	1,141,684
Interest expense and similar charges	2	(664,446)	(156,526)
NET INTEREST INCOME		1,374,360	985,158
Dividends from equity instruments	3	1,175	12,873
Net fees and commissions income	4	387,048	387,583
Gains/(losses) on financial operations at fair value through profit or loss	5	5,928	6,810
Foreign exchange gains/(losses)	5	10,644	14,811
Gains/(losses) on hedge accounting	5	823	(3,673)
Gains/(losses) arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss	5	107,086	24,276
Other operating income/(losses)	6	(85,507)	(189,326)
TOTAL OPERATING INCOME		1,801,557	1,238,512
Staff costs	7	307,971	284,152
Other administrative costs	8	184,917	162,569
Amortisations and depreciations	9	68,613	69,475
TOTAL OPERATING EXPENSES		561,501	516,196
NET OPERATING INCOME BEFORE PROVISIONS AND IMPAIRMENTS		1,240,056	722,316
Results on modification	10	(11,597)	—
Impairment of financial assets at amortised cost	11	(146,359)	(183,203)
Impairment of financial assets at fair value through other comprehensive income	12	114	1,366
Impairment of other assets	13	(14,093)	(125,129)
Other provisions	14	(388,125)	(244,410)
NET OPERATING INCOME		679,996	170,940
Share of profit of associates accounted for using the equity method	15	29,422	20,464
Gains/(losses) on disposal of subsidiaries and other assets	16	13,322	12,100
NET INCOME BEFORE INCOME TAXES		722,740	203,504
Income taxes			
Current	31	(126,474)	(44,930)
Deferred	31	(119,525)	(110,836)
NET INCOME AFTER INCOME TAXES FROM CONTINUING OPERATIONS		476,741	47,738
Net income from discontinued or discontinuing operations	17	(9)	1,479
NET INCOME AFTER INCOME TAXES		476,732	49,217
Net income for the period attributable to:			
Bank's Shareholders		423,249	62,184
Non-controlling interests	44	53,483	(12,967)
NET INCOME FOR THE PERIOD		476,732	49,217
Earnings per share (in Euros)			
Basic	18	0.054	0.006
Diluted	18	0.054	0.006

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE THREE MONTHS PERIODS BETWEEN 1 APRIL AND 30 JUNE 2023 AND 2022

(Thousands of euros)

	2nd Quarter 2023	2nd Quarter 2022 (restated)
Interest and similar income	1,060,208	627,763
Interest expense and similar charges	(350,399)	(107,706)
NET INTEREST INCOME	709,809	520,057
Dividends from equity instruments	1,131	11,984
Net fees and commissions income	191,643	194,739
Gains/(losses) on financial operations at fair value through profit or loss	(6,560)	(1,881)
Foreign exchange gains/(losses)	4,077	12,952
Gains/(losses) on hedge accounting	155	(1,511)
Gains/(losses) arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss	(4,754)	(10,720)
Other operating income/(losses)	(69,468)	(164,028)
TOTAL OPERATING INCOME	826,033	561,592
Staff costs	163,634	146,429
Other administrative costs	94,656	79,902
Amortisations and depreciations	34,699	34,864
TOTAL OPERATING EXPENSES	292,989	261,195
NET OPERATING INCOME BEFORE PROVISIONS AND IMPAIRMENTS	533,044	300,397
Results on modification	(5,648)	—
Impairment of financial assets at amortised cost	(65,133)	(92,271)
Impairment of financial assets at fair value through other comprehensive income	(131)	968
Impairment of other assets	(11,304)	(113,734)
Other provisions	(153,726)	(92,371)
NET OPERATING INCOME	297,102	2,989
Share of profit of associates accounted for using the equity method	14,487	10,419
Gains/(losses) on disposal of subsidiaries and other assets	3,647	4,483
NET INCOME BEFORE INCOME TAXES	315,236	17,891
Income taxes		
Current	(50,175)	(26,952)
Deferred	(39,578)	(43,343)
NET INCOME AFTER INCOME TAXES FROM CONTINUING OPERATIONS	225,483	(52,404)
Net income from discontinued or discontinuing operations	(9)	91
NET INCOME AFTER INCOME TAXES	225,474	(52,313)
Net income for the period attributable to:		
Bank's Shareholders	207,122	(44,519)
Non-controlling interests	18,352	(7,794)
NET INCOME FOR THE PERIOD	225,474	(52,313)

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 2023 AND 2022

(Thousands of euros)

	30 June 2023				
				Attributable to	
	Continuing operations	Discontinued operations	Total	Bank's Shareholders	Non-controlling interests
NET INCOME FOR THE PERIOD	476,741	(9)	476,732	423,249	53,483
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	127,249	—	127,249	86,999	40,250
Reclassification of (gains) / losses to profit or loss (note 5)	6,210	—	6,210	4,883	1,327
Cash flows hedging					
Gains / (losses) for the period	115,287	—	115,287	94,423	20,864
Other comprehensive income from investments in associates and others	(12,518)	—	(12,518)	(12,516)	(2)
Exchange differences arising on consolidation	35,269	—	35,269	(1,638)	36,907
IAS 29 application					
Effect on equity of Banco Millennium Atlântico, S.A.	8,009	—	8,009	8,009	—
Fiscal impact	(61,905)	—	(61,905)	(50,072)	(11,833)
	217,601	—	217,601	130,088	87,513
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT					
Equity instruments at fair value through other comprehensive income					
Gains / (losses) for the period					
Subsidiaries (note 43)	6,640	—	6,640	6,580	60
Associates	496	—	496	496	—
Changes in own credit risk of financial liabilities at fair value through profit or loss (note 43)	1,234	—	1,234	1,234	—
Actuarial gains / (losses) for the period					
BCP Group Pension Fund (note 49)	(37,696)	—	(37,696)	(37,696)	—
Pension Funds of foreign subsidiaries and associated companies	3,820	—	3,820	3,820	—
Fiscal impact	13,566	—	13,566	13,592	(26)
	(11,940)	—	(11,940)	(11,974)	34
Other comprehensive income / (loss) for the period	205,661	—	205,661	118,114	87,547
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	682,402	(9)	682,393	541,363	141,030

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

(Thousands of euros)

	30 June 2022 (restated)				
				Attributable to	
	Continuing operations	Discontinued operations	Total	Bank's Shareholders	Non-controlling interests
NET INCOME FOR THE PERIOD	47,738	1,479	49,217	62,184	(12,967)
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	(370,023)	—	(370,023)	(306,139)	(63,884)
Reclassification of (gains) / losses to profit or loss (note 5)	(19,038)	—	(19,038)	(19,056)	18
Cash flows hedging					
Gains / (losses) for the period	(1,098,796)	—	(1,098,796)	(1,080,139)	(18,657)
Other comprehensive income from investments in associates and others	8,411	—	8,411	8,408	3
Exchange differences arising on consolidation	35,836	—	35,836	40,408	(4,572)
IAS 29 application					
Effect on equity of Banco Millennium Atlântico, S.A.	1,413	—	1,413	1,413	—
Fiscal impact	445,371	—	445,371	429,688	15,683
	(996,826)	—	(996,826)	(925,417)	(71,409)
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT					
Equity instruments at fair value through other comprehensive income					
Gains / (losses) for the period					
Subsidiaries (note 43)	(8,362)	—	(8,362)	(8,287)	(75)
Changes in own credit risk of financial liabilities at fair value through profit or loss (note 43)	141	—	141	141	—
Actuarial gains / (losses) for the period					
BCP Group Pensions Fund (note 49)	477,917	—	477,917	477,917	—
Pension Funds of foreign subsidiaries and associated companies	4,432	—	4,432	4,432	—
Fiscal impact	(166,046)	—	(166,046)	(166,060)	14
	308,082	—	308,082	308,143	(61)
Other comprehensive income / (loss) for the period	(688,744)	—	(688,744)	(617,274)	(71,470)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(641,006)	1,479	(639,527)	(555,090)	(84,437)

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 PERIODS BETWEEN 1 APRIL AND 30 JUNE 2023 AND 2022

(Thousands of euros)

	2nd Quarter 2023				
				Attributable to	
	Continuing operations	Discontinued operations	Total	Bank's Shareholders	Non-controlling interests
NET INCOME FOR THE PERIOD	226,651	(9)	226,642	208,290	18,352
ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT					
Debt instruments at fair value through other comprehensive income					
Gains/(losses) for the period	36,955	—	36,955	26,407	10,548
Reclassification of (gains)/losses to profit or loss	5,378	—	5,378	4,826	552
Cash flows hedging					
Gains/(losses) for the period	(24,171)	—	(24,171)	(32,629)	8,458
Other comprehensive income from investments in associates and others	(6,635)	—	(6,635)	(6,648)	13
Exchange differences arising on consolidation	47,533	—	47,533	7,212	40,321
IAS 29 application					
Effect on equity of Banco Millennium Atlântico, S.A.	7,625	—	7,625	7,625	—
Fiscal impact	(603)	—	(603)	3,085	(3,688)
	66,082	—	66,082	9,878	56,204
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT					
Equity instruments at fair value through other comprehensive income					
Gains/(losses) for the period					
Subsidiaries	324	—	324	226	98
Associates	496	—	496	496	—
Changes in own credit risk of financial liabilities at fair value through profit or loss	(7,597)	—	(7,597)	(7,597)	—
Actuarial gains/(losses) for the period					
BCP Group Pensions Fund	(37,696)	—	(37,696)	(37,696)	—
Pension Funds of foreign subsidiaries and associated companies	(31)	—	(31)	(31)	—
Fiscal impact	16,154	—	16,154	16,180	(26)
	(28,350)	—	(28,350)	(28,422)	72
Other comprehensive income/(loss) for the period	37,732	—	37,732	(18,544)	56,276
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	264,383	(9)	264,374	189,746	74,628

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

(Thousands of euros)

	2nd Quarter 2022 (restated)				
				Attributable to	
	Continuing operations	Discontinued operations	Total	Bank's Shareholders	Non-controlling interests
NET INCOME FOR THE PERIOD	(52,404)	91	(52,313)	(44,519)	(7,794)
ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT					
Debt instruments at fair value through other comprehensive income					
Gains/(losses) for the period	(178,799)	—	(178,799)	(156,599)	(22,200)
Reclassification of (gains)/losses to profit or loss	9,581	—	9,581	9,563	18
Cash flows hedging					
Gains/(losses) for the period	(495,444)	—	(495,444)	(483,999)	(11,445)
Other comprehensive income from investments in associates and others	19,042	—	19,042	19,041	1
Exchange differences arising on consolidation	16,141	—	16,141	15,793	348
IAS 29 application					
Effect on equity of Banco Millennium Atlântico, S.A.	2,991	—	2,991	2,991	—
Fiscal impact	199,838	—	199,838	193,425	6,413
	(426,650)	—	(426,650)	(399,785)	(26,865)
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT					
Equity instruments at fair value through other comprehensive income					
Gains/(losses) for the period					
Subsidiaries	(8,212)	—	(8,212)	(8,171)	(41)
Changes in own credit risk of financial liabilities at fair value through profit or loss	200	—	200	200	—
Actuarial gains/(losses) for the period					
BCP Group Pensions Fund	477,917	—	477,917	477,917	—
Pension Funds of foreign subsidiaries and associated companies	1,841	—	1,841	1,841	—
Fiscal impact	(166,438)	—	(166,438)	(166,446)	8
	305,308	—	305,308	305,341	(33)
Other comprehensive income/(loss) for the period	(121,342)	—	(121,342)	(94,444)	(26,898)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(173,746)	91	(173,655)	(138,963)	(34,692)

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2023 AND 31 DECEMBER 2022

(Thousands of euros)

	Notes	30 June 2023	31 December 2022 (restated)
ASSETS			
Cash and deposits at Central Banks	19	3,884,338	6,022,001
Loans and advances to credit institutions repayable on demand	20	238,861	213,460
Financial assets at amortised cost			
Loans and advances to credit institutions	21	570,552	963,434
Loans and advances to customers	22	54,396,653	54,675,793
Debt securities	23	16,247,089	13,035,582
Financial assets at fair value through profit or loss			
Financial assets held for trading	24	1,482,890	766,597
Financial assets not held for trading mandatorily at fair value through profit or loss	24	505,064	552,679
Financial assets designated at fair value through profit or loss	24	21,968	—
Financial assets at fair value through other comprehensive income	24	7,452,868	7,461,553
Hedging derivatives	25	45,593	59,703
Investments in associated companies	26	313,017	314,919
Non-current assets held for sale	27	155,001	499,035
Investment property	28	14,825	15,217
Other tangible assets	29	604,389	574,697
Goodwill and intangible assets	30	188,170	182,687
Current tax assets		12,818	17,945
Deferred tax assets	31	2,849,544	2,938,986
Other assets	32	1,966,454	1,582,455
TOTAL ASSETS		90,950,094	89,876,743
LIABILITIES			
Financial liabilities at amortised cost			
Resources from credit institutions	33	2,094,824	1,468,360
Resources from customers	34	73,680,329	75,430,143
Non-subordinated debt securities issued	35	1,486,507	1,482,086
Subordinated debt	36	1,349,805	1,333,056
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	37	274,804	241,506
Financial liabilities at fair value through profit or loss	38	3,052,680	1,817,678
Hedging derivatives	25	103,393	178,000
Provisions	39	636,276	561,786
Current tax liabilities		162,592	23,680
Deferred tax liabilities	31	8,746	11,708
Other liabilities	40	1,523,167	1,391,973
TOTAL LIABILITIES		84,373,123	83,939,976
EQUITY			
Share capital	41	3,000,000	3,000,000
Share premium	41	16,471	16,471
Other equity instruments	41	400,000	400,000
Legal and statutory reserves	42	316,375	268,534
Reserves and retained earnings	43	1,521,407	1,272,262
Net income for the period attributable to Bank's Shareholders		423,249	197,386
TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS		5,677,502	5,154,653
Non-controlling interests	44	899,469	782,114
TOTAL EQUITY		6,576,971	5,936,767
TOTAL LIABILITIES AND EQUITY		90,950,094	89,876,743

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 2023 AND 2022

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
CASH FLOWS ARISING FROM OPERATING ACTIVITIES		
Interests received	1,660,965	994,514
Commissions received	496,247	489,566
Fees received from services rendered	48,384	54,615
Interests paid	(588,522)	(176,906)
Commissions paid	(104,675)	(81,609)
Recoveries on loans previously written off	11,082	9,678
Payments (cash) to suppliers and employees (*)	(606,714)	(686,738)
Income taxes (paid) / received	(32,448)	(21,948)
	884,319	581,172
Decrease / (increase) in operating assets:		
Receivables from / (Loans and advances to) credit institutions	55,139	(284,855)
Deposits held with purpose of monetary control	338,941	(137,119)
Loans and advances to customers receivable / (granted)	135,488	(660,008)
Short term trading securities	(561,360)	(791,433)
Increase / (decrease) in operating liabilities:		
Loans and advances to credit institutions repayable on demand	(16,840)	(21,492)
Deposits from credit institutions with agreed maturity date	635,489	160,938
Loans and advances to customers repayable on demand	(1,986,618)	561,424
Deposits from customers with agreed maturity date	1,358,283	3,068,159
	842,841	2,476,786
CASH FLOWS ARISING FROM INVESTING ACTIVITIES		
Assignment of investments in subsidiaries and associates which results in loss of control	112,765	–
Dividends received	9,896	57,873
Interest income from financial assets at fair value through other comprehensive income and at amortised cost	248,877	130,326
Sale of financial assets at fair value through other comprehensive income and at amortised cost	930,458	6,476,803
Acquisition of financial assets at fair value through other comprehensive income and at amortised cost	(61,195,796)	(28,847,296)
Maturity of financial assets at fair value through other comprehensive income and at amortised cost	57,260,828	21,629,524
Acquisition of tangible and intangible assets	(37,752)	(40,843)
Sale of tangible and intangible assets	(14,674)	7,409
Decrease / (increase) in other sundry assets	(213,261)	(889,755)
	(2,898,659)	(1,475,959)
CASH FLOWS ARISING FROM FINANCING ACTIVITIES		
Issuance of debt securities	4,984	230
Reimbursement of debt securities	(97,933)	(1,133,108)
Issuance of commercial paper and other securities	4,105	33,091
Reimbursement of commercial paper and other securities	(10,970)	(6,766)
Dividends paid to non-controlling interests	(23,719)	(59,572)
Interest paid of the issue of Perpetual Subordinated Bonds (Additional Tier 1)	(18,500)	(18,500)
Increase / (decrease) in other sundry liabilities and non-controlling interests (**)	50,320	249,822
	(91,713)	(934,803)
Exchange differences effect on cash and equivalents	35,269	35,836
Net changes in cash and equivalents	(2,112,262)	101,860
Cash (note 19)	593,033	601,772
Deposits at Central Banks (note 19)	5,428,968	7,194,527
Loans and advances to credit institutions repayable on demand (note 20)	213,460	361,786
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	6,235,461	8,158,085
Cash (note 19)	575,551	584,546
Deposits at Central Banks (note 19)	3,308,787	7,345,751
Loans and advances to credit institutions repayable on demand (note 20)	238,861	329,648
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	4,123,199	8,259,945

(*) As at 30 June 2023, this balance includes the amount of Euros 196,000 (30 June 2022: Euros 213,000) related to short-term lease contracts and the amount of Euros 1,283,000 (30 June 2022: Euros 1,213,000) related to lease contracts of low value assets.
(**) As at 30 June 2023, this balance includes the amount of Euros 27,439,000 (30 June 2022: Euros 27,297,000) corresponding to principal payments on lease liabilities.

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 2023 AND 2022

(Thousands of euros)

	Share capital	Share premium	Other equity instruments	Legal and statutory reserves	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 2021	4,725,000	16,471	400,000	259,528	580,304	138,082	6,119,385	942,672	7,062,057
Transition adjustments - Adoption of IFRS 17 and IFRS 9 (note 57)	–	–	–	–	(89,858)	–	(89,858)	–	(89,858)
BALANCE AS AT 1 JANUARY 2022	4,725,000	16,471	400,000	259,528	490,446	138,082	6,029,527	942,672	6,972,199
Net income for the period	–	–	–	–	–	62,184	62,184	(12,967)	49,217
Other comprehensive income	–	–	–	–	(617,274)	–	(617,274)	(71,470)	(688,744)
TOTAL COMPREHENSIVE INCOME	–	–	–	–	(617,274)	62,184	(555,090)	(84,437)	(639,527)
Results application									
Legal reserve	–	–	–	9,006	(9,006)	–	–	–	–
Transfers for reserves and retained earnings	–	–	–	–	138,082	(138,082)	–	–	–
Dividends paid	–	–	–	–	(13,603)	–	(13,603)	–	(13,603)
Interest on Perpetual Subordinated Bonds (Additional Tier 1)	–	–	–	–	(18,500)	–	(18,500)	–	(18,500)
Dividends (a)	–	–	–	–	–	–	–	(59,572)	(59,572)
Other reserves	–	–	–	–	(872)	–	(872)	(473)	(1,345)
BALANCE AS AT 30 JUNE 2022	4,725,000	16,471	400,000	268,534	(30,727)	62,184	5,441,462	798,190	6,239,652
Net income for the period	–	–	–	–	–	135,202	135,202	(64,855)	70,347
Other comprehensive income	–	–	–	–	(403,529)	–	(403,529)	48,366	(355,163)
TOTAL COMPREHENSIVE INCOME	–	–	–	–	(403,529)	135,202	(268,327)	(16,489)	(284,816)
Share capital reduction	(1,725,000)	–	–	–	1,725,000	–	–	–	–
Interest of Perpetual Subordinated Bonds (Additional Tier 1)	–	–	–	–	(18,500)	–	(18,500)	–	(18,500)
Other reserves	–	–	–	–	18	–	18	413	431
BALANCE AS AT 31 DECEMBER 2022	3,000,000	16,471	400,000	268,534	1,272,262	197,386	5,154,653	782,114	5,936,767
Net income for the period	–	–	–	–	–	423,249	423,249	53,483	476,732
Other comprehensive income	–	–	–	–	118,114	–	118,114	87,547	205,661
TOTAL COMPREHENSIVE INCOME	–	–	–	–	118,114	423,249	541,363	141,030	682,393
Results application									
Legal reserve (note 42)	–	–	–	47,841	(47,841)	–	–	–	–
Transfers for reserves and retained earnings	–	–	–	–	197,386	(197,386)	–	–	–
Interest of Perpetual Subordinated Bonds (Additional Tier 1)	–	–	–	–	(18,500)	–	(18,500)	–	(18,500)
Dividends (a)	–	–	–	–	–	–	–	(23,719)	(23,719)
Other reserves	–	–	–	–	(14)	–	(14)	44	30
BALANCE AS AT 30 JUNE 2023	3,000,000	16,471	400,000	316,375	1,521,407	423,249	5,677,502	899,469	6,576,971

(a) Dividends of BIM - Banco Internacional de Moçambique, S.A.

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. (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 periods ended on 30 June 2023 and 2022.

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 11 August 2023 by the Bank's Board of Directors 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 2023 were prepared for the purpose 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 2022.

These interim condensed consolidated financial statements are a translation of the financial statements originally issued in Portuguese. In the event of discrepancies, the Portuguese version prevails.

A1. Comparative information

The Group has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1 January 2023. 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, except for the changes resulting from the adoption of IFRS 17 - Insurance Contracts with reference to 1 January 2023. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 - Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

As the Group owns 49% of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A., which is dedicated to the management of life insurance and pension funds, on 1 January 2023 Millenniumbcp Ageas made the simultaneous adoption of IFRS9 - Financial Instruments and IFRS17 - Insurance Contracts. It opted for the possibility given to Insurance Companies to defer the application of IFRS9, since the combined implementation with IFRS17 would minimize the distortion of results.

Initial application of IFRS 17 and IFRS 9 requires comparative information. Therefore, Millenniumbcp Ageas made the transition exercise on 1 January 2022, and the impacts resulting from its implementation are detailed in note 57. Application of IFRS 17 – Insurance Contracts, and IFRS9 - Financial Instruments by Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.

In order to ensure the comparability of information, the Group made the appropriate adjustments in the 2022 consolidated balance sheet and income statement, as detailed in note 57.

The Group's financial statements were prepared under the going concern assumption, the accrual-based accounting regime 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 Board of Directors, under advice of 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 significant are presented in note 1.Y.

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 can 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 revalued 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, however, it is subject to impairment tests. 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 period 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 the 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 those 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 higher of the asset value in use and the market value after deducting 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 do not impact the control position of a subsidiary is accounted as a transaction with shareholders and, therefore, no additional goodwill resulting from this transaction is recognised. 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 do not impact the control position of a subsidiary are always recognised against reserves.

B5. Loss of control

The gains or 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 on 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 on 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 on the dates of the transactions, using 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 2021. 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 as a hyperinflationary economy until 31 December 2018. This classification is no longer applicable as of 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:

- “Financial assets at amortised cost”;
- “Financial assets at fair value through other comprehensive income”; or,
- “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 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) arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss".

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 of 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 will 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" (Fair Value Option)

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, except the accrual of interest from trading derivatives that are recognised in "Gains/(losses) on financial operations at fair value through profit or loss". 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.

The reclassification of investments in equity instruments measured at fair value through other comprehensive income is not allowed, 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 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 Bank considers that a modification of 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 derecognized instruments having a nominal value higher than 90% of the nominal amount of the new instrument;
- Double extension of the residual maturity, provided that the extension is not shorter than 3 years compared to the residual maturity in the moment of the 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:

    i) Change of currency, unless the exchange rate between the old and the new currency is pegged or managed within limits restricted by law or the relevant monetary authorities;

    ii) 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;

    iii) Transfer of the instrument's credit risk to another borrower, or a significant change in the structure of borrowers within the instrument.

    iv) Deletion or addition to the debt instrument of features of the "Pay If You Can" type or dependent on the financial performance of the debt instrument.

In the case of a restructuring due to financial difficulties of the debtor, only the criteria set out in items ii, iii and iv of the above paragraphs should be checked (the other criteria listed in this paragraph are not relevant in such situations).

Under the regulatory changes that occurred in Poland and the negotiations with customers holding mortgage loans in foreign currency described in note 56, and which correspond to contractual modifications made in accordance with IFRS 9, when the cash flows resulting from the agreement are subject to modification and a given asset is not derecognised, Bank Millennium adjusts the gross book value of the financial asset and recognises the profit or loss due to the modification in the Income Statement - Results on modification. The adjustment to the gross carrying amount of a financial asset is the difference between the discounted cash flows before and after contract modification.

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. 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 negative 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 accounted for at fair value and it's 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 of 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 of 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' behaviour towards the financial system.

C1.5.4. Definition of financial assets in default and impaired

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, if 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, if they have a risk grade 15
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, if a group member has a risk grade 14
	Groups or customers with an exposure over Euros 5 million, if a member of the group has a restructured loan and a risk grade 13
	Groups or customers with an exposure over Euros 10 million, if 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, while customers with exposure below this limit are not considered for the purpose of determining the exposure referred to 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:

- they have impairment as a result of the latest individual analysis;
- according to recent information, they 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 customer 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 indicates significant changes ahead for 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 Economic Studies, Sustainability and Cryptoassets 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 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, as well as for 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-month equivalent to the risk grade 12 of the Master Scale.

16. The individual impairment analysis must be carried out at least annually. In case 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 of the expected 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.

The 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 an 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, except for 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 product 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 for 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).

In particular, 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 for a set of macroeconomic variables, based on three scenarios (Central, Upside and Downside Scenario) prepared by the Bank's Economic Studies area. These scenarios, which are used across the Bank for various purposes besides calculating impairment, consider existing projections by reference entities.

In June 2023 the Bank carried out an update of the macroeconomic scenarios and of the corresponded adjustment of the parameters considered in the collective impairment model.

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 the issued liabilities are classified with the purpose of repurchasing in the near term, those 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 assessed 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 2023, BCP has in Portugal three residential mortgage credit securitization operations, Magellan Mortgages no.1, no.3 and no.4, in which the respective portfolios were derecognised from the Bank’s individual balance sheet, as the risks and rewards related to the residual portions of the referred transactions, were transferred to institutional investors.

By purchasing a part or all of the most subordinated residual portion, the Group maintained control of the assets and liabilities of Magellan Mortgages no.1 and no.3, these Special Purpose Entities (SPEs) being consolidated in the Group’s financial statements, in accordance with the accounting policy referred to in note 1 B.

The three operations are traditional securitizations, where each mortgage loan portfolio was sold to a Portuguese Loan Securitisation Fund, which has financed this purchase through the sale of securitisation units to an Irish-SPE. At the same time, this SPE issued and sold in capital markets the different tranches of bonds.

D2. Synthetic securitizations

As at 30 June 2023, BCP has in Portugal three synthetic securitization operations, with similar characteristics, with reference to credit portfolios granted by the Bank mainly to Small and Medium Enterprises (SMEs).

Caravela SME no.3, which started on 28 June 2013, has a medium and long-term loan portfolio of current accounts and authorized overdrafts.

Caravela SME no.4, initiated on 5 June 2014, has a reference portfolio of vehicle, real estate and equipment leasing.

Caravela SME no.5, initiated on 20 December 2022, is supported on a credit portfolio of medium and long term loans, leasing contracts and commercial paper programmes.

In any of these operations, the Bank contracted a Credit Default Swap (CDS) from a Special Purpose Entity (SPE), buying, this way, protection over the total referenced portfolio. As in all synthetic securitizations, under CDS, the risk of the respective portfolios was divided in 3 tranches: senior, mezzanine and equity.

In the case of both Caravela no.3 and no.4, the mezzanine and part of the equity (20%) were placed in the market through the issuance of Credit Linked Notes (CLNs) by the above mentioned SPE which were subscribed by investors, while the Group retained the senior risk and the remaining part of the equity (80%). In the case of Caravela, SME no. 5, only the full amount of the mezzanine was placed in the market, while the Group retained the risk of the full amount of the senior and equity tranches.

Note that in all the above-mentioned synthetic transactions, the product of the CLNs issue was invested by the SPE in a deposit, which fully collateralizes the responsibilities in the presence of its creditors including BCP in accordance with the CDS.

On 12 July 2023, the Group's subsidiary Millennium Leasing Sp. z o. o. in Poland concluded a transaction of synthetic securitization of lease receivables with transfer of risk within the meaning of Art. 2 point 10) of Regulation (EU) No. 2402/2017 of the European Parliament and of the Council establishing a general framework for securitization and creating a specific framework for simple, transparent and standardized securitization, and amending Directives 2009/65/EC, 2009/138/EC and 2011 /61/EU and Regulations (EC) No. 1060/2009 and (EU) No. 648/2012 as amended ("Securitization Regulation").

As part of the transaction, Millennium Leasing securitized synthetic exposures consisting of receivables arising from lease agreements generated in the ordinary course of business of Millennium Leasing ("Reference Receivables") with a value of PLN 4,028 million (Euros 909 million), including the purchase of credit risk protection covering losses which, according to with transaction documents will be allocated to the Mezzanine Tranche worth PLN 280 million (Euros 63 million), in the form of financed credit linked notes (CLN) issued directly by Millennium Leasing sp. z o.o.

The CLN bonds will be listed on the Vienna Stock Exchange and Millennium Leasing's performance of the obligation to pay interest and redemption of the bonds is secured by debt securities (treasury bonds in the amount of 110% of the issued CLN amount). Pursuant to and subject to the terms of the transaction documents, the principal amount of the CLN bonds will be reduced by the amount of each credit loss allocated to the Mezzanine Tranche following the occurrence of a credit event with respect to the Reference Receivables.

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 its liabilities.

Transaction costs directly attributable to an equity instrument 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 the intention is 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 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 that the sale qualifies 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.

If the requirements set out in IFRS 5 for these assets are not met, the balance sheet value and respective impairment are reflected in the caption "Other assets".

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 as 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 like 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)

This standard establishes the 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 lease definition focuses 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 recognises 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 term contracts, that date is considered as the end of lease date, while for contracts without term, or with renewable terms, it is assessed using the date in which the contract is enforceable, as well as eventual economic penalties associated with the lease contract. In the evaluation of enforceability, the particular clauses of the contracts are considered, 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 asset.

- 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, paragraph 62, lessors shall classify leases as finance or operational leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards inherent to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards inherent to ownership of an underlying asset.

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).

In case the primary lease is short-term, then the sublease should be classified as an operating lease.

I. Recognition of income from services and commissions

In accordance with IFRS 15, the Bank recognizes revenue associated with services and commissions when (or as) a performance obligation is satisfied when transferring a service, based on the transaction price associated with this performance obligation. In this context, the Bank takes the following steps to recognize revenue associated with services and commissions:

- Recognition (satisfaction of the performance obligation): (i) identification of the contract associated with the service provided and whether it should be covered by IFRS 15; (ii) identification of performance obligations associated with each contract; (iii) definition of the criteria for the fulfilment of performance obligations, also considering the contractual terms established with the counterparty. According to this definition, a service is transferred when the customer obtains the benefits and control associated with the service provided. In this context, the Bank also identifies whether performance obligations are met over time ("over time") or at an exact moment ("point in time"), with revenue being recognized accordingly.

- Measurement (price to be recognized associated with each performance obligation): (i) determine the transaction price associated with the service provided, considering the contractual terms established with the counterparty and its usual commercial practices. The transaction price is the amount of consideration to which the Bank expects to be entitled in exchange for transferring promised services to the customer, excluding amounts collected on behalf of third parties. The Bank includes in the transaction price part or all of the estimated amount of the variable consideration associated with a performance obligation, only to the extent that it is highly probable that a significant reversal in the amount of the accrued revenue recognized will not occur when the uncertainty associated with that variable consideration is subsequently resolved; and (ii) allocate the transaction price to each of the performance obligations identified under the contract established with the customer.

It should be noted that when services or commissions are an integral part of the effective interest rate of a financial instrument, income resulting from services and commissions is recorded in net interest income (Note C.3).

J. Gains/(losses) on financial operations at fair value through profit or loss, Foreign exchange gains/(losses), Hedge accounting gains/(losses) and Gains/(losses) arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss

These balances include gains and losses on 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 on 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 foreign exchange gains or losses.

K. 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.

L. 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.

M. Investment properties

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 investment properties 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.

N. Intangible assets

N1. 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.

N2. 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 6 years. The Group does not capitalise internal costs arising from software development.

O. 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 the items "Cash and deposits at Central Banks" and "Loans and advances to credit institutions" are included.

P. 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.

Q. 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.

R. Employee benefits

R1. Defined benefit plans

The Group has the responsibility to pay its employees' retirement pensions, invalidity pensions and survivor's pensions for their death, in accordance with the terms of the two collective labour agreements approved. These benefits are provided for in the pension plans 'Plano ACT' and 'Plano ACTQ' of the Banco Comercial Português Group Pension Fund.

Following the publication of Decree-Law no. 54/2009, of 2 March, banking entities are obligatorily enrolling new employees in the General Social Security System (RGSS). These employees have the RGSS as their basic retirement scheme, and do not have any benefits under the ACT (base plan). Under the scope of its management and human resources, the Group had already adopted as a rule the inclusion of new employees in the RGSS since July 2005. However, until the transposition into the ACT of the alterations resulting from the referred Decree-Law no. 54/2009, all employees were covered by the provisions of the social security chapter of the ACT, and for employees who were already registered with the RGSS, the ACT benefit worked as a complement to the RGSS. As of 1 July 2009, in accordance with the ACT, all new employees only have the RGSS as their basic social security scheme.

Until 2011, in addition to the benefits provided for in the two plans above-mentioned, the Group had assumed the responsibility, if certain conditions of profitability were verified in each year, of assigning retirement supplements to the Group's employees hired up to 21 September 2006 (Complementary Plan). The Group, at the end of 2012, determined the extinction (cut) of the old-age benefit of the Complementary Plan. On 14 December 2012, Instituto de Seguros de Portugal (ISP) formally approved this change to the Group's benefit plan, effective from 1 January 2012. The plan was cut, and employees were given individual acquired rights. On that date, the Group also proceeded to the settlement of the respective liability.

From 1 January 2011, Bank 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 that 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 employee, 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, an agreement was established 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 four unions from the two union federations of the unions that represent the Group's employees, which introduced changes in the Social Security clause and consequently in the pension plan financed by the BCP Group Pension Fund. The new ACT was published by the Ministry of Labour in the Bulletin of Labour and Employment on 15 February 2017 and the effects were recorded in the financial statements of 31 December 2016, for employees associated with these four 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 31 December 2017, for employees associates of SBN.

The most relevant changes in the ACT were the change in the retirement age (presumed disability) 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 SAMS and, lastly, the introduction of a new benefit called the End of Career Premium, which replaces the Seniority Premium.

These changes 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 (extra-fund liabilities). The pension fund has a part exclusively for the financing of these liabilities which, in the scope of the fund, is 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 on 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 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 interest 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. On this basis, the income/cost net of interest 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 (experienced 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 contribution 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.

R2. Revision of the salary tables for employees in service and pensions in payment

In 2023, negotiations continued with all the unions subscribing to the Group's Collective Labour Agreements, for the conclusion of the full review of the respective clauses, negotiations which are still ongoing.

At the same time, negotiations took place with all the unions subscribed to the Group's Collective Labour Agreements for the revision of the Salary Tables and other clauses of pecuniary expression relative to the years 2023, negotiations that are still ongoing. Although no agreement has yet been reached, the Group unilaterally decided to carry out in March 2023, with retroactive to 1 January 2023, a provisional update of the Salary Tables, including diuturnities and the Bank's Contributions to SAMS by 3.00%, with the increase from 10.50 euros to 11.50 euros in lunch subsidy, corresponding to a growth of 9,52%. No adjustment was made to the values of the remaining pecuniary expression clauses.

Regarding the revision of the Salary Tables and other clauses of pecuniary expression for 2022, the agreement of unions SNQTB – Sindicato Nacional dos Quadros e Técnicos Bancários and SIB – Sindicato Independente da Banca, has not yet been reached on the proposal presented by the Group on 22 June 2022, the content of which corresponds to what was agreed with the other unions, hence the negotiations are still ongoing.

R3. 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 2023, 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. In 2022 the indicated requirements were fulfilled, in 2023 the planned annual contribution was accomplished, the expect value of which was recorded in the costs of 2022.

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.

R4. Variable remuneration paid to employees

The remuneration policy for employees includes an annual variable remuneration system for employees not covered by commercial incentive systems, based on the performance assessment of each employee, in accordance with quantitative and qualitative criteria, that is carried out annually. 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.

R5. Share-based compensation plan

As at 30 June 2023, a variable compensation plan with BCP shares is in force for the members of the Executive Committee and for the employees considered Key Function Holders (includes Key Management Members), resulting from the Remuneration Policies for the members of the management and supervisory bodies and for the Employees, both approved for the financial year of 2023 and following years, with the changes that may be approved in each financial year, namely by the General Shareholders' Meeting regarding the Remuneration Policy for the members of the management and supervisory bodies, and by the Board of Directors regarding the Remuneration Policy for Employees.

Key Function Holders include Key Management Members, which are the first line directors who report directly to the Board of Directors and the remaining employees whose professional activities have a significant impact on the Bank's risk profile.

As defined in the Remuneration Policy for the members of the management and supervisory bodies, 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 decided by the Remuneration and Welfare Board. The payment of the amount of the variable remuneration attributed is subject to a deferral period of 5 years for 50% of its value, being 50% of its value paid in the year following the financial year in question. The amounts related to the non-deferred and deferred portion are paid 50% in cash and 50% in BCP shares. The number of BCP shares attributed results from their valuation at a price defined in accordance with the approved Remuneration Policy.

The Remuneration Policy for Employees foresees an annual variable remuneration system for Employees not covered by Commercial Incentives Systems, based on the performance assessment of each employee, in accordance with quantitative and qualitative criteria, that is carried out annually. As a result of this assessment and the fixed reference remuneration for the function performed, and provided that the Bank's minimum level of performance in a set of quantitative indicators is met, the value of the variable remuneration to be attributed to each Employee is decided by the Executive Committee. For Employees considered as Key Function Holders, the payment of the amount of the variable remuneration to be attributed to each Employee is decided by the Nominations and Remunerations Committee, and its payment subject to a deferral period of 5 years for 40% of its value, with 60% of its value paid in the year following the financial year in question. The amounts related to the non-deferred and deferred portion are 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 price defined in accordance with the approved Remuneration Policy.

Employees considered as Key Function Holders are not covered by Commercial Incentives Systems.

For the remaining Employees not covered by Commercial Incentive Systems, the payment of the variable remuneration amount awarded is fully paid in cash in the following year to which it relates.

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 Key Function Holders are subject to reduction and reversal mechanisms, to be applied in case of verification of extremely significant events, duly identified, in which the people covered have had a direct participation.

For the members of the Executive Committee and to the employees considered as Key Function Holders, a long-term variable remuneration system is also foreseen, through which these members may receive variable remuneration fully paid in BCP shares after the end of the assessment period, from 1 January 2022 until 31 December 2025 (from 1 January 2023 until 31 December 2025 to the Employees Key Function Holders), provided that a certain level of performance is achieved in a set of long-term objectives. The amount of the long-term variable remuneration attributed is subject to a deferral period of 5 years for 50% of its value, being 50% of its value paid in the year following the assessment period to which it relates. The number of BCP shares attributed results from their valuation at a price defined in accordance with the approved Remuneration Policy.

All the shares attributed to the members of the Executive Committee and to the Key Function Holders, within the scope of the payment of variable remuneration, including long-term, are subject to a retention period of 1 year after their payment.

The total variable remuneration to be attributed, each year, to each member of the Executive Committee and to the Key Function Holders, regarding the proportion between its amount and the annual fixed remuneration, is limited to the limits provided in the respective Remuneration Policy.

S. 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 the same taxable entity.

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 any material impact on the Bank's financial statements resulting from its application.

In 2016, the Banco Comercial Português adhered to the Special Tax Regime for Groups of Companies (RETGS) for the purposes of corporate income (IRC) taxation, with BCP being the dominant entity. In the financial years of 2023 and 2022, RETGS application was maintained. The group's taxable profit is calculated by the algebraic sum of taxable profits and individual tax losses of the companies that integrate it.

T. 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 and Corporate;
- Private Banking;
- Other.

The Other segment (Portugal activity) includes activities that are not allocated to remaining segments, namely centralized management of financial investments, corporate activities, and insurance activity.

Foreign activity:

- Poland;
- Mozambique;
- Other.

The "Other" segment (foreign activity) includes the contribution of the participation in an associate in Angola and the activity arising from the discontinued operations in Cayman Islands (operation liquidated in 2022). It should also be noted that, following the sale of the operation in Switzerland, which took place at the end of 2021, the capital gain generated with the completion of this operation was adjusted in 2022, with this record being reflected as income arising from discontinued operations, as provided for in IFRS 5.

U. Provisions, Contingent liabilities and Contingent assets

U1. 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.

Additionally, when fundamental reorganizations occur that have a material effect on the nature and focus of the company's operations, and the criteria for recognition of provisions referred to above are met, provisions are recognized for restructuring costs.

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.

U2. Contingent assets

Contingent assets are not recognised in the financial statements and are disclosed when a future economic inflow of resources is probable.

U3. 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.

V. 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 because of an issue with premium or discount or other event that changed the potential number of ordinary shares or because of changes in the accounting policies, the earnings per share for all presented periods should be adjusted retrospectively.

W. Insurance contracts

W1. Classification

IFRS 17 is the new accounting standard for insurance contracts, reinsurance contracts and for Investment contracts with discretionary participation features, covering aspects such as recognition and measurement, presentation and disclosure of information, replacing IFRS4 – Insurance contracts.

The Group issues contracts that include insurance risk, financial risk or a combination of both insurance and financial risk. A contract, in which the Group accepts a 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.

W2. Recognition and measurement

IFRS 17 defines new principles for recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and Investment contracts with discretionary participation features. The references below apply to these three types of contracts.

In terms of recognition and measurement, insurance contracts are divided into portfolios, annual cohorts and groups of contracts. In the initial recognition, contracts that have similar risk and can be managed together, must be identified, grouping them into portfolios. For measurement purposes, these portfolios are further subdivided into annual cohorts, according to the issuance year. Each of the cohorts, according to the expected future return, is then divided into the following groups: i) contracts that are onerous at initial recognition; ii) contracts that do not present a significant possibility of subsequently becoming onerous; and iii) remaining contracts in the portfolio.

The liability of an insurance contract begins when one of the following conditions is met: i) beginning of the coverage period of the contract, ii) date on which the first payment is made by the insured and this becomes due or iii) in the case of an onerous contract, when it becomes onerous.

IFRS17 defines 3 measurement models of the insurance liabilities: GMM (General Measurement Model) as a general modal, VFA (Variable Fee Approach) to be applied for investment contracts, which does not include a transfer of significant insurance risk and PAA (Premium Allocation Approach), which can be applied for short term contracts (less than 1 year).

The measurement of the value of a contract is the sum of (except where contracts are being measured using the premium allocation approach): (i) the present value of future cash flows; (ii) a non-financial risk adjustment; and the amount of future profit that is estimated that this contract will generate the Contractual Service Margin (CSM), unless the contract group is onerous. In this case, the estimated loss is recognized immediately.

The liability for future services in contracts measured using the premium allocation approach is based on premiums received, less amounts recognized in profit or loss already incurred in the period.

In terms of the discount rate for determining future cash flows, it should: (i) reflect the time value of money; ii) be consistent with similar ones applied in the market for situations with similar characteristics and iii) exclude the effect of factors that do not affect the future cash flows of the insurance contract.

In the subsequent valuation, the Statement of Financial Position shall include liabilities for insurance contracts, divided into i) liabilities for future services and ii) liabilities for past services. In terms of the Income Statement, it should include: i) income from insurance contracts, ii) expenses from insurance contracts and iii) losses from the financial component of insurance contracts.

W3. Presentation and disclosures

In the Statement of Financial Position should appear in disaggregated form i) insurance contract assets, ii) reinsurance ceded contract assets iii) insurance contracts liabilities and iv) reinsurance ceded contract liabilities.

In terms of the Income Statement, it should be evidenced i) insurance revenue, ii) insurance service expense and iii) Insurance finance result, as well as iv) the net result arising from reinsurance contracts.

Together with the Financial Statements, the standard provides for additional qualitative and quantitative disclosures of i) amounts recognized in the financial statements that fall within the scope of IFRS17; ii) significant judgments and changes to those judgments made with the application of IFRS17 and iii) nature and extent of the risks inherent in contracts that fall within the scope of IFRS17.

For risks falling within the scope of IFRS17, the entity shall analyze: (i) concentration risk, (ii) sensitivity analysis to the most significant risks, (iii) claims development, (iv) credit risk and (v) liquidity risk.

W4. Transition

IFRS 17 is applied retrospectively with exemptions provided for the transition date, exemptions related to the impracticality and complexity involved, for example in the calculation of liabilities, the Contractual Service Margin (CSM) or the Loss Component, or the Reserve of the Financial Component of Insurance/Reinsurance Contracts ("OCI option") at the transition date. When impractical the Standard provides for the use of the Modified Retrospective Approach or the Fair Value Approach.

X. 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 Link 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 remuneration for insurance intermediation services, they receive commissions for the mediation of insurance contracts and investment contracts, which are defined in agreements/protocols established with the Insurers.

Commissions received for insurance intermediation are recognised in accordance with the accrual accounting principle, so the commissions received at a time other than the period to which it relates are recorded as receivables under "Other assets". Commissions received for insurance mediation services are recognized in accordance with the policy described in note I. Recognition of income from services and commissions.

Y. Accounting estimates and judgments in applying accounting policies

IFRS set forth a range of accounting treatments that require the Board of Directors, under advice of 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 consolidated financial statements, considering the context of uncertainty that results from the current economic scope and the geopolitical conflict in Eastern Europe. The most significant of these accounting estimates and judgments used when applying accounting principles are discussed in this section 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 Board of Directors, under advice of 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.

Y1. 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 can 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.

Y2. 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.

Y3. 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 Board of Directors strategy, namely the ability to generate the estimated taxable income, the evolution of tax law and its interpretation.

Regarding the activity in Portugal, the Law No. 98/2019, of 4 September established the tax regime for credit impairments and provisions for guarantees for tax periods beginning on or after 1 January 2019, providing for approximation between the accounting and tax rules for the purposes of deductibility of expenses with the reinforcement of credit impairments. The rules in force until 2018 could continue to be applied until the end of the 2023 financial year, unless the option to apply the new regime was exercised in advance.

In 2022, the Banco Comercial Português, S.A. and the Banco ActivoBank, S.A. exercised the option to apply the new regime, under the terms of which the impairment losses for credit risk relating to exposures analysed on an individual or on a collective basis recognized in accordance with the applicable accounting standards and regulations are fully deductible for the purposes of determining taxable profit, with the exceptions provided for in the Corporate Income Tax Code. The exceptions apply to impairment losses relating to credits and other rights over natural or legal persons who hold, directly or indirectly, more than 10 % of the Bank's capital, over members of its corporate bodies, over companies in which the Bank holds, directly or indirectly, more than 10 % of the capital or over entities with which it is in a situation of special relations.

The Impairment losses and other value corrections for specific credit risk recorded until 31 December 2021 and still not accepted for tax purposes are only deductible up to the amount that, in each tax period, corresponds to the application of the mandatory minimum limits set out in Notice of Bank of Portugal No. 3/95, as amended before its repeal by Notice of Bank of Portugal No. 5/2015, and, between other conditions, provided that they are not credits covered by real estate rights.

Following the amendments provided for in Law No. 24-D/2022, of 30 December, within the scope of the State Budget for 2023, the time limit applicable to the carrying forward of tax losses in Portugal was eliminated. This amendment applies to tax losses calculated in tax periods beginning on or after 1 January 2023, as well as to tax losses calculated in tax periods prior to 1 January 2023 and whose deduction period is still in progress on that date. Thus, tax losses calculated in 2014 and subsequent years may be deducted from future taxable income. The deduction limit for tax losses went from 70% to 65%, being increased by ten percentage points when the difference results from the deduction of tax losses calculated in the 2020 and 2021 tax periods, under the terms of the special regime provided for in Law n. 27-A/2020, of 24 July.

In the projections of future taxable income, namely for purposes of the analysis of the recoverability of deferred taxes assets carried out with reference to 30 June 2023, the approximation between the accounting and tax rules provided for in the aforementioned Law n.º 98/2019, of 4 September, taking into account the option for applying the new regime exercised in 2022, as well as the changes in terms of the elimination of the time limit on the use of tax losses provided for in said Law no. 24-D/2022, of 30 December.

The taxable profit or tax loss calculated by the Bank or its subsidiaries residing in Portugal can be corrected by the Portuguese tax administration within a period of four years, except in the case of any tax losses deduction has been made or tax credit has been used, in which the expiry period is the exercise of that right. The Bank recorded provisions, current tax liabilities or deferred taxes liabilities in the amount it considers appropriate to cover tax corrections or tax losses incurred, as well as contingencies relating to years not yet reviewed by the tax authorities.

Y4. Non-current assets held for sale (real estate) valuation

The valuation of these assets, and consequently the impairment losses, is supported by evaluations carried out by external experts, which incorporate several assumptions, namely the selling price per square meter, discount rate, better use of the real estate and expectations regarding the development of real estate projects, as applicable, and also considers the Bank's historical experience in the commercialization of real estate, its perspectives on the evolution of the real estate market and the intentions of the management body 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.

Y5. 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.

The discount rate used to update the Bank's pension fund liabilities, regarding the defined benefit pension plans of its employees and managers, was determined based on an analysis carried out on a set of available information, which includes, among other elements, the market references for this indicator published by internationally recognized specialized entities and which are based, as defined by IAS 19, on market yields of a universe of high quality bond issues (low risk), different maturities, called in Euros and relating to a diverse and representative range of issuers (non-sovereign).

Y6. Financial instruments – IFRS 9

Y6.1. 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 testing 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.

Y6.2. 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.

In order to comply with the Supervisors' guidelines, namely regarding to the identification and measurement of credit risk in the context of uncertainty associated with the current geopolitical crisis, the disruption in distribution chains, rising energy costs and inflationary pressures, the Bank proceeded to record additional impairments in relation to the current models of collective impairment calculation (overlays).

The exercise carried out was based on an analysis of migrations from customers identified as having the highest risk for Stage 2 and Stage 3, with the greatest impact on the corporate segment.

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 and corresponds to an estimation of the probability of default in each 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.

Y6.3. 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.

Due to market stress conditions, the Bank needed to reallocate the risk limits, especially in the sensitivity limit of the trading portfolio and to review the stress-test scenarios and their methodologies.

In the context of the uncertainty associated with the current macroeconomic framework, the calculation of fair value adjustments was revised considering liquidity discounts, the costs of closing positions (widening the buy and sell spread), credit risk, spreads of financing and increased volatility.

Y7. Provisions for risk associated with mortgage loans indexed to the Swiss franc

The Group creates provisions for legal contingencies related to mortgage loans indexed to the Swiss franc granted by Bank Millennium, S.A.

The assumptions used by Bank Millennium 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 Bank Millennium is based on the following parameters: (i) the number of current (including class actions) and potential future court cases that will appear against Bank Millennium within a specified time horizon; (ii) the amount of Bank Millennium’s potential loss in the event of a specific court judgment (three unfavourable scenarios were considered for Bank Millennium); (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; (iv) in the case of a loan agreement invalidity scenario, the Bank Millennium's loss is calculated taking into account the assignment of a minimum probability of receiving the settlement of a remuneration for the cost of use of capital; and (v) amicable settlement with clients in or out of court.

The evolution of responsibilities with legal contingencies related to mortgage loans indexed to the Swiss franc and the amount of the Bank Millennium’s actual losses depend, namely, on the number of ongoing and potential lawsuits, as well as on the final court decisions about each case and amicable settlement with clients.

Z. 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 2023	30 June 2022 (restated)
Interest and similar income		
Interest on deposits at Central Banks and on loans and advances to credit institutions repayable on demand	44,460	4,071
Interest on financial assets at amortised cost		
Loans and advances to credit institutions	31,390	21,765
Loans and advances to customers	1,551,534	915,099
Debt securities	218,042	95,894
Interest on financial assets at fair value through profit or loss		
Financial assets held for trading	22,933	2,446
Financial assets not held for trading mandatorily at fair value through profit or loss	1,504	3,584
Financial assets designated at fair value through profit or loss	37	—
Interest on financial assets at fair value through other comprehensive income	129,629	62,939
Interest on hedging derivatives	31,229	35,018
Interest on other assets	8,048	868
	2,038,806	1,141,684
Interest expense and similar charges		
Interest on financial liabilities at amortised cost		
Resources from credit institutions	(20,764)	31,475
Resources from customers	(400,296)	(118,333)
Non subordinated debt securities issued	(31,001)	(12,457)
Subordinated debt	(41,616)	(30,424)
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	(13,853)	(11,164)
Financial liabilities at fair value through profit or loss		
Non subordinated debt securities issued	(277)	(3,227)
Interest on hedging derivatives	(150,660)	(8,256)
Interest on leasing	(5,911)	(2,668)
Interest on other liabilities	(68)	(1,472)
	(664,446)	(156,526)
	1,374,360	985,158

The balance Interest on deposits at Central Banks and on loans and advances to credit institutions repayable on demand has accounted for a positive interest of Euros 7,585,000 (30 June 2022: negative interest Euros 7,609,000) associated with demand deposits with the Bank of Portugal (do not include overnight operations).

The balance Interest on financial assets at amortised cost - Loans and advances to customers includes the amount of Euros 27,984,000 (30 June 2022: Euros 14,769,000) 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 balance also includes the amount of Euros 38,027,000 (30 June 2022: Euros 30,783,000) related to interest income arising from customers classified in stage 3.

As at 30 June 2023, the balance Interest and similar income includes the following amounts related to hedge breakages: Interest on financial assets at amortized cost - Loans and advances to customers Euros 13,770,000 (30 June 2022: Euros 31,598,000), Interest on financial assets at amortized cost - Debt securities Euros 31,785,000 (30 June 2022: Euros 4,457,000), Interest on financial assets at fair value through other comprehensive income Euros 2,542,000 (30 June 2022: Euros 2,571,000).

The balances Interest on non-subordinated debt securities issued and Interest on subordinated debt include the amount of Euros 1,466,000 and Euros 290,000, respectively (30 June 2022: Euros 1,260,000 and Euros 483,000, 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 expense and similar charges - Interest on financial liabilities at amortised cost - Resources from credit institutions has recorded in the first half of 2022, a negative cost of Euros 40,071,000 associated with the TLTRO III operation described in note 33.

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.

3. Dividends from equity instruments

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Dividends from financial assets through other comprehensive income	1,175	12,873
	1,175	12,873

The balances Dividends from financial assets through other comprehensive income include dividends from shares of Tiicc, Sarl in the amount of Euros 500,000 (30 June 2022: Euros 11,388,000 and Euros 825,000 of Octal Group, Ltd. and Tiicc, Sarl, respectively). This balance also includes 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 2023	30 June 2022 (restated)
Fees and commissions received		
Banking services provided	236,951	241,210
Management and maintenance of accounts	84,406	83,713
Bancassurance	64,316	61,031
Operations on securities	34,196	35,443
Guarantees granted	25,177	22,540
Commitments to third parties	2,660	2,612
Management and intervention commissions	11,633	12,096
Other commissions	10,681	10,312
	470,020	468,957
Fees and commissions paid		
Banking services provided by third parties	(62,998)	(62,559)
Securities operations	(4,251)	(4,347)
Guarantees received	(4,292)	(3,409)
Other commissions	(11,431)	(11,059)
	(82,972)	(81,374)
	387,048	387,583

5. Gains / (losses) on financial operations

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Gains/(losses) on financial operations at fair value through profit or loss		
Gains/(losses) on financial assets held for trading	101,448	(165,308)
Gains/(losses) on financial assets not held for trading mandatorily at fair value through profit or loss	2,855	2,693
Gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	(98,375)	169,425
	5,928	6,810
Foreign exchange gains/(losses)	10,644	14,811
Hedge accounting gains/(losses)	823	(3,673)
Gains/(losses) arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss	107,086	24,276
	124,481	42,224

The balances Gains/(losses) on financial operations at fair value through profit or loss is comprised of:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Gains/(losses) on financial assets held for trading		
Gains		
Debt securities portfolio	7,412	3,597
Equity instruments	10,345	97
Derivative financial instruments	209,784	211,823
Other operations	740	1,039
	228,281	216,556
Losses		
Debt securities portfolio	(4,609)	(11,577)
Equity instruments	(9,312)	(7,322)
Derivative financial instruments	(112,523)	(362,526)
Other operations	(389)	(439)
	(126,833)	(381,864)
	101,448	(165,308)
Gains/(losses) on financial assets not held for trading mandatorily at fair value through profit or loss		
Gains		
Loans and advances to customers	1,823	5,877
Debt securities portfolio	33,377	17,751
Equity instruments	941	(1,019)
	36,141	22,609
Losses		
Loans and advances to customers	(2,308)	(4,676)
Debt securities portfolio	(30,978)	(15,240)
	(33,286)	(19,916)
	2,855	2,693

(continues)

(continuation)

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Gains/(losses) on financial assets and liabilities designated at fair value through profit or loss		
Gains		
Resources from customers	13,979	—
Debt securities issued		
Certificates and structured securities issued	24,406	153,121
Other debt securities issued	116	18,188
	38,501	171,309
Losses		
Debt securities portfolio	(103)	—
Resources from customers	(1,009)	—
Debt securities issued		
Certificates and structured securities issued	(131,639)	—
Other debt securities issued	(4,125)	(1,884)
	(136,876)	(1,884)
	(98,375)	169,425

The balances Gains (losses) on financial assets and liabilities designated at fair value through profit or loss - Gains/(Losses) - Certificates and structured securities issued record the valuations and devaluations of certificates issued by the Group. These liabilities are covered by futures, which valuation and devaluation are recorded in Gains / (losses) on financial assets held for trading - Gains/(Losses) - Derivative financial instruments.

The balances Foreign exchange gains/(losses), Gains/(losses) on hedge accounting and Gains/(losses) arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss, are presented as follows:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Foreign exchange gains/(losses)		
Gains	1,643,571	1,448,360
Losses	(1,632,927)	(1,433,549)
	10,644	14,811
Gains/(losses) on hedge accounting		
Gains		
Hedging derivatives	60,840	935,182
Hedged items	52,227	103,239
	113,067	1,038,421
Losses		
Hedging derivatives	(99,404)	(234,017)
Hedged items	(12,840)	(808,077)
	(112,244)	(1,042,094)
	823	(3,673)
Gains/(losses) arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss		
Gains		
Credit sales	384	6,405
Debt securities portfolio at fair value through other comprehensive income	1,576	32,514
Debt securities issued	764	585
Others	119,786	168
	122,510	39,672
Losses		
Credit sales	(6,992)	(1,042)
Debt securities portfolio at fair value through other comprehensive income	(7,786)	(13,476)
Debt securities issued	(466)	(284)
Others	(180)	(594)
	(15,424)	(15,396)
	107,086	24,276

The balance Gains/(losses) on hedge accounting includes a net gain of Euros 782,000 (30 June 2022: net loss Euros 41,167,000) regarding the sale of financial assets at fair value through other comprehensive income subject to hedge accounting, which are offset in the balance Gains/(losses) arising from derecognition of financial assets at fair value through other comprehensive income.

The balance Gains/(losses) arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss - Debt securities portfolio includes the amount of Euros 12,000 (30 June 2022: Euros 478,000) related to gains resulting from the sale of Portuguese Treasury bonds.

The caption "Gains arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss - Others" includes the amount of Euros 119,625,000 corresponding to the gains recognized on the sale of 80% of the shares of Millennium Financial Services sp. z o.o., within the scope of the Strategic Insurance Cooperation between Bank Millennium, S.A and the buyers, as described in note 47. The Transaction was finished at the end of March 2023 (after receiving the necessary approval from UOKiK), with Bank Millennium recognizing:

- a gain on the sale of the Entity in the amount of approximately PLN 499.9 million (circa Euros 108 million), corresponding to the payment of the sale price less the book value of the shares sold;

- the valuation of derivative resulting from potential future earnouts payments, in the amount of PLN 54 million (Euros 11.6 million).

6. Other operating income / (losses)

The amount of this account is comprised of

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Operating income		
Gains on leasing operations	1,917	1,489
Income from services provided	14,929	14,109
Rents	835	1,806
Sales of cheques and others	4,511	4,896
Other operating income	26,402	27,760
	48,594	50,060
Operating costs		
Donations and contributions	(2,240)	(2,378)
Contribution to the banking sector	(44,807)	(43,490)
Contributions to Resolution Funds	(22,457)	(36,660)
Contribution to the Single Resolution Fund	(17,729)	(25,847)
Contributions to the Deposit Guarantee Fund	(611)	(8,637)
Institutional protection scheme (Poland)	—	(54,276)
Special tax on the Polish banking sector	—	(36,405)
Taxes	(8,723)	(7,472)
Losses on financial leasing operations	(5)	(5)
Other operating costs	(37,529)	(24,216)
	(134,101)	(239,386)
	(85,507)	(189,326)

The balance Contribution to the banking sector in Portugal 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 Contributions to Resolution Funds 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 Contributions to Resolution Funds 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 the first half of 2023, the amount of Euros 17,729,000 to the Single Resolution Fund (30 June 2022: Euros 25,847,000). The total value of the contribution attributable to the Group amounted to Euros 22,861,000 (30 June 2022: Euros 30,400,000) and the Group opted to constitute an irrevocable commitment, through the constitution of a bailment for this purpose, in the amount of Euros 5,132,000 (30 June 2022: Euros 4,553,000), 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. The total amount of irrevocable commitments constituted is Euros 30,638,000 (30 June 2022: Euros 25,506,000), registered in Other assets - Deposit account applications (note 32).

The balance Institutional protection scheme (Poland) corresponds to the contribution of Bank Millennium to the polish Institutional Protection Scheme.

The Management Board of the Bank Millennium S.A. received information on 7 June 2022, that the Management Boards and Supervisory Boards of Alior Bank S.A., Bank Millennium S.A. Bank Polska Kasa Opieki S.A., BNP Paribas Bank Polska S.A., ING Bank Śląski S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Santander Bank Polska S.A. (Member Banks) had passed resolutions on consenting to submitting an application to the Polish Financial Supervision Authority for approval and recognition of the protection scheme, the members of which are banks operating in the form of a joint-stock company together with the draft agreement on the protection scheme, i.e. Member Bank's participation in the creation of the protection scheme referred to in Article 4 no.1(9a) of the Banking Law Act of 29 August 1997.

The objective of the protection scheme is to:

1. ensure liquidity and solvency of the Member Banks on the terms and conditions and to the extent set out in the agreement on the protection scheme; and

2. support: a) the resolution procedure pursued by the Bank Guarantee Fund (BGF) for the bank being a joint-stock company; and b) acquisition of the bank being a joint-stock company under Article 146b.1 of the Banking Law.

On the 15th of July 2022 the Management Board of Bank Millennium S.A took a decision to launch the Recovery Plan, notifying of the fact both PFSA and Bank Guarantee Fund. As a result of the implementation of the Recovery Plan, Bank Millennium S.A. benefited from the exemption from the Special tax on the Polish banking sector since that date.

7. Staff costs

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Remunerations	254,232	230,195
Mandatory social security charges		
Post-employment benefits (note 49)		
Service cost	(4,766)	(6,218)
Net interest cost / (income) in the liability coverage balance	(8,816)	1,905
Cost with early retirement programs	1,288	973
Amount transferred to the Fund resulting from acquired rights unassigned related to the Complementary Plan	(9)	(4)
	(12,303)	(3,344)
Other mandatory social security charges	56,922	50,303
	44,619	46,959
Voluntary social security charges	7,921	5,412
Other staff costs	1,199	1,586
	307,971	284,152

The balance Remunerations includes the amount of Euros 9,740,000 (30 June 2022: Euros 5,630,000) related to the distribution of profits to Bank's employees.

In the first half of 2023, were paid severance payments in the amount of 1,806,000 (30 June 2022: Euros 959,000), of which the highest amounted to Euros 565,000 (30 June 2022: Euros 200,000), as described in note 39.

Remunerations

In compliance with the provisions of Article 47 of Banco de Portugal Notice no. 3/2020, quantitative information is disclosed regarding the remuneration paid to different categories of members of governing bodies and categories of employees provided for in Article 115 C no. 2 of the RGICS, as well as the information provided for in Article 450 g) to i) of Regulation (EU) 2019/876 of the European Parliament and of the Council.

A. BCP Board of Directors

The fixed remuneration and social charges paid to members of the Board of Directors of Banco Comercial Português, S.A. are analysed as follows:

(Thousands of euros)

	Board of Directors			
	Executive Committee		Non-executive directors	
	30 June 2023	30 June 2022 (restated)	30 June 2023	30 June 2022 (restated)
Fixed remuneration	1,528	1,528	995	958
Variable remuneration				
Pecuniary	461	370	—	—
Shares	460	1,322	—	—
Deferred	534	1,024	—	—
Supplementary retirement pension	305	305	69	69
Post-employment benefits	(14)	(21)	—	—
Other mandatory social security charges	367	367	237	228
	3,641	4,895	1,301	1,255
Number of beneficiaries	6	6	11	11

Considering that the remuneration of members of the Executive Committee and Directors, with an exclusivity contract, intends to compensate the functions that are performed in the Bank and in all other functions performed in subsidiaries or governing bodies for which they have been designated by indication or in representation of the Bank, in the latter case, the net amount of the remuneration annually received by each member of the Executive Committee will be deducted from the fixed annual remuneration attributed by the Bank, ensuring that the effective payable amount corresponds to the one approved by the Remuneration and Welfare Board.

In the first half of 2023, the amount of remuneration paid to the Executive Committee includes the amount of Euros 45,000 (30 June 2022: Euros 46,000) supported by subsidiaries or companies whose governing bodies represent the Group's interests. Regarding the Non-executive directors, this amount was Euros 11,000 (30 June 2022: Euros 11,000).

In 2023, it was assigned variable remuneration in accordance with the remuneration policies for the members of the management and supervisory bodies and for employees, approved for 2022, as described in accounting policies 1 R4 and 1 R5.

In the first half of 2023, the variable remuneration attributed was Euros 923,000 in cash, of which Euros 463,000 are deferred for 5 years, and 4,136,539 shares corresponding to Euros 1,846,000, of which 2,068,268 shares are deferred for 5 years.

In the first half of 2023, the deferred variable remuneration paid refers to the years 2022, 2021, 2019 and 2018, of which Euros 131,000 in cash and 1,811,526 BCP shares in the amount of Euros 403,000.

In the first half of 2022, the variable remuneration attributed was Euros 616,000 in cash, of which Euros 246,000 are deferred for 5 years, and 12,416,223 shares corresponding to Euros 2,567,000, of which 1,568,846 shares are deferred for 5 years, and 3,397,643 shares are deferred for 3 years.

In the first half of 2022 the deferred variable remuneration attributed to the Executive Committee is related to 2020, 2019 and 2018 years, and amounts to Euros 590,000 in cash and 2.443.549 BCP shares in the amount of Euros 434,000.

During the first half of 2023 and 2022, no severance payments were paid to members of the Board of Directors.

B. *Key Function Holders (KFH)*

In 2022, the remunerations and social security charges supported with the Group's Key Function Holders are, detailed by segment, as follows:

(Thousands of euros)

	30 June 2023					
	Retail	Corporate	Private Banking	Control functions	Others	Total
Fixed remuneration	691	855	229	1,380	2,273	5,428
Variable remuneration						
Pecuniary	275	335	101	466	926	2,103
Shares	98	119	22	166	347	752
Deferred	42	36	10	19	114	221
Post-employment benefits	(73)	(39)	(2)	(143)	(231)	(488)
Other mandatory social security charges	170	255	55	345	575	1,400
	1,203	1,561	415	2,233	4,004	9,416
Number of beneficiaries	9	13	2	27	36	87

Arising from the application of the Remuneration Policies for Employees, approved for the financial year 2022, as described in accounting policies 1 R4 and 1 R5, in the first half of 2023, the 87 Key Function Holders were awarded with variable remuneration, in the amount of Euros 337,000 in cash and 1,494,050 shares deferred for 5 years, as well as 229 participation units from AF Fund deferred for 3 years.

During the first half of 2023, deferred variable remunerations were paid to KFH deferred from 2022, 2021 and 2020 years, corresponding in cash to Euros 102,000 and shares in the amount of Euros 120,000.

In the first half of 2023, severance payments were paid to 2 KFH in the amount of Euros 129,000, of which the highest payment was Euros 81,000.

During the first half of 2022, the remunerations and social security charges supported with the Group's Key Function Holders are, detailed by segment, as follows:

(Thousands of euros)

	30 June 2022 (restated)					
	Retail	Corporate	Private Banking	Control functions	Others	Total
Fixed remuneration	585	1,307	225	1,048	2,237	5,402
Variable remuneration						
Pecuniary	113	166	43	155	431	908
Shares	68	95	19	101	254	537
Deferred	42	42	9	20	127	240
Post-employment benefits	(57)	(53)	(3)	(77)	(175)	(365)
Other mandatory social security charges	148	275	55	265	556	1,299
	899	1,832	348	1,512	3,430	8,021
Number of beneficiaries	8	15	2	22	35	82

Arising from the application of the Remuneration Policies for Employees, approved for the financial year 2021, as described in accounting policies 1 R4 and 1 R5, during the first half of 2022, the 82 Key Function Holders were awarded with variable remuneration, in the amount of Euros 301,000 in cash and 1,967,738 shares deferred for 5 years, as well as 174 participation units from AF Fund deferred for 3 years.

In the first half of 2022, deferred variable remunerations were paid to KFH deferred from 2021, 2020 and 2019 years, corresponding in cash to Euros 57,000 and shares in the amount of Euros 182,000.

In the first half of 2022, severance payments were paid to 1 KFH in the amount of Euros 200,000.

In the first half of 2023 and 2022, the remunerations and social security charges supported with the Group's Key Function Holders, discriminated by Key management members and by members whose professional activities have significant impact in the risk profile of the Bank (Other KFH), are as follows:

(Thousands of euros)

	Key Function Holders					
	Key management members		Other KFH		Total	
	30 June 2023	30 June 2022 (restated)	30 June 2023	30 June 2022 (restated)	30 June 2023	30 June 2022 (restated)
Fixed remuneration	3,814	3,715	1,614	1,687	5,428	5,402
Variable remuneration						
Pecuniary	1,484	699	618	209	2,102	908
Shares	538	418	214	119	752	537
Deferred	217	231	5	9	222	240
Post-employment benefits	(266)	(226)	(222)	(139)	(488)	(365)
Other mandatory social security charges	943	924	457	375	1,400	1,299
	6,730	5,761	2,686	2,260	9,416	8,021
Number of beneficiaries	50	51	37	31	87	82

In the first half of 2023, the Key management members were awarded with deferred variable remuneration in the amount of Euros 337,000 and 1.494,050 shares deferred for 5 years, as well as 229 participation units from AF Fund deferred for 3 years.

During the first half of 2023 deferred variable remunerations from 2022, 2021 and 2020 years were paid in cash to Key management members, in the amount of Euros 99,000, as well as BCP shares and participation units from AF Fund corresponding to Euros 118,000. Relatedly to the other KFH, were paid Euros 2,000 in cash deferred from 2020, BCP shares and participation units from AF Fund, from the years 2020, corresponding to Euros 3,000.

In the first half of 2022, the Key management members were awarded with deferred variable remuneration in the amount of Euros 240,000 and 1.562,494 shares deferred for 5 years, as well as 174 participation units from AF Fund deferred for 3 years. To the Other KFH the deferred variable remuneration amounts to Euros 60,000 and 405,244 shares deferred for 5 years.

During the first half of 2022, deferred variable remunerations from 2021 and 2020 years were paid in cash to Key management members, the amount of Euros 55,000, as well as BCP shares and participation units from AF Fund from the years 2021, 2020 and 2019 corresponding to Euros 175,000. Relatedly to the other KFH, were paid Euros 3,000 in cash deferred from 2020, shares and participation units from AF Fund, from the years 2020 and 2019, corresponding to Euros 7,000.

In the first half of 2023 and 2022, the Group does not have key function holders with remunerations exceeding Euros 1 million.

8. Other administrative costs

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Water, electricity and fuel	8,856	8,474
Credit cards and mortgage	(613)	(170)
Communications	12,493	11,905
Maintenance and related services	8,912	8,059
Legal expenses	2,221	2,597
Travel, hotel and representation costs	3,650	2,149
Advisory services	17,871	11,619
Training costs	351	417
Information technology services	13,289	22,220
Consumables	3,634	3,555
Outsourcing and independent labour	52,914	37,895
Advertising	12,937	13,354
Rents and leases	13,306	9,657
Insurance	2,723	2,431
Transportation	5,589	4,910
Other specialised services	14,668	13,958
Other supplies and services	12,116	9,539
	184,917	162,569

The balance Rents and leases includes the amount of Euros 196,000 (30 June 2022: Euros 213,000) related to short-term lease contracts and the amount of Euros 1,283,000 (30 June 2022: Euros 1,213,000) related to lease contracts of low-value assets, as described in the accounting policy 1 H.

9. Amortisations and depreciations

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Amortisations of intangible assets (note 30):		
Software	17,613	18,053
Other intangible assets	2,331	2,132
	19,944	20,185
Depreciations of other tangible assets (note 29):		
Properties	7,174	7,486
Equipment		
Computers	8,879	8,180
Security equipment	479	426
Installations	1,551	1,478
Machinery	797	696
Furniture	1,259	1,332
Motor vehicles	2,399	2,252
Other equipment	737	742
Right-of-use		
Real estate	25,394	26,695
Vehicles and equipment	—	3
	48,669	49,290
	68,613	69,475

10. Results on modification

In the first half of 2023, the Group has accounted for in this balance the amount of Euros 11,597,000 relating to contractual modifications made in accordance with IFRS 9, namely those negotiated with customers holding foreign currency-indexed mortgage loanss (note 56).

11. Impairment of financial assets at amortised cost

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Loans and advances to credit institutions (note 21)		
Charge for the period	7	125
Reversals for the period	(648)	(101)
	(641)	24
Loans and advances to customers (note 22)		
Charge for the period	413,089	428,086
Reversals for the period	(258,491)	(239,007)
Recoveries of loans and interest charged-off	(11,082)	(9,678)
	143,516	179,401
Debt securities (note 23)		
Associated to credit operations		
Charge for the period	2,024	210
Reversals for the period	—	(175)
	2,024	35
Not associated to credit operations		
Charge for the period	1,749	4,149
Reversals for the period	(289)	(406)
	1,460	3,743
	3,484	3,778
	146,359	183,203

12. Impairment of financial assets at fair value through other comprehensive income

The detail of this balance is comprised of:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Impairment of financial assets at fair value through other comprehensive income (note 24)		
Charge for the period	498	1,047
Reversals for the period	(612)	(2,413)
	(114)	(1,366)

13. Impairment of other assets

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Impairment of non-current assets held for sale (note 27)		
Charge for the period	5,514	19,683
Reversals for the period	(1,921)	(476)
	3,593	19,207
Impairment of goodwill of subsidiaries (note 30)		
Charge for the period	—	102,770
	—	102,770
Impairment of other assets (note 32)		
Charge for the period	8,815	7,571
Reversals for the period	(3,973)	(4,419)
	4,842	3,152
Impairment of real estate and other assets arising from recovered loans (note 32)		
Charge for the period	5,947	—
Reversals for the period	(289)	—
	5,658	—
	14,093	125,129

14. Other provisions

This balance is comprised of:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Provision for guarantees and other commitments (note 39)		
Charge for the period	21,759	16,105
Reversals for the period	(18,357)	(14,908)
	3,402	1,197
Other provisions for liabilities and charges (note 39)		
Charge for the period	386,554	245,731
Reversals for the period	(1,831)	(2,518)
	384,723	243,213
	388,125	244,410

The balance Other provisions for liabilities and charges - Charge for the period refers essentially to provisions for legal risk accounted for by Bank Millennium, related to foreign currency-indexed mortgage loans, as described in note 56.

15. Share of profit of associates accounted for using the equity method

The main contributions of the investments accounted for using the equity method are analysed as follows:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Banco Millennium Atlântico, S.A. (note 26)		
Appropriation relating to the current period	892	972
Appropriation relating to the previous period	—	(2,924)
Effect of the application of IAS 29:		
Amortization of the effect calculated until 31 December 2018 (a)	(135)	(224)
	757	(2,176)
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	19,693	5,711
Unicre - Instituição Financeira de Crédito, S.A.	386	5,589
SIBS, S.G.P.S, S.A.	5,648	8,207
Banque BCP, S.A.S.	1,994	2,319
Fidelidade Moçambique - Companhia de Seguros S.A.	944	878
Other companies	—	(64)
	28,665	22,640
	29,422	20,464

(a) 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.

16. Gains/(losses) on disposal of subsidiaries and other assets

This balance is comprised of:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Gains /(Losses) on disposal of investments	9,344	—
Gains /(Losses) on disposal of other assets	3,978	12,100
	13,322	12,100

Due to the sale of 80% of the shares of Millennium Financial Services sp. z o.o. by Bank Millennium in Poland, as described in note 47, and consequently loss of control over the company, the Group initially measured its remaining non-controlling stake (20%) at fair value, recording a gain of Euros 9,351,000 recorded as Gains /(Losses) on disposal of investments.

The balance Gains /(Losses) on disposal of other assets includes essentially gains on disposal of assets held by the Group and classified as non-current assets held for sale which corresponds to a gain of Euros 3,264,000 (30 June 2022: gain of Euros 13,214,000).

17. Net income from discontinued or discontinuing operations

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Banque Privée BCP (Suisse) S.A.		
Gains on disposal of the investment held (price adjustment)	—	1,789
Fidelidade Moçambique - Companhia de Seguros S.A.		
Correction of gains on disposal of the investment held	—	(310)
Millennium bcp Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.		
Losses (expenses)	(9)	—
	(9)	1,479

Under the agreement entered between Banco Comercial Português, S.A. and Union Bancaire Privée, UBP SA regarding the sale of the entire share capital of Banque Privée BCP (Suisse) S.A. and in accordance with the provisions of IFRS 5, this operation was considered as discontinued in June 2021, and the impact on results presented in a separate line of the income statement named "Net income from discontinued or discontinuing operations".

In 2022, the sale price and the corresponding gains on disposal were positively adjusted. The sale price received may also be adjusted positively or negatively in 2023, depending on the evolution of certain parameters, as is usual in this type of transaction, including those that may result from the variation of stocks and/or flows of assets under management, in pre-determined dates and specified portfolios.

By the end of 2021, the Group, through its subsidiary BIM - Banco Internacional de Moçambique, S.A., sold 70% of the investment held in Seguradora Internacional de Moçambique, S.A. (now designated Fidelidade Moçambique - Companhia de Seguros S.A.), becoming to hold a minority stake of 22%. In accordance with the provisions of IFRS 5, this operation was considered as discontinued and the impact on results presented in a separate line of the income statement named "Net income from discontinued or discontinuing operations".

Possible contingencies are reflected in the sales price received, therefore, this may be adjusted positively or negatively in the future, according to typical adjustments in these kind of transactions including the variation of the value and/or flows of assets under management, in pre-determined dates and for specified assets. By the end of 2022, the period during which price adjustments could be made ended.

18. Earnings per share

The earnings per share are calculated as follows:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Continuing operations		
Net income from continuing operations	476,741	47,738
Non-controlling interests	(53,483)	12,967
Appropriated net income from continuing operations	423,258	60,705
Interests on perpetual subordinated bonds (Additional Tier 1)	(18,500)	(18,500)
Adjusted net income from continuing operations	404,758	42,205
Discontinued or discontinuing operations (note 17)		
Net income from discontinued or discontinuing operations	(9)	1,479
Adjusted net income	404,749	43,684
Average number of shares	15,113,989,952	15,113,989,952
Basic earnings per share (Euros):		
from continuing operations	0.054	0.006
from discontinued or discontinuing operations	0.000	0.000
	0.054	0.006
Diluted earnings per share (Euros):		
from continuing operations	0.054	0.006
from discontinued or discontinuing operations	0.000	0.000
	0.054	0.006

As at 30 June 2023, the Bank's share capital amounts to Euros 3,000,000,000 (30 June 2022: 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. Pursuant to the resolutions adopted at the General Meeting held on 20 December 2022, the Bank registered its new share capital of 3,000,000,000 Euros, maintaining the number of nominatives, book-entry shares without nominal value and of the voting rights.

There were not identified another dilution effects of the earnings per share as at 30 June 2023 and 2022, so the diluted result is equivalent to the basic result.

19. Cash and deposits at Central Banks

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Cash	575,551	593,033
Central Banks		
Bank of Portugal	1,201,169	3,370,139
Central Banks abroad	2,107,618	2,058,829
	3,884,338	6,022,001

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 establish 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.

20. Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Credit institutions in Portugal	16,649	2,338
Credit institutions abroad	134,561	112,443
Amounts due for collection	87,651	98,679
	238,861	213,460

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.

21. Loans and advances to credit institutions

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Loans and advances to Central Banks		
Central Banks abroad	43,097	382,038
	43,097	382,038
Loans and advances to credit institutions in Portugal		
Short-term applications	51,830	973
Loans	—	4,250
Other	736	1,068
	52,566	6,291
Loans and advances to credit institutions abroad		
Term deposits	381,498	425,152
Term deposits to collateralise CIRS and IRS operations (*)	73,123	124,746
Other	20,490	26,069
	475,111	575,967
	570,774	964,296
Impairment for loans and advances to credit institutions	(222)	(862)
	570,552	963,434

(*) 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 of Loans and advances to credit institutions are analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Balance on 1 January	862	1,187
Impairment charge for the period (note 11)	7	349
Reversals for the period (note 11)	(648)	(673)
Exchange rate differences	1	(1)
Balance at the end of the period	222	862

22. Loans and advances to credit institutions

The analysis of loans and advances to customers, by type of credit, is as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Mortgage loans	28,548,365	28,658,104
Loans	17,302,432	17,672,581
Finance leases	4,212,427	4,176,329
Factoring operations	2,988,520	3,022,248
Current account credits	892,584	822,473
Overdrafts	1,194,843	1,046,121
Discounted bills	178,370	201,081
	55,317,541	55,598,937
Overdue loans - less than 90 days	105,440	94,063
Overdue loans - Over 90 days	536,890	485,166
	55,959,871	56,178,166
Loans impairment	(1,563,218)	(1,502,373)
	54,396,653	54,675,793

The balance Loans and advances to customers, as at 30 June 2023, is analysed as follows:

(Thousands of euros)

	30 June 2023				
	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Public sector	579,791	—	579,791	(1,372)	578,419
Asset-backed loans	31,966,408	138,648	32,105,056	(556,306)	31,548,750
Other guaranteed loans	5,252,932	103,493	5,356,425	(216,036)	5,140,389
Unsecured loans	7,811,823	290,294	8,102,117	(533,116)	7,569,001
Foreign loans	2,505,641	2,316	2,507,957	(37,122)	2,470,835
Factoring operations	2,988,520	21,683	3,010,203	(46,674)	2,963,529
Finance leases	4,212,426	85,896	4,298,322	(172,592)	4,125,730
	55,317,541	642,330	55,959,871	(1,563,218)	54,396,653

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 2022, is analysed as follows:

(Thousands of euros)

	31 December 2022 (restated)				
	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Public sector	583,999	—	583,999	(966)	583,033
Asset-backed loans	32,233,382	123,063	32,356,445	(555,500)	31,800,945
Other guaranteed loans	5,667,532	100,085	5,767,617	(222,449)	5,545,168
Unsecured loans	7,458,312	258,186	7,716,498	(476,885)	7,239,613
Foreign loans	2,457,135	2,451	2,459,586	(34,334)	2,425,252
Factoring operations	3,022,248	16,680	3,038,928	(49,411)	2,989,517
Finance leases	4,176,329	78,764	4,255,093	(162,828)	4,092,265
	55,598,937	579,229	56,178,166	(1,502,373)	54,675,793

As at 30 June 2023, the balance Loans and advances to customers includes the amount of Euros 11,323,692,000 (31 December 2022: Euros 10,613,589,000) regarding mortgage loans assigned to the cover pool backing the Group's covered bond programme issuances.

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, 5% or more of the share capital identified in the Board of Directors report and in note 41.

The Group granted credit to qualifying shareholders and entities controlled by them, in the amount of Euros 94,764,000 (31 December 2022: Euros 98,658,000), as referred in note 50 a). The amount of impairment recognised for these contracts amounts to Euros 950,000 (31 December 2022: Euros 914,000).

The conclusion of business between the Company and holders of qualifying holdings or individuals or legal entities related to them in accordance with the provisions of article 33.°, n.° 3 of Notice 3/2020 of Bank of Portugal, regardless of the amount, is always subject of consideration and deliberation by the Board of Directors, after obtaining a prior opinion from the Audit Committee, and by proposal of the Executive Committee, which in turn deliberates under proposal from the Credit Committee, after obtaining an analysis and opinion from the Compliance Office, which pronounces regarding the compliance of the proposed operations with internal regulations, legal and regulatory provisions and other conditions that may apply to them, and the Risk Office, which evaluates and issues an opinion on the risks inherent to the operation.

As at 31 December 2022, the balance Finance leases included the amount of Euros 348,000 relative to sublease operations, as referred in accounting policy 1 H.

The analysis of loans and advances to customers, as at 30 June 2023, by sector of activity, is as follows:

(Thousands of euros)

	30 June 2023					
	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount	% Gross amount
Agriculture and forestry	448,716	8,663	457,379	(15,040)	442,339	0.82 %
Fisheries	24,844	3,229	28,073	(3,662)	24,411	0.05 %
Mining	69,380	1,306	70,686	(4,596)	66,090	0.13 %
Food, beverage and tobacco	806,326	8,849	815,175	(24,806)	790,369	1.46 %
Textiles	452,311	10,617	462,928	(18,793)	444,135	0.83 %
Wood and cork	250,918	2,800	253,718	(4,614)	249,104	0.45 %
Paper, printing and publishing	131,967	793	132,760	(4,353)	128,407	0.24 %
Chemicals	776,190	39,784	815,974	(90,724)	725,250	1.46 %
Machinery, equipment and basic metallurgical	1,465,478	30,628	1,496,106	(87,786)	1,408,320	2.67 %
Electricity and gas	248,744	82	248,826	(1,648)	247,178	0.45 %
Water	204,718	532	205,250	(8,500)	196,750	0.37 %
Construction	1,515,694	25,429	1,541,123	(146,404)	1,394,719	2.75 %
Retail business	1,683,079	17,695	1,700,774	(37,823)	1,662,951	3.04 %
Wholesale business	2,207,520	26,816	2,234,336	(68,833)	2,165,503	3.99 %
Restaurants and hotels	1,443,015	19,963	1,462,978	(79,102)	1,383,876	2.61 %
Transports	1,294,638	10,310	1,304,948	(39,605)	1,265,343	2.33 %
Post offices	20,621	240	20,861	(631)	20,230	0.04 %
Telecommunications	357,768	4,082	361,850	(6,900)	354,950	0.65 %
Services						
Financial intermediation	2,036,736	2,006	2,038,742	(38,724)	2,000,018	3.64 %
Real estate activities	1,973,680	12,854	1,986,534	(45,648)	1,940,886	3.55 %
Consulting, scientific and technical activities	951,316	32,387	983,703	(122,950)	860,753	1.76 %
Administrative and support services activities	508,753	5,670	514,423	(23,064)	491,359	0.92 %
Public sector	759,113	—	759,113	(3,048)	756,065	1.36 %
Education	128,760	763	129,523	(14,039)	115,484	0.23 %
Health and collective service activities	367,052	1,900	368,952	(7,120)	361,832	0.66 %
Artistic, sports and recreational activities	227,660	2,960	230,620	(32,556)	198,064	0.41 %
Other services	255,289	4,110	259,399	(37,912)	221,487	0.46 %
Consumer loans	6,116,912	244,410	6,361,322	(388,836)	5,972,486	11.37 %
Mortgage credit	27,854,198	120,226	27,974,424	(190,410)	27,784,014	49.99 %
Other domestic activities	1,399	195	1,594	(30)	1,564	0.0 %
Other international activities	734,746	3,031	737,777	(15,061)	722,716	1.32 %
	55,317,541	642,330	55,959,871	(1,563,218)	54,396,653	100 %

The analysis of loans and advances to customers, as at 31 December 2022, by sector of activity, is as follows:

(Thousands of euros)

	31 December 2022 (restated)					
	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount	% Gross amount
Agriculture and forestry	461,680	8,517	470,197	(13,879)	456,318	0.84 %
Fisheries	25,308	3,226	28,534	(2,563)	25,971	0.05 %
Mining	70,970	1,676	72,646	(5,249)	67,397	0.13 %
Food, beverage and tobacco	813,359	11,634	824,993	(26,201)	798,792	1.47 %
Textiles	497,338	8,989	506,327	(17,109)	489,218	0.90 %
Wood and cork	260,175	3,730	263,905	(5,364)	258,541	0.47 %
Paper, printing and publishing	148,937	742	149,679	(3,924)	145,755	0.27 %
Chemicals	862,826	38,334	901,160	(63,538)	837,622	1.60 %
Machinery, equipment and basic metallurgical	1,526,778	25,298	1,552,076	(56,649)	1,495,427	2.76 %
Electricity and gas	229,821	443	230,264	(1,285)	228,979	0.41 %
Water	204,736	452	205,188	(8,371)	196,817	0.37 %
Construction	1,497,114	21,639	1,518,753	(141,991)	1,376,762	2.70 %
Retail business	1,705,882	18,730	1,724,612	(36,848)	1,687,764	3.07 %
Wholesale business	2,225,903	26,755	2,252,658	(67,081)	2,185,577	4.01 %
Restaurants and hotels	1,505,963	15,721	1,521,684	(71,192)	1,450,492	2.71 %
Transports	1,320,236	7,464	1,327,700	(20,751)	1,306,949	2.36 %
Post offices	19,918	254	20,172	(412)	19,760	0.04 %
Telecommunications	411,885	1,508	413,393	(9,411)	403,982	0.74 %
Services						
Financial intermediation	2,047,265	2,149	2,049,414	(44,691)	2,004,723	3.65 %
Real estate activities	1,978,182	10,931	1,989,113	(35,469)	1,953,644	3.54 %
Consulting, scientific and technical activities	969,410	8,232	977,642	(86,718)	890,924	1.74 %
Administrative and support services activities	532,237	4,296	536,533	(57,220)	479,313	0.96 %
Public sector	823,904	—	823,904	(2,545)	821,359	1.47 %
Education	143,930	814	144,744	(14,627)	130,117	0.26 %
Health and collective service activities	378,423	1,029	379,452	(7,108)	372,344	0.68 %
Artistic, sports and recreational activities	236,543	2,128	238,671	(37,124)	201,547	0.43 %
Other services	234,399	2,971	237,370	(101,356)	136,014	0.42 %
Consumer loans	5,775,239	237,160	6,012,399	(369,220)	5,643,179	10.70 %
Mortgage credit	28,012,946	110,809	28,123,755	(181,551)	27,942,204	50.06 %
Other domestic activities	1,377	332	1,709	(38)	1,671	0.00 %
Other international activities	676,253	3,266	679,519	(12,888)	666,631	1.21 %
	55,598,937	579,229	56,178,166	(1,502,373)	54,675,793	100 %

The item Loans and advances to customers, split by stage according with IFRS 9, is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Stage 1		
Gross amount	46,468,791	46,404,751
Impairment	(244,069)	(214,469)
	46,224,722	46,190,282
Stage 2		
Gross amount	7,361,836	7,567,944
Impairment	(272,473)	(284,653)
	7,089,363	7,283,291
Stage 3		
Gross amount	2,129,244	2,205,471
Impairment	(1,046,676)	(1,003,251)
	1,082,568	1,202,220
Net amount	54,396,653	54,675,793

The exposure and impairment of the above table also includes the operations classified as POCI as detailed in note 53.

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 2023	31 December 2022 (restated)
Stage 1		
Securities and other financial assets	1,360,914	1,533,809
Residential real estate	24,943,785	24,796,864
Other real estate	3,408,302	3,475,795
Other guarantees	7,497,498	7,654,261
	37,210,499	37,460,729
Stage 2		
Securities and other financial assets	193,531	192,025
Residential real estate	2,807,149	2,507,458
Other real estate	1,121,852	1,158,362
Other guarantees	1,485,143	1,744,218
	5,607,675	5,602,063
Stage 3		
Securities and other financial assets	26,176	28,765
Residential real estate	442,009	432,138
Other real estate	470,049	516,903
Other guarantees	252,342	235,900
	1,190,576	1,213,706
	44,008,750	44,276,498

The balance Other guarantees include first-demand guarantees issued by the Bank and other entities, with an internal risk rating of 7 or better; personal guarantees, when the guarantors are classified with internal risk grade 7 or better. This balance also includes pledges, assets subject to financial leasing operations and personal guarantees, 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. 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 which arise to the marking of operations as being restructured due to financial difficulties of customers. The restructuring may include in a reinforce of guarantees, liquidation of part of the credit and imply an extension of maturities or changes in interest rate. The analysis of the restructured loans, by sector of activity, is as follows:

(Thousands of euros)

	30 June 2023			31 December 2022 (restated)		
	Restructured loans	Impairment (*)	Net amount	Restructured loans	Impairment (*)	Net amount
Agriculture and forestry	12,227	(2,022)	10,205	15,009	(2,216)	12,793
Fisheries	2,778	(2,599)	179	2,772	(1,762)	1,010
Mining	1,328	(206)	1,122	1,305	(199)	1,106
Food, beverage and tobacco	26,564	(9,924)	16,640	28,393	(10,112)	18,281
Textiles	12,539	(4,685)	7,854	14,120	(4,981)	9,139
Wood and cork	4,419	(718)	3,701	6,088	(784)	5,304
Paper, printing and publishing	7,771	(1,861)	5,910	8,698	(1,701)	6,997
Chemicals	26,306	(12,928)	13,378	30,146	(11,809)	18,337
Machinery, equipment and basic metallurgical	68,591	(24,412)	44,179	74,637	(22,688)	51,949
Electricity and gas	756	(24)	732	1,133	(255)	878
Water	2,664	(797)	1,867	1,767	(734)	1,033
Construction	147,000	(92,377)	54,623	151,970	(94,787)	57,183
Retail business	33,526	(8,055)	25,471	38,861	(10,085)	28,776
Wholesale business	58,489	(10,263)	48,226	68,474	(13,627)	54,847
Restaurants and hotels	88,293	(24,531)	63,762	97,002	(16,126)	80,876
Transports	6,437	(1,776)	4,661	9,620	(1,767)	7,853
Post offices	122	(63)	59	125	(33)	92
Telecommunications	22,134	(859)	21,275	25,228	(4,066)	21,162
Services						
Financial intermediation	32,274	(1,385)	30,889	54,764	(19,879)	34,885
Real estate activities	93,208	(16,287)	76,921	45,785	(9,927)	35,858
Consulting, scientific and technical activities	190,298	(100,787)	89,511	190,444	(63,606)	126,838
Administrative and support services activities	31,063	(10,482)	20,581	67,941	(46,519)	21,422
Public sector	61,637	(466)	61,171	63,016	(427)	62,589
Education	16,465	(11,143)	5,322	17,310	(11,358)	5,952
Health and collective service activities	7,824	(1,159)	6,665	8,428	(1,206)	7,222
Artistic, sports and recreational activities	40,440	(25,314)	15,126	19,732	(8,865)	10,867
Other services	10,816	(1,665)	9,151	11,855	(1,601)	10,254
Consumer loans	281,195	(109,466)	171,729	274,500	(99,459)	175,041
Mortgage credit	592,422	(65,774)	526,648	535,948	(69,129)	466,819
Other domestic activities	3	—	3	—	—	—
Other international activities	1,022	(658)	364	977	(594)	383
	1,880,611	(542,686)	1,337,925	1,866,048	(530,302)	1,335,746

(*)The impairment presented in the table does not include the amounts of impairment calculated using the overlays methodology described in point i. of the section "Additional measures with impact on the Impairment level" of note 53.

The breakdown of the restructured loans as at 30 June 2023, by restructuring measure, is as follows:

(Thousands of euros)

	30 June 2023					
	Number of operations	Outstanding loans	Overdue loans	Gross amount	Impairment (*)	Net amount
Extension of the repayment term	5,422	428,335	58,986	487,321	(131,976)	355,345
Introduction of the grace period for capital and / or interest	4,651	526,130	37,227	563,357	(185,992)	377,365
Interest rate reduction	4,229	123,157	3,994	127,151	(80,944)	46,207
Payment plan change	5,381	184,164	10,061	194,225	(20,105)	174,120
Debt relief	104	22,451	1,503	23,954	(19,785)	4,169
Debt-asset swaps	4	373	18	391	(35)	356
Other restructured loans	6,521	411,853	72,359	484,212	(103,849)	380,363
	26,312	1,696,463	184,148	1,880,611	(542,686)	1,337,925

The breakdown of the restructured loans as at 31 December 2022, by restructuring measure, is as follows:

(Thousands of euros)

	31 December 2022 (restated)					
	Number of operations	Outstanding loans	Overdue loans	Gross amount	Impairment (*)	Net amount
Extension of the repayment term	40,796	383,529	64,104	447,633	(130,635)	316,998
Introduction of the grace period for capital and / or interest	7,359	433,555	30,187	463,742	(134,502)	329,240
Interest rate reduction	3,933	147,583	5,694	153,277	(105,411)	47,866
Payment plan change	10,832	233,879	9,338	243,217	(21,762)	221,455
Debt relief	105	935	1,693	2,628	(1,391)	1,237
Debt-asset swaps	4	368	21	389	(31)	358
Other restructured loans	6,877	507,410	47,752	555,162	(136,570)	418,592
	69,906	1,707,259	158,789	1,866,048	(530,302)	1,335,746

(*) The impairment presented in the tables does not include the amounts of impairment calculated using the overlays methodology described in point i. of the section "Additional measures with impact on the Impairment level" of note 53.

The restructured loans are also 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 restructuring 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, being 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 marked as restructured due to financial difficulties, can only take place at least 2 periods 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 Non-Performing Exposure (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 plus outstanding) associated with past due operations for more than 90 days. The amount calculated is Euros 792,435,000 (31 December 2022: Euros 725,300,000).

All customers who check at least one of the following conditions are marked in default and therefore as 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: more than 100 euros (retail) or more than 500 euros (non-retail); and 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 2023, the NPE associated with Loans and advances customers at amortized cost amounts to Euros 2,129,254,000 (31 December 2022: Euros 2,205,471,000).

The changes occurred in Loans impairment are analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Balance on 1 January	1,502,373	1,849,284
Charge for the period in net income interest	7,479	32,942
Transfers resulting from changes in the Group's structure	411	—
Other transfers	(2)	(53,634)
Impairment charge for the period (note 11)	413,089	830,750
Reversals for the period (note 11)	(258,491)	(506,926)
Loans charged-off		
Write-offs	(116,483)	(458,405)
Credit assignments	(10,838)	(189,061)
Exchange rate differences	25,680	(2,577)
Balance at the end of the period	1,563,218	1,502,373

The balance Other transfers included in 31 December 2022 the amount of Euros 52,794,000 related to impairment for loans that were reclassified to Financial assets not held for trading mandatorily at fair value through profit or loss - Loans and advances to customers at fair value.

According to note 39, regarding the proceedings related to foreign currency-indexed mortgage loans of Bank Millennium the amount of Euros 1,264,980,000 has been written-off from the gross carrying amount of loans portfolio (31 December 2022: Euros 976,782,000).

The analysis of Write-offs, by sector of activity, is as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Agriculture and forestry	738	271
Fisheries	—	1
Mining	—	46
Food, beverage and tobacco	547	1,696
Textiles	968	1,405
Wood and cork	41	2,083
Paper, printing and publishing	71	141
Chemicals	708	1,425
Machinery, equipment and basic metallurgical	8,489	2,613
Electricity and gas	362	615
Water	13	39
Construction	2,336	9,992
Retail business	1,238	10,324
Wholesale business	1,868	13,782
Restaurants and hotels	437	3,482
Transports	465	6,527
Post offices	67	128
Telecommunications	188	72
Services		
Financial intermediation	18,898	72,244
Real estate activities	193	306
Consulting, scientific and technical activities	1,024	1,119
Administrative and support services activities	34,834	2,839
Education	2	48
Health and collective service activities	135	179
Artistic, sports and recreational activities	179	6,492
Other services	48	240,544
Consumer loans	41,585	69,019
Mortgage credit	779	3,581
Other domestic activities	88	838
Other international activities	182	6,554
	116,483	458,405

According with the accounting policy described in note 1 C1.3, the Group writes off a loan when it does not have reasonable expectations of recovering a financial asset in its entirety or partially. Loans written-off are recognised in off-balance sheet accounts.

The analysis of Write-offs, by type of credit, is as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Asset-backed loans	1,097	3,296
Other guaranteed loans	1,711	313,915
Unsecured loans	112,777	128,131
Finance leases	898	13,063
	116,483	458,405

The analysis of recovered loans and interest occurred in the first half of 2023 and 2022, by sector of activity, is as follows:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Agriculture and forestry	—	6
Food, beverage and tobacco	11	21
Textiles	18	34
Wood and cork	12	25
Chemicals	11	49
Machinery, equipment and basic metallurgical	3	147
Construction	142	282
Retail business	1,004	533
Wholesale business	1,291	72
Restaurants and hotels	13	54
Transports	182	31
Telecommunications	—	1
Services		
Financial intermediation	616	15
Real estate activities	92	482
Consulting, scientific and technical activities	329	5
Administrative and support services activities	26	16
Education	1	5
Health and collective service activities	1	—
Artistic, sports and recreational activities	20	1
Other services	1,194	2
Consumer loans	5,721	7,234
Mortgage credit	336	108
Other domestic activities	13	17
Other international activities	46	538
	11,082	9,678

The analysis of recovered loans and interest occurred in the first half of 2023 and 2022, by type of credit, is as follows:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Asset-backed loans	467	108
Other guaranteed loans	759	2,495
Unsecured loans	9,728	6,987
Foreign loans	12	53
Finance leases	116	35
	11,082	9,678

The balance Loans and advances to customers includes the effect of traditional securitization transactions made through Special Purpose Entities (SPE) 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

The traditional securitization transaction engaged by the BCP and still ongoing, refers to mortgage loans portfolios and are set through securitization funds and special purpose entities (SPEs). 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. 1

On 20 December 2001, the Bank transferred, through securitization funds, an owned mortgage loans portfolio to the SPE “Magellan Mortgages No. 1 PLC”. Considering that, by having acquired 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 2023, the SPE's credit portfolio associated with this operation amounts to Euros 25,167,000 and bonds issued with different subordination levels amount to Euros 4,754,000 (this amount excludes bonds held by the Group in the amount of Euros 39,350,000) and the most subordinated tranche amounts to Euros 16,500,000.

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 2023, the SPE's credit portfolio associated with this operation amounts to Euros 173,807,000 (31 December 2022: Euros 188,214,000) and bonds issued with different subordination levels amount to Euros 130,986,000 (this amount excludes bonds hold by the Group in the amount of Euros 58,951,000) 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

BCP has three operations in progress which form structures of synthetic securitization with similar characteristics, with reference to credit portfolios granted by the Bank mainly to Small and Medium Enterprises (SMEs).

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. The legal maturity date of the operation is 25 March of 2036 and the operation amounts to Euros 219,492,000 as at 30 June 2023 (31 December 2022: Euros 276,209,000). The fair value of the relative Credit Default Swap (CDS) is recorded as a positive amount of Euros 176,079,000 and the respective registered cost in the first half of 2023 amounts to Euros 363,000.

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. The legal maturity date is 21 September of 2043 and, as at 30 June 2023, the operation amounts to Euros 444,927,000 (31 December 2022: Euros 506,117,000). The fair value of the relative CDS is recorded as a positive amount of Euros 60,759,000 and the respective registered cost in the first half of 2023 amounts to Euros 336,000.

Caravela SME No.5

Caravela SME No.5, initiated on 20 December 2022, is supported by a portfolio of medium and long term loans, leasing contract and commercial paper programmes. The legal maturity date is 26 September of 2035 and, as at 30 June 2023, the operation amounts to Euros 1,918,218,000 (31 December 2022: Euros 1,918,408,000). The fair value of the relative CDS is recorded as a negative amount of Euros 58,357,000 and the respective registered cost in the first half of 2023 amounts to Euros 10,014,000.

In any of these transactions, the Bank contracted a Credit Default Swap (CDS) with a Special Purpose Entity (SPE) SPE, purchasing from it form, credit risk protection on the referenced portfolio. In the case of synthetic structures, in the of this same CDS the risk of the respective portfolios was subdivided into 3 tranches: senior, mezzanine and equity. In this case of Caravela SME no.3 and no.4 operations, the mezzanine tranche and part of equity (20%) were placed on the market through the issuance, by the SPE, of Credit Linked Notes (CLN's) subscribed by investors, while in Caravela SME no.5 has been placed on the market for the entire mezzanine tranche. In turn, the Bank retained the risk of the tranche senior and the remaining part of the equity tranche (80%) in the case of Caravela operations no. 3 and no. 4, and the whole of the equity tranche in the case of Caravela SME no.5. The proceeds of the issuance of the CLNs were applied by the SPE in the constitution of a deposit which fully collateralises its liabilities to its creditors in connection with the transaction, including BCP.

These operations allowed the Bank to reduce the risk-weighted assets associated with the credit portfolios supporting the operations, but the Bank did not transfer to third parties most of the rights and obligations arising from the credits included in the respective portfolios, thus not meeting the derecognition criteria in the accounting policy presented in note 1 C1.3.

Securitization operations carried out by Bank Millennium Group

On 12 July 2023, the Group's subsidiary Millennium Leasing Sp. z o. o. in Poland concluded a transaction of synthetic securitization of lease receivables with transfer of risk within the meaning of Art. 2 point 10) of Regulation (EU) No. 2402/2017 of the European Parliament and of the Council establishing a general framework for securitization and creating a specific framework for simple, transparent and standardized securitization, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No. 1060/2009 and (EU) No. 648/2012 as amended ("Securitization Regulation").

As part of the transaction, Millennium Leasing securitized synthetic exposures consisting of receivables arising from lease agreements generated in the ordinary course of business of Millennium Leasing ("Reference Receivables") with a value of PLN 4,028 million (Euros 909 million), including the purchase of credit risk protection covering losses which, according to with transaction documents will be allocated to the Mezzanine Tranche worth PLN 280 million (Euros 63 million), in the form of financed credit linked notes (CLN) issued directly by Millennium Leasing sp. z o.o.

The CLN bonds will be listed on the Vienna Stock Exchange and Millennium Leasing's performance of the obligation to pay interest and redemption of the bonds is secured by debt securities (treasury bonds in the amount of 110% of the issued CLN amount). Pursuant to and subject to the terms of the transaction documents, the principal amount of the CLN bonds will be reduced by the amount of each credit loss allocated to the Mezzanine Tranche following the occurrence of a credit event with respect to the Reference Receivables.

23. Debt securities

The balance Debt securities is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Debt securities held associated with credit operations		
Portuguese issuers		
Bonds	172,429	183,260
Commercial paper	1,695,946	1,256,557
Foreign issuers		
Commercial paper	64,919	65,781
	1,933,294	1,505,598
Overdue securities - over 90 days	40	40
	1,933,334	1,505,638
Impairment	(6,699)	(4,676)
	1,926,635	1,500,962
Debt securities held not associated with credit operations		
Bonds issued by public entities (*)		
Portuguese issuers	3,565,492	3,517,560
Foreign issuers	10,177,881	7,317,443
Bonds issued by public companies and other entities		
Portuguese issuers	310,145	248,399
Foreign issuers	155,718	124,438
Treasury bills (Public Issuers and Central Banks)		
Foreign issuers	122,165	336,343
	14,331,401	11,544,183
Impairment	(10,947)	(9,563)
	14,320,454	11,534,620
	16,247,089	13,035,582

(*) Includes the negative amount of Euros 381,896,000 (31 December 2022: negative amount of Euros 417,311,000) related to adjustments resulting from the application of fair value hedge accounting.

Under the terms of IFRS 9, the balance Debt securities held not associated with credit operations - Bonds issued by public issuers, includes essentially a portfolio of securities to support Bank's ALM (Asset and Liability Management), whose business model seeks to receive the respective income until maturity, that is, of a portfolio Held to Collect, whose value as at 30 June 2023 amounts to Euros 9,702,658,000 (31 December 2022: Euros 9,248,707,000).

The analysis of debt securities portfolio, net of impairment, by sector of activity, is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Debt securities held associated with credit operations		
Agriculture and forestry	2,484	2,496
Mining	51,779	46,403
Food, beverage and tobacco	93,035	79,448
Textiles	54,132	58,555
Wood and cork	18,870	19,630
Paper, printing and publishing	7,781	8,104
Chemicals	153,017	179,516
Machinery, equipment and basic metallurgical	58,318	65,973
Electricity and gas	135,373	165,676
Water	5,492	5,475
Construction	8,041	13,397
Retail business	21,649	20,507
Wholesale business	50,687	56,698
Restaurants and hotels	8,781	8,789
Transports	54,976	36,591
Telecommunications	7,119	9,706
Services		
Financial intermediation	113,781	107,372
Real estate activities	69,820	50,845
Consulting, scientific and technical activities	907,903	473,231
Administrative and support services activities	17,868	12,269
Health and collective service activities	4,984	—
Artistic, sports and recreational activities	12,170	10,406
Other services	3,656	4,095
Other international activities	64,919	65,780
	1,926,635	1,500,962
Debt securities held not associated with credit operations		
Electricity and Gas	100,122	88,873
Water	40,155	39,704
Services		
Financial intermediation	277,884	460,781
Consulting, scientific and technical activities	169,090	119,297
	587,251	708,655
Government and Public securities	13,733,203	10,825,965
	14,320,454	11,534,620
	16,247,089	13,035,582

The changes occurred in impairment of debt securities are analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Debt securities held associated with credit operations		
Balance on 1 January	4,676	7,059
Charge for the period (note 11)	2,024	8
Reversals for the period (note 11)	—	(2,393)
Exchange rate differences	(1)	2
Balance at the end of the period	6,699	4,676
Debt securities held not associated with credit operations		
Balance on 1 January	9,563	8,743
Charge for the period (note 11)	1,749	3,329
Reversals for the period (note 11)	(289)	(2,779)
Exchange rate differences	(76)	270
Balance at the end of the period	10,947	9,563

24. 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 2023	31 December 2022 (restated)
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Debt instruments	1,022,559	338,813
Equity instruments	52,340	51,540
Trading derivatives	407,991	376,244
	1,482,890	766,597
Financial assets not held for trading mandatorily at fair value through profit or loss		
Loans and advances to customers at fair value	12,357	20,929
Debt instruments	477,682	504,200
Equity instruments	15,025	27,550
	505,064	552,679
Financial assets designated at fair value through profit or loss		
Debt instruments	21,968	—
	21,968	—
Financial assets at fair value through other comprehensive income		
Debt instruments	7,428,010	7,434,152
Equity instruments	24,858	27,401
	7,452,868	7,461,553
	9,462,790	8,780,829

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 2023, is analysed as follows:

(Thousands of euros)

	30 June 2023				
	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	22,261	—	21,968	2,506,175	2,550,404
Foreign issuers	62,378	—	—	2,504,151	2,566,529
Bonds issued by public companies and other entities					
Portuguese issuers	22,782	51	—	407,640	430,473
Foreign issuers	23,196	—	—	1,048,574	1,071,770
Treasury bills (Public Issuers and Central Banks)					
Portuguese issuers	419,520	—	—	985	420,505
Foreign issuers	472,422	—	—	960,485	1,432,907
Shares of foreign companies (a)	—	21,881	—	—	21,881
Investment fund units (b)	—	455,750	—	—	455,750
	1,022,559	477,682	21,968	7,428,010	8,950,219
Equity instruments					
Shares					
Portuguese companies	170	—	—	16,292	16,462
Foreign companies	26	15,025	—	8,566	23,617
Other securities	52,144	—	—	—	52,144
	52,340	15,025	—	24,858	92,223
Trading derivatives	407,991	—	—	—	407,991
	1,482,890	492,707	21,968	7,452,868	9,450,433
Level 1	1,074,269	—	21,968	6,151,025	7,247,262
Level 2	92,876	—	—	274,606	367,482
Level 3	315,745	492,707	—	1,027,237	1,835,689

(a) Under IFRS 9 these shares were considered as debt instruments because they do not fall within the definition of SPPI.
(b) Under IFRS 9 these participation units were considered as debt instruments because they do not fall within the definition of equity instruments.

The 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 48.

As at 30 June 2023, the balances Financial assets held for trading include bonds issued with different levels of subordination associated with the traditional securitization transactions Magellan Mortgages No. 4, referred in note 1 D, in the amount of Euros 70,000 (31 December 2022: Euros 74,000).

Within the scope of economic hedging accounting, these securities are covered by the "Treasury Bond Certificates October 2025" issued by Banco Comercial Português, S.A. which are recorded in financial liabilities designated at fair value through profit or loss (note 38).

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 2022, is analysed as follows:

(Thousands of euros)

	31 December 2022 (restated)			
	At fair value through profit or loss			
	Held for trading	Not held for trading mandatorily at fair value through profit or loss	At fair value through other comprehensive income	Total
Debt instruments				
Bonds issued by public entities				
Portuguese issuers	21,450	–	2,448,636	2,470,086
Foreign issuers	8,353	–	2,916,098	2,924,451
Bonds issued by other entities				
Portuguese issuers	–	51	542,765	542,816
Foreign issuers	74	–	897,146	897,220
Treasury bills (Public Issuers and Central Banks)				
Portuguese issuers	308,936	–	993	309,929
Foreign issuers	–	–	628,514	628,514
Shares of foreign companies (a)	–	19,387	–	19,387
Investment fund units (b)	–	484,762	–	484,762
	338,813	504,200	7,434,152	8,277,165
Equity instruments				
Shares				
Portuguese companies	–	–	18,811	18,811
Foreign companies	24	27,550	8,590	36,164
Other securities	51,516	–	–	51,516
	51,540	27,550	27,401	106,491
Trading derivatives	376,244	–	–	376,244
	766,597	531,750	7,461,553	8,759,900
Level 1	389,954	–	6,489,282	6,879,236
Level 2	81,347	–	322,514	403,861
Level 3	295,296	531,750	649,757	1,476,803

(a) Under IFRS 9, these shares were considered as debt instruments because they do not fall within the definition of SPPI.

(b) Under IFRS 9, these participation units were considered as debt instruments because they do not fall within the definition of equity instruments.

On balance sheet, the changes occurred in impairment of financial assets at fair value through other comprehensive, are analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Balance on 1 January	1,067	1,092
Transfers to fair value changes (note 43)	114	5,024
Impairment through profit and loss (note 12)	498	545
Reversals through profit and loss (note 12)	(612)	(5,569)
Exchange rate differences	60	(25)
Balance at the end of the period	1,127	1,067

The accumulated impairment related to credit risk associated with the financial assets at fair value through other comprehensive income amounts to Euros 5,072,000 and is recognised against Fair value reserves (31 December 2022: Euros 5,270,000).

The portfolio of financial assets at fair value through other comprehensive income, as at 30 June 2023, is analysed as follows:

(Thousands of euros)

	30 June 2023			
	Amortised cost (a)	Fair value hedge adjustments (note 43)	Fair value adjustments (note 43)	Total
Debt instruments				
Bonds issued by public entities				
Portuguese issuers	2,741,074	(179,546)	(55,353)	2,506,175
Foreign issuers	2,555,543	(4)	(51,388)	2,504,151
Bonds issued by other entities				
Portuguese issuers	424,833	(17,399)	206	407,640
Foreign issuers	1,155,529	(76,996)	(29,959)	1,048,574
Treasury bills (Public Issuers and Central Banks)				
Portuguese issuers	985	–	–	985
Foreign issuers	960,534	–	(49)	960,485
	7,838,498	(273,945)	(136,543)	7,428,010
Equity instruments				
Shares				
Portuguese companies	23,286	–	(6,994)	16,292
Foreign companies	19,841	–	(11,275)	8,566
	43,127	–	(18,269)	24,858
	7,881,625	(273,945)	(154,812)	7,452,868

(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 2022, is analysed as follows:

(Thousands of euros)

	31 December 2022 (restated)			
	Amortised cost (a)	Fair value hedge adjustments (note 43)	Fair value adjustments (note 43)	Total
Debt instruments				
Bonds issued by public entities				
Portuguese issuers	2,721,263	(182,643)	(89,984)	2,448,636
Foreign issuers	3,007,189	—	(91,091)	2,916,098
Bonds issued by other entities				
Portuguese issuers	566,480	(19,099)	(4,616)	542,765
Foreign issuers	1,023,516	(83,632)	(42,738)	897,146
Treasury bills (Public Issuers and Central Banks)				
Portuguese issuers	994	—	(1)	993
Foreign issuers	628,509	—	5	628,514
	7,947,951	(285,374)	(228,425)	7,434,152
Equity instruments				
Shares				
Portuguese companies	33,448	—	(14,637)	18,811
Foreign companies	19,799	—	(11,209)	8,590
	53,247	—	(25,846)	27,401
	8,001,198	(285,374)	(254,271)	7,461,553

(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 2023	31 December 2022 (restated)
Unsecured loans	9,695	17,217
Overdue loans - less than 90 days	366	554
Overdue loans - Over 90 days	2,296	3,158
	12,357	20,929

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 2023, is as follows:

(Thousands of euros)

	30 June 2023			
	Bonds and Treasury bills	Shares	Other Financial Assets	Total
Mining	—	6	—	6
Paper, printing and publishing	46,081	—	—	46,081
Chemicals	—	1	—	1
Machinery, equipment and basic metallurgical	2,335	3	—	2,338
Electricity and gas	68,516	—	—	68,516
Water	16,129	—	—	16,129
Construction	—	173	—	173
Retail business	20,603	3	—	20,606
Wholesale business	6,677	254	—	6,931
Restaurants and hotels	—	1,363	—	1,363
Transports	42,103	—	—	42,103
Telecommunications	38,802	4,334	—	43,136
Services				
Financial intermediation	2,054,666	49,466	507,335	2,611,467
Consulting, scientific and technical activities	121,446	103	—	121,549
Administrative and support services activities	18,235	6,227	—	24,462
Public sector	11,295	—	559	11,854
Other services	10,892	27	—	10,919
	2,457,780	61,960	507,894	3,027,634
Government and Public securities	6,014,808	—	—	6,014,808
	8,472,588	61,960	507,894	9,042,442

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 2022, is as follows:

(Thousands of euros)

	31 December 2022 (restated)			
	Bonds and Treasury bills	Shares	Other Financial Assets	Total
Mining	—	5	—	5
Paper, printing and publishing	45,562	2	—	45,564
Chemicals	—	2	—	2
Machinery, equipment and basic metallurgical	2,302	6	—	2,308
Electricity and gas	44,627	—	—	44,627
Water	9,460	—	—	9,460
Construction	4,934	2	—	4,936
Retail business	20,503	2	—	20,505
Wholesale business	6,456	260	—	6,716
Restaurants and hotels	—	1,401	—	1,401
Transports	29,491	—	—	29,491
Telecommunications	38,869	4,401	—	43,270
Services				
Financial intermediation	1,533,154	54,477	532,567	2,120,198
Consulting, scientific and technical activities	303,036	103	—	303,139
Administrative and support services activities	26,691	8,629	—	35,320
Public sector	—	—	325	325
Other services	3,465	5,054	3,386	11,905
Other international activities	—	18	—	18
	2,068,550	74,362	536,278	2,679,190
Government and Public securities	5,704,466	—	—	5,704,466
	7,773,016	74,362	536,278	8,383,656

The analysis of trading derivatives, by maturity, as at 30 June 2023, is as follows:

(Thousands of euros)

	30 June 2023					
	Notional (remaining term)				Fair value	
	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities (note 37)
Interest rate derivatives:						
OTC Market:						
Interest rate swaps	173,423	751,272	3,262,206	4,186,901	51,273	111,688
Interest rate options (purchase)	68,060	51,359	65,090	184,509	5,555	–
Interest rate options (sale)	68,060	51,359	65,091	184,510	–	5,468
	309,543	853,990	3,392,387	4,555,920	56,828	117,156
Stock Exchange transactions:						
Interest rate futures	–	–	64,257	64,257	–	–
Currency derivatives:						
OTC Market:						
Forward exchange contract	296,980	129,808	10,464	437,252	2,981	13,689
Currency swaps	1,898,136	504,981	28,905	2,432,022	32,995	7,919
Other currency contracts (Spot)	86,528	–	–	86,528	–	–
	2,281,644	634,789	39,369	2,955,802	35,976	21,608
Equity derivatives/debt instruments:						
OTC Market:						
Shares/indexes swaps	28,063	1,569,747	509,683	2,107,493	–	35,174
Shares/indexes options (sale)	–	–	724,422	724,422	–	78,073
	28,063	1,569,747	1,234,105	2,831,915	–	113,247
Stock exchange transactions:						
Shares futures	–	–	885,130	885,130	–	–
Shares/indexes options (purchase)	26,784	335,760	365,374	727,918	78,348	–
Shares/indexes options (sale)	2,481	15,385	6,027	23,893	–	1,590
	29,265	351,145	1,256,531	1,636,941	78,348	1,590
Commodity derivatives:						
Stock Exchange transactions:						
Commodities futures	–	–	3	3	–	–
Credit derivatives:						
OTC Market:						
Credit default swaps (CDS)	–	–	375,398	375,398	236,839	1,232
Total derivatives traded in:						
OTC Market	2,619,250	3,058,526	5,041,259	10,719,035	329,643	253,243
of which: Embedded derivatives	–	–	704,025	704,025	–	78,073
Stock Exchange	29,265	351,145	1,320,791	1,701,201	78,348	1,590
	2,648,515	3,409,671	6,362,050	12,420,236	407,991	254,833

The analysis of trading derivatives, by maturity, as at 31 December 2022, is as follows:

(Thousands of euros)

	31 December 2022 (restated)					
	Notional (remaining term)				Fair value	
	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities (note 37)
Interest rate derivatives:						
OTC Market:						
Interest rate swaps	79,053	233,349	3,425,079	3,737,481	53,994	119,637
Interest rate options (purchase)	–	133,738	88,199	221,937	6,668	–
Interest rate options (sale)	–	133,738	88,200	221,938	–	6,555
	79,053	500,825	3,601,478	4,181,356	60,662	126,192
Stock Exchange transactions:						
Interest rate futures	–	–	66,888	66,888	–	–
	–	–	66,888	66,888	–	–
Currency derivatives:						
OTC Market:						
Forward exchange contract	222,128	253,830	9,349	485,307	6,013	9,418
Currency swaps	1,580,200	198,362	8,256	1,786,818	14,081	23,245
	1,802,328	452,192	17,605	2,272,125	20,094	32,663
Currency and interest rate swaps:						
OTC Market:						
Currency and interest rate swaps:	100,177	–	–	100,177	432	90
	100,177	–	–	100,177	432	90
Equity derivatives/debt instruments:						
OTC Market:						
Shares/indexes swaps	–	523,118	459,431	982,549	–	27,193
Shares/indexes options (sale)	–	–	597,213	597,213	–	53,487
	–	523,118	1,056,644	1,579,762	–	80,680
Stock exchange transactions:						
Shares futures	–	–	835,835	835,835	–	–
Shares/indexes options (purchase)	–	59,735	533,092	592,827	53,707	–
Shares/indexes options (sale)	–	4,636	11,945	16,581	–	859
	–	64,371	1,380,872	1,445,243	53,707	859
Credit derivatives:						
OTC Market:						
Credit default swaps (CDS)	2,000	–	395,831	397,831	241,349	–
Other credit derivatives (sale)	–	–	4,351	4,351	–	–
	2,000	–	400,182	402,182	241,349	–
Total derivatives traded in:						
OTC Market	1,983,558	1,476,135	5,075,909	8,535,602	322,537	239,625
of which: Embedded derivatives	2,000	–	576,242	–	–	53,495
Stock Exchange	–	64,371	1,447,760	1,512,131	53,707	859
	1,983,558	1,540,506	6,523,669	10,047,733	376,244	240,484

25. Hedging derivatives

This balance is analysed, by hedging instruments, as follows:

(Thousands of euros)

	30 June 2023		31 December 2022 (restated)	
	Assets	Liabilities	Assets	Liabilities
Swaps	45,593	103,393	59,703	178,000

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.

The relationships that follow the fair value hedge model recorded ineffectiveness of a positive amount of Euros 12,471,000 (31 December 2022: negative amount of Euros 17,355,000) and the hedging relationships that follow the cash flows model recorded ineffectiveness of a positive amount of Euros 121,000 (31 December 2022: negative amount of Euros 1,571,000).

Reclassifications of amounts recorded in results for fair reserves were carried out related to cash flow hedge relationships, in a positive amount of Euros 9,130,000 (31 December 2022: positive amount of Euros 54,861,000). 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 2023, is as follows:

(Thousands of euros)

	30 June 2023					
	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	21,800	18,350	11,089,237	11,129,387	14,754	10,226
Fair value hedging derivatives related to currency risk changes						
OTC Market						
Currency and interest rate swap (CIRS)	155,799	279,522	—	435,321	1,282	8,575
Cash flow hedging derivatives related to interest rate risk changes						
OTC Market						
Interest rate swaps	54,137	2,618,359	16,898,718	19,571,214	2,052	52,729
Cash flow hedging derivatives related to currency risk changes						
OTC Market						
Currency and interest rate swap (CIRS)	189,053	846,296	98,235	1,133,584	27,505	31,863
Total derivatives traded by						
OTC Market	420,789	3,762,527	28,086,190	32,269,506	45,593	103,393

The analysis of hedging derivatives portfolio, by maturity, as at 31 December 2022, is as follows:

(Thousands of euros)

	31 December 2022 (restated)					
	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	293,467	377,114	11,291,464	11,962,045	27,696	7,031
Fair value hedging derivatives related to currency risk changes						
OTC Market						
Currency and interest rate swap (CIRS)	98,439	332,818	—	431,257	2,999	18,432
Cash flow hedging derivatives related to interest rate risk changes						
OTC Market						
Interest rate swaps	240,409	278,751	14,039,978	14,559,138	—	110,562
Cash flow hedging derivatives related to currency risk changes						
OTC Market						
Currency and interest rate swap (CIRS)	153,720	685,365	434,578	1,273,663	29,008	41,975
Total derivatives traded by						
OTC Market	786,035	1,674,048	25,766,020	28,226,103	59,703	178,000

26. Investments in associated companies

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Portuguese credit institutions	45,583	49,228
Foreign credit institutions	125,610	170,045
Other Portuguese companies	148,852	131,477
Other foreign companies	39,941	30,432
	359,986	381,182
Impairment	(46,969)	(66,263)
	313,017	314,919

The balance Investments in associated companies, as at 30 June 2023, is analysed as follows:

(Thousands of euros)

	30 June 2023		
	Global value of participation	Impairment of investments in associated companies	Book value of participation
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	88,511	—	88,511
Banco Millennium Atlântico, S.A.	72,815	(28,958)	43,857
Banque BCP, S.A.S.	52,795	—	52,795
SIBS, S.G.P.S, S.A.	60,341	—	60,341
Fidelidade Moçambique - Companhia de Seguros S.A.	12,113	—	12,113
Unicre - Instituição Financeira de Crédito, S.A.	45,583	—	45,583
Webspectator Corporation	18,011	(18,011)	—
Millennium Financial Services Sp. z o.o.	9,817	—	9,817
	359,986	(46,969)	313,017

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 balance Investments in associated companies, as at 31 December 2022, is analysed as follows:

(Thousands of euros)

	31 December 2022 (restated)		
	Global value of participation	Impairment of investments in associated companies	Book value of participation
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	75,968	—	75,968
Banco Millennium Atlântico, S.A.	119,180	(48,252)	70,928
Banque BCP, S.A.S.	50,865	—	50,865
SIBS, S.G.P.S, S.A.	55,509	—	55,509
Fidelidade Moçambique - Companhia de Seguros S.A.	12,421	—	12,421
Unicre - Instituição Financeira de Crédito, S.A.	49,228	—	49,228
Webspectator Corporation	18,011	(18,011)	—
	381,182	(66,263)	314,919

The Group's companies included in the consolidation perimeter are presented in note 58, as well as the main indicators of the most relevant ones.

The movements occurred in Impairment of investments in associated companies are analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Balance on 1 January	66,263	78,268
Transfers from Other provisions (Banco Millennium Atlântico, S.A.) (note 39)	—	5,000
Impairment charge for the period (note 13)	—	1,435
Impairment write-off (Banco Millennium Atlântico, S.A.)	—	(16,787)
Exchange rate differences	(19,294)	(1,653)
Balance at the end of the period	46,969	66,263

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 2023	31 December 2022 (restated)
Ownership held by BCP on equity of the associated company as at 1 January	70,928	60,203
Application of IAS 29 for the period:		
Net non-monetary assets of the BMA		
Effect of exchange rate variations (note 43)	(3,314)	1,282
Amortization of the effect of IAS 29 application calculated as at 31 December 2018 (note 15)	(135)	(423)
Goodwill of the merger operation of the BMA		
Effect of exchange rate variations (note 43)	(7,970)	2,810
Transfers from Other provisions (note 39)	—	(5,000)
Impairment of investments in associated companies	—	(1,436)
Appropriation of the net income of the associated companies (note 15)	892	2,431
Appropriation of the net income of previous periods (note 15)	—	(2,924)
Other comprehensive income attributable to BCP	745	99
Exchange differences		
Effect on BMA's equity	(26,885)	8,814
Goodwill associated with investment in BMA	(9,698)	3,419
Impairment of investments in associated companies (note 43)	19,294	1,653
Investment held at the end of the period	43,857	70,928

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 2023	31 December 2022 (restated)
Net profit for the period	3,927	10,693
Comprehensive income	3,277	435
Total comprehensive income attributable to Shareholders of the associated company	7,204	11,128
Application of IAS 29 (*)	(596)	(1,861)
Attributable to Shareholders of the associated companies adjusted to BCP GAAP	6,608	9,267
Attributable to the BCP Group	1,502	2,107
Balance sheet		
Financial assets	1,711,037	2,562,438
Non-financial assets	277,617	347,632
Financial liabilities	(1,770,212)	(2,579,341)
Non-financial liabilities	(36,602)	(37,836)
Attributable to Shareholders of the associated companies	181,840	292,893
Application of IAS 29 (*)	21,799	36,974
Attributable to Shareholders of the associated companies adjusted to BCP GAAP	203,639	329,867
Attributable to the BCP Group	46,297	74,994
Goodwill of the merge	26,518	44,186
Impairment of investments in associated companies	(28,958)	(48,252)
Attributable to the BCP Group adjusted of consolidation items	43,857	70,928

(*) 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 2023	31 December 2022 (restated)
Appropriation of equity of the associate on January 1 (before restatement)	59,766	261,446
Transition to IFRS 9 and IFRS 17 (note 57):		
1 January 2022	(89,858)	(89,858)
Other comprehensive income for the year 2022	116,152	–
Other reserves for the year 2022	19	–
Net income for the year 2022	(10,111)	–
Appropriation of equity of the associate on 1 January (restated)	75,968	171,588
Appropriation of net income for the period of associates:		
Before the restatement	–	39,811
Transition to IFRS 9 and IFRS 17 (note 57)	–	(10,111)
Appropriation of net income for the period of associates (note 15)	19,693	29,700
Other comprehensive income attributable to BCP:		
Before the restatement	–	(109,240)
Transition to IFRS 9 and IFRS 17 (note 57)	–	116,152
Other comprehensive income attributable to BCP	(7,092)	6,912
Dividends received	–	(132,251)
Other changes (Transition to IFRS 9 and IFRS 17) (note 57)	–	19
Other changes	(58)	–
Investment held at the end of the period	88,511	75,968

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 2023	31 December 2022 (restated)
Net profit for the period	40,189	60,612
Comprehensive income	—	(269,900)
Total comprehensive income attributable to Shareholders of the associated company	40,189	(209,288)
Attributable to the BCP Group (49%)	19,693	(102,551)
Balance sheet		
Financial assets	7,977,953	8,176,426
Non-financial assets	664,852	673,510
Financial liabilities	(8,112,319)	(8,362,729)
Non-financial liabilities	(86,247)	(68,754)
Total equity	444,239	418,453
Attributable to non-controlling interests	11,118	10,929
Attributable to Shareholders of the associated companies	433,121	407,524
Adjustments of intra-group transactions (reverse of the VOBA annual amortisation (*)	378,415	378,415
Attributable to Shareholders of the associated company adjusted to BCP GAAP	811,536	785,939
Attributable to the BCP Group	397,653	385,110
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	88,511	75,968

(*) VOBA corresponds to the estimated current value of the future cash flows of the contracts in force at the date of acquisition under IFRS 4. With the implementation of IFRS 17, this concept was annulled from the consolidated accounts of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.

The Group owns 49% of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A., being accounted for under the equity method, as Investments in associated companies.

Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. is dedicated to the management of life insurance and pension funds. On 1 January 2023 Millenniumbcp Ageas made the simultaneous adoption of IFRS9 - Financial Instruments and IFRS17 - Insurance Contracts. It opted for the possibility given to Insurance Companies to defer the application of IFRS9, since the combined implementation with IFRS17 would minimize the distortion of results.

IFRS 17 replaces IFRS 4 - "Insurance Contracts" and is applicable to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation features if they are also issuers of insurance contracts.

The initial application of IFRS 17 and IFRS 9 requires comparative information. Therefore, Millenniumbcp Ageas Grupo Segurador made the transition exercise on 1 January 2022 and the impacts resulting from its implementation are detailed in note 57. Application of IFRS 17 – Insurance Contracts and IFRS 9 - Financial Instruments by Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.

27. Non-current assets held for sale

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023			31 December 2022 (restated)		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Real estate						
Assets arising from recovered loans	79,415	(22,834)	56,581	326,577	(90,699)	235,878
Assets belong to investments funds and real estate companies	90,780	(10,675)	80,105	266,544	(46,497)	220,047
Assets for own use (closed branches)	4,115	(1,245)	2,870	20,556	(6,626)	13,930
Equipment and other	20,182	(5,027)	15,155	22,117	(5,743)	16,374
Other assets	290	—	290	12,806	—	12,806
	194,782	(39,781)	155,001	648,600	(149,565)	499,035

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.

The Group has a strategy for sale these assets, consistent with the characteristic of each asset as well as with the breakdown of underlying valuations. 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 Group 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.

This balance includes properties for which the Group has already entered sales contracts in the gross amount of Euros 81,718,000 (31 December 2022: Euros 97,975,000), of which Euros 70,169,000 (31 December 2022: Euros 70,169,000) were related to properties held by investment funds. The impairment associated with these contracts amounts to Euros 9,211,000 (31 December 2022: Euros 11,296,000), of which Euros 6,059,000 (31 December 2022: Euros 6,059,000) were related to properties held by investment funds and it was calculated considering the value of the respective contracts.

The changes occurred in Impairment of non-current assets held for sale are analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Balance on 1 January	149,565	190,714
Transfers	(92,853)	—
Charge for the period (note 13)	5,515	78,318
Reversals for the period (note 13)	(1,921)	(1,116)
Amounts charged-off	(20,255)	(119,073)
Exchange rate differences	(270)	722
Balance at the end of the period	39,781	149,565

28. Investment property

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 138,000 (31 December 2022: Euros 209,000).

The changes occurred in this balance are analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Balance on 1 January	15,217	2,870
Transfers from / (to) non-current assets held for sale	—	12,532
Revaluations	(392)	(185)
Balance at the end of the period	14,825	15,217

29. Other tangible assets

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Real estate	669,577	670,000
Equipment		
Computer equipment	339,960	334,864
Security equipment	67,390	67,687
Interior installations	150,467	149,986
Machinery	49,395	47,283
Furniture	84,244	84,516
Motor vehicles	34,809	32,529
Other equipment	30,666	28,224
Right of use		
Real estate	380,445	366,363
Vehicles and equipment	—	431
Work in progress	13,375	21,279
Other tangible assets	38	39
	1,820,366	1,803,201
Accumulated depreciation		
Relative to the current period (note 9)	(48,669)	(98,916)
Relative to the previous periods	(1,167,308)	(1,129,588)
	(1,215,977)	(1,228,504)
	604,389	574,697

The balance Real Estate includes the amount of Euros 109,423,000 (31 December 2022: Euros 108,616,000) 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.

The changes occurred in the caption Other tangible assets in the first half of 2023 are analysed as follows:

(Thousands of euros)

	2023					
	Balance on 1 January	Acquisitions / Charge	Disposals / Charged-off	Transfers	Exchange differences	Balance on 30 June
Real estate	670,000	1,158	(7,036)	3,051	2,404	669,577
Equipment:						
Computer equipment	334,864	5,891	(5,557)	3,580	1,182	339,960
Security equipment	67,687	64	(286)	46	(121)	67,390
Interior installations	149,986	404	(1,067)	1,462	(318)	150,467
Machinery	47,283	76	(220)	1,130	1,126	49,395
Furniture	84,516	247	(769)	371	(121)	84,244
Motor vehicles	32,529	4,523	(2,821)	183	395	34,809
Other equipment	28,224	11	(176)	1,160	1,447	30,666
Right of use						
Real estate	366,363	118,208	(110,227)	—	6,101	380,445
Vehicles and equipment	431	—	(436)	—	5	—
Work in progress	21,279	3,555	(169)	(11,826)	536	13,375
Other tangible assets	39	—	—	—	(1)	38
	1,803,201	134,137	(128,764)	(843)	12,635	1,820,366
Accumulated depreciation						
Real estate	(406,065)	(7,174)	6,658	344	(2,501)	(408,738)
Equipment:						
Computer equipment	(286,978)	(8,879)	5,517	133	(477)	(290,684)
Security equipment	(63,350)	(479)	283	27	92	(63,427)
Interior installations	(133,154)	(1,551)	1,049	21	201	(133,434)
Machinery	(39,524)	(797)	179	(133)	(840)	(41,115)
Furniture	(79,007)	(1,259)	765	65	93	(79,343)
Motor vehicles	(18,457)	(2,399)	2,344	(45)	(191)	(18,748)
Other equipment	(22,660)	(737)	168	(48)	(1,126)	(24,403)
Right of use						
Real estate	(178,839)	(25,394)	51,320	(1)	(3,132)	(156,046)
Vehicles and equipment	(431)	—	436	—	(5)	—
Other tangible assets	(39)	—	—	—	—	(39)
	(1,228,504)	(48,669)	68,719	363	(7,886)	(1,215,977)
	574,697	85,468	(60,045)	(480)	4,749	604,389

The changes occurred in the caption Other tangible assets during 2022 are analysed as follows:

(Thousands of euros)

	2022 (restated)					
	Balance on 1 January	Acquisitions / Charge	Disposals / Charged-off	Transfers	Exchange differences	Balance on 31 December
Real estate	708,803	2,442	(37,606)	(6,690)	3,051	670,000
Equipment:						
Computer equipment	337,457	15,238	(31,600)	12,186	1,583	334,864
Security equipment	67,542	844	(1,372)	382	291	67,687
Interior installations	148,532	1,339	(1,880)	1,198	797	149,986
Machinery	49,455	611	(2,068)	(380)	(335)	47,283
Furniture	84,923	440	(3,583)	2,371	365	84,516
Motor vehicles	29,703	7,033	(4,869)	306	356	32,529
Other equipment	30,711	180	(2,223)	107	(551)	28,224
Right of use						
Real estate	352,346	35,010	(20,114)	(8)	(871)	366,363
Vehicles and equipment	505	–	(65)	–	(9)	431
Work in progress	20,656	24,408	(1,133)	(22,808)	156	21,279
Other tangible assets	38	–	–	–	1	39
	1,830,671	87,545	(106,513)	(13,336)	4,834	1,803,201
Accumulated depreciation						
Real estate	(428,656)	(14,917)	31,982	5,702	(176)	(406,065)
Equipment:						
Computer equipment	(300,560)	(16,375)	31,432	(116)	(1,359)	(286,978)
Security equipment	(63,723)	(862)	1,337	152	(254)	(63,350)
Interior installations	(131,897)	(3,007)	1,828	446	(524)	(133,154)
Machinery	(41,681)	(1,535)	1,997	1,427	268	(39,524)
Furniture	(78,344)	(2,717)	3,543	(1,232)	(257)	(79,007)
Motor vehicles	(17,743)	(4,636)	4,189	(53)	(214)	(18,457)
Other equipment	(23,811)	(1,498)	2,222	12	415	(22,660)
Right of use						
Real estate	(142,996)	(53,365)	17,094	1	427	(178,839)
Vehicles and equipment	(501)	(4)	65	–	9	(431)
Other tangible assets	(38)	–	–	–	(1)	(39)
	(1,229,950)	(98,916)	95,689	6,339	(1,666)	(1,228,504)
	600,721	(11,371)	(10,824)	(6,997)	3,168	574,697

30. Goodwill and intangible assets

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Goodwill - Differences arising on consolidation		
Bank Millennium, S.A. (Poland)	108,407	102,655
Euro Bank, S.A. (Poland)	43,338	41,038
Others	10,176	10,182
	161,921	153,875
Impairment		
Bank Millennium, S.A. (Poland)	(108,407)	(102,655)
Others	(9,880)	(9,880)
	(118,287)	(112,535)
	43,634	41,340
Intangible assets		
Software	254,710	277,205
Other intangible assets	79,935	73,607
	334,645	350,812
Accumulated amortisation		
Charge for the period (note 9)	(19,944)	(40,334)
Charge for the previous periods	(170,165)	(169,131)
	(190,109)	(209,465)
	144,536	141,347
	188,170	182,687

According to the accounting policy described in note 1 B, the recoverable amount of the Goodwill is annually assessed in the second half 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 2022, 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.

In the first half of 2023, 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. In the case of Bank Millennium S.A. (Poland), in which case factors were identified during 2022 that showed a deterioration in the value of this financial participation, which led to a total impairment of the goodwill then associated with the acquisition by the BCP Group of the percentage of control over Bank Millennium S.A. (Poland) in the amount of Euros 102.3 million in the first half of 2022.

Bank Millennium, S.A. (Poland)

The valuation exercises as of the end of 2021 and as of the end of the first half of 2022 considered as estimated cash flows of the business the ones projected based on current operating results and assuming the business plan and projections approved at the end of 2021 by the Executive Committee up to 2026. After that date, a perpetuity was considered based on the average long-term expected adjusted 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 (closing price of 8.195 PLN per share as at the end of 2021 and 3.886 PLN per share as at the end of the first half of 2022) and the direct percentage of shareholding.

The above-mentioned business plan of Bank Millennium, S.A. covered a five-year period, from 2022 to 2026, considering, along this period, an estimated compound annual growth rate of 7.0% (6.2% in 2020) for Total Assets and of 19.6% (8.4% in 2020) for Total Equity, while considering a ROE evolution from -8.0% by the end of 2022 to 17.6% by the end of 2026 and 12.5% in perpetuity vs. an estimated evolution of 2.9% by the end of 2021 to 9.2% by the end of 2025 and 11.0% in perpetuity considered in 2020.

In the valuation exercise performed at year-end 2021, the exchange rate EUR/PLN considered was 4.5839 as at 31 December 2021. The Cost of Equity considered was 11.000% for the period 2022 to 2026 and in perpetuity, whereas 2020 exercise considered a Cost of Equity of 8.875% for the period 2021 to 2025 and in perpetuity, and, in both years, a discretionary factor was considered to accommodate the uncertainty regarding the legal risk associated with the mortgage loan portfolio in foreign currency to the PLN. The annual growth rate in perpetuity (g) was 2.88%.

Together with the business plans, other main assumptions considered for the impairment test were:

	2021	2020	2019
Discount rate	11 %	8.875 %	8.565 %
Growth rate (g)	2.88 %	2.37 %	2.8 %
RoE steady state – Discount rate	1.5 %	2.125 %	1.935 %

During the first half of 2022, there was an increase of the Cost of Equity to 16.05% (11% at the end of 2021), essentially as a result of the increase of the risk-free interest rates and of the reference interest rates for the Polish economy, together with the increase of the discretionary adjustment to the Cost of Equity that had been considered at the end of 2021 (to also accommodate the regulatory and legislative risk associated with potential new measures to support mortgage borrowers in local currency, on top of those already communicated to the market, and the possible creation of funds to support borrowers in difficulties associated with increasing inflation and interest rates). Additionally, there was a devaluation of the EUR/PLN exchange rate (4.6974 PLN at the end of June 2022 vs. 4.5839 as at 31 December 2021).

Given the degree of uncertainty in these assumptions, and in order to validate whether the recoverable amount of goodwill resulting from the consolidation of Bank Millennium, S.A., corresponding to the higher of its value in use or its fair value less costs to sell, equals to or exceeds the registered goodwill, the Group performs a sensitivity analysis using reasonable changes in the key assumptions whose volatility are perceived to possibly have a greater impact in determining the present value of the estimated cash flows. Below, in a simplified way, is shown the increase/decrease amount of the estimated value for 100% of Bank Millennium, S.A., that results from a reasonable variation (+/- 50 basis points) of each of the key assumptions considered as at 30 June 2022.

Sensitivity analysis for main assumptions

(Million euros)

	Impact increase of 50 bps	Impact decrease of 50 bps
Discount rate	(99)	107
Growth rate (g)	17	(16)
RoE steady state	61	(61)

Despite the increase of the Cost of Equity and the negative deviation in shareholders' equity in the first half of 2022, Bank Millennium S.A. (Poland) continued to deliver its Business Plan and projections with regard to operational performance.

Notwithstanding the good operating performance of Bank Millennium S.A. (Poland), the expected effect that the increase in reference interest rates has on the prospective evolution of net interest income and the fact that Bank Millennium S.A. (Poland) continues to assess that the goodwill associated with the consumer credit business acquired from EuroBank (40.9 million euros as at June 2022) is recoverable, given i) the sensitivity of the estimated value of the Business Plan capitalized from end of 2021 to June 2022 to the main assumptions considered, ii) the variation of the Shareholder's Equity in the first semester of 2022 when compared to the budgeted one, iii) the uncertainty associated with the material impacts on the Business Plan and projections arising from potential regulatory and legislative measures and those then communicated to the market, and iv) that the subsequent value estimate results in an impairment amount proximate to the goodwill associated with the acquisition by the BCP Group of the current percentage of control over Bank Millennium S.A. (Poland) in the amount of 102.3 million euros as at 30 June 2022, the Executive Committee deemed it prudent to consider the total impairment of the goodwill then associated with the acquisition by the BCP Group of the current percentage of control over Bank Millennium S.A. (Poland) in the amount of Euros 102.3 million as at 30 June 2022.

The changes occurred in the caption Goodwill and intangible assets, in the first half of 2023, are analysed as follows:

(Thousands of euros)

	2023					
	Balance on 1 January	Acquisitions / Charge	Disposals / Charged-off	Transfers	Exchange differences	Balance on 30 June
Goodwill - Differences arising						
on consolidation	153,875	—	—	—	8,046	161,921
Impairment for goodwill	(112,535)	—	—	—	(5,752)	(118,287)
	41,340	—	—	—	2,294	43,634
Intangible assets						
Software	277,205	21,815	(46,851)	(2,168)	4,709	254,710
Other intangible assets	73,607	8	—	2,174	4,146	79,935
	350,812	21,823	(46,851)	6	8,855	334,645
Accumulated depreciation						
Software	(146,799)	(17,613)	45,408	315	(2,486)	(121,175)
Other intangible assets	(62,666)	(2,331)	—	(315)	(3,622)	(68,934)
	(209,465)	(19,944)	45,408	—	(6,108)	(190,109)
	141,347	1,879	(1,443)	6	2,747	144,536
	182,687	1,879	(1,443)	6	5,041	188,170

The changes occurred in the caption Goodwill and intangible assets during 2022 are analysed as follows:

(Thousands of euros)

	2022 (restated)					
	Balance on 1 January	Acquisitions / Charge	Disposals / Charged-off	Transfers	Exchange differences	Balance on 31 December
Goodwill - Differences arising						
on consolidation	159,431	—	(2,512)	—	(3,044)	153,875
Impairment for goodwill	(11,931)	(102,770)	2,512	—	(346)	(112,535)
	147,500	(102,770)	—	—	(3,390)	41,340
Intangible assets						
Software	234,192	72,441	(25,315)	(3,664)	(449)	277,205
Other intangible assets	70,823	1,213	(1,037)	4,073	(1,465)	73,607
	305,015	73,654	(26,352)	409	(1,914)	350,812
Accumulated depreciation						
Software	(136,360)	(36,168)	24,859	419	451	(146,799)
Other intangible assets	(59,942)	(4,166)	1,027	(828)	1,243	(62,666)
	(196,302)	(40,334)	25,886	(409)	1,694	(209,465)
	108,713	33,320	(466)	—	(220)	141,347
	256,213	(69,450)	(466)	—	(3,610)	182,687

31. Income tax

The deferred income tax assets and liabilities are analysed as follows:

(Thousands of euros)

	30 June 2023			31 December 2022 (restated)		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred taxes not depending on the future profits (a)						
Impairment losses (b)	919,444	–	919,444	982,465	–	982,465
Employee benefits	757,025	–	757,025	835,619	–	835,619
	1,676,469	–	1,676,469	1,818,084	–	1,818,084
Deferred taxes depending on the future profits						
Impairment losses (b)	442,041	–	442,041	438,430	(50,303)	388,127
Tax losses carried forward	186,201	–	186,201	188,693	–	188,693
Employee benefits	57,235	(135,855)	(78,620)	50,770	(136,019)	(85,249)
Financial assets at fair value through other comprehensive income	680,147	(124,861)	555,286	729,416	(134,154)	595,262
Derivatives	–	(5,571)	(5,571)	–	(5,482)	(5,482)
Intangible assets	1,093	–	1,093	1,143	–	1,143
Other tangible assets	9,126	(3,277)	5,849	8,693	(3,380)	5,313
Others	115,911	(57,861)	58,050	111,336	(89,949)	21,387
	1,491,754	(327,425)	1,164,329	1,528,481	(419,287)	1,109,194
Total deferred taxes	3,168,223	(327,425)	2,840,798	3,346,565	(419,287)	2,927,278
Offset between deferred tax assets and deferred tax liabilities	(318,679)	318,679	–	(407,579)	407,579	–
Net deferred taxes	2,849,544	(8,746)	2,840,798	2,938,986	(11,708)	2,927,278

(a) Special Regime applicable to deferred tax assets

(b) The amounts as at 30 June 2023 and 31 December 2022 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 2023, the balance deferred tax assets amounts to Euros 2,849,544,000, of which Euros 2,669,383,000 are related to the Bank's activity. The deferred taxes assets relating to the individual activity include a net amount of Euros 509,501,000 resulting from potential losses on cash flow hedging derivatives operations of interest rate risk recognized in other comprehensive income, whose average maturity of operations is 3.7 years and Euros 483,444,000 which depends on 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 297,914,000 (net value) related to impairment losses; and

- Euros 162,400,000 resulting from reportable tax losses recorded for the years 2016 and 2020.

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 1 January 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 period's 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 Corporate income tax Code and in relevant separate tax legislation, up to the limit of the taxable profit for the tax period determined before these deductions. Expenses and negative equity variations not deducted because 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 1,463,302,000 (31 December 2022: Euros 1,599,199,000).

- 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 case 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, and a special reserve corresponding to 110% of the tax credit must also be constituted and, simultaneously, constituting 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 included in the same group of entities for which are applied the Special Tax Regime for Groups of Companies) 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 entity shall deposit in favour 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 the deferred tax assets and liabilities related to income taxes levied by the same fiscal authority over the same taxable entity.

The current tax rate for Banco Comercial Português, S.A. is analysed as follows:

	30 June 2023	31 December 2022 (restated)
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	9%	9%

The deferred tax rate related to the Bank's tax losses is 21%, in 2023 (31 December 2022: 21%).

The average deferred tax rate associated with temporary differences of Banco Comercial Português, S.A. is 31.3% (31 December 2022: 31.3%). The income tax rate in the other main countries where the Group operates is 19% in Poland, 32% in Mozambique and 0% (exemption) in the Cayman Islands.

Following the amendments provided for in Law No. 24-D/2022, of 30 December, within the scope of the State Budget for 2023, the time limit applicable to the carrying forward of tax losses in Portugal was eliminated. This amendment applies to tax losses calculated in tax periods beginning on or after 1 January 2023, as well as to tax losses calculated in tax periods prior to 1 January 2023 and whose deduction period is still in progress on that date. Thus, tax losses calculated in 2014 and subsequent years may be deducted from future taxable income. The deduction limit for tax losses increased from 70% to 65%, being increased by ten percentage points when the difference results from the deduction of tax losses calculated in the 2020 and 2021 tax periods, under the terms of the special regime provided for in Law n. 27-A/2020, of 24 July.

The reporting period for tax losses carried forward in Poland and in Mozambique it is 5 years.

Banco Comercial Português, S.A. applies the Special Tax Regime for Groups of Companies (RETGS) since 2016 for taxation purposes under corporate income tax (IRC), in which it's the dominant company. The remaining companies covered by the RETGS are Banco ActivoBank, S.A., Interfundos - Sociedade Gestora de Organismos de Investimento Coletivo, S.A., BCP África, S.G.P.S. Lda., Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal Lda. and Millennium bcp Teleserviços – Serviços de Comércio Electrónico, S.A. In 2023 and 2022, the application of RETGS was maintained.

The balance 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 of loans accounted for until 31 December 2014.

Regarding the activity in Portugal, the Law No. 98/2019, of 4 September, established the tax regime for credit impairments and provisions for guarantees for tax periods beginning on or after 1 January 2019, providing for approximation between the accounting and tax rules for the purposes of deductibility of expenses with the reinforcement of credit impairments. The rules in force until 2018 could continue to be applied until the end of the 2023 financial year, unless the option to apply the new regime was exercised in advance.

In 2022, the Banco Comercial Português, S.A. and the Banco ActivoBank, S.A. exercised the option to apply the new regime, under the terms of which the impairment losses for credit risk relating to exposures analysed on an individual or on a collective basis recognized in accordance with the applicable accounting standards and regulations are fully deductible for the purposes of determining taxable profit, with the exceptions provided for in the Corporate Income Tax Code. The exceptions apply to impairment losses relating to credits and other rights over natural or legal persons who hold, directly or indirectly, more than 10 % of the Bank's capital, over members of its corporate bodies, over companies in which the Bank holds, directly or indirectly, more than 10 % of the capital or over entities with which it is in a situation of special relations.

The Impairment losses and other value corrections for specific credit risk recorded until 31 December 2021 and still not accepted for tax purposes are only deductible up to the amount that, in each tax period, corresponds to the application of the mandatory minimum limits set out in Notice of Bank of Portugal No. 3/95, as amended before its repeal by Notice of Bank of Portugal No. 5/2015, and, between other conditions, provided that they are not claims covered by real estate rights.

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 financial statements resulting from its application.

Analysis of the recoverability of deferred tax assets

In accordance with the accounting policy 1 Y.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 taxes assets is based on the projection of results for the period between 2023 and 2032. The projected results before taxes for the years 2023, 2024 and 2025 are consistent with the budget approved by the Board of Directors of the Bank in December 2022, which incorporates the priorities arising from the Strategic Plan 2021-2024. The assessment carried out on 30 June 2023 also considered, among other aspects, the impacts arising from the update of market interest rates and the most recent macroeconomic projections.

The abandonment of negative interest rates, which imposed a burden on banks, is favourably reflected in projected profitability and convergence towards medium/long-term metrics and trends consistent with commercial positioning and the coveted capture of efficiency gains, established in Strategic Plan approved by the corporate bodies, highlighting:

- the improvement in the net interest income, which mainly reflects the increase in market interest rates and also benefits from the preservation of the deposit base, the effort to increase credit focusing on certain segments and also the reinvestment of assets at the new interest rates;

- the increase in commission income based on efficient and judicious management of commissioning and pricing

- the reduction of the cost of risk for levels in line with the Bank's current activity, with a lesser impact from the historical portfolios of NPE, foreclosed assets and FRE (Corporate Restructuring Funds), consolidating the reduction of these exposures achieved over the last years;

- capturing efficiency gains enhanced by digitalization, reflected in the control of operating costs, after the staff reduction carried out in 2021.

- the Bank's results in the first half of the year showed an overall positive performance compared to the approved budget. The perspectives regarding the macroeconomic and financial return, although without significant changes, has also evolved favourably. These circumstances and the assessment of their potential effect on projections of results reinforce the conclusion that all deferred taxes assets recognized with reference to 31 December 2022 are recoverable.

To estimate taxable net income for the periods of 2023 to 2032, the following main assumptions were considered:

- The rules of the new tax regime of credit impairment were applied. In the application of these rules, the following assumptions were considered, in general terms:

a) the impairment losses for credit risk related to exposures analysed on an individual or collective basis, recognised in accordance with the applicable accounting and regulatory standards, were considered deductible for tax purposes;

b) impairment reversals created up to 31 December 2021 not accepted for tax purposes were estimated based on the Non-Performing Assets Reduction Plan 2022-2024 submitted to the supervisory authority in March 2022, and also on the basis of the average percentage of reversal observed in the last years from 2016 to 2022;

c) the referred average percentages were calculated separately, depending on whether or not there was a mortgage guarantee, the eligibility for purposes of the special regime applicable to deferred tax assets and according to the customers’ classification as Non-Performing Exposures (NPE).

- 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;

- Impairment reversals of non-financial assets not accepted for tax purposes were projected considering the expected periods of disinvestment in certain real estate assets. 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 2022. Non-deductible expenses related to the reinforcement of impairment of non-financial assets were estimated on the based on the average percentage of amounts not deducted for tax purposes in the years from 2016 to 2022, 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 pension fund actuary.

- The realization of changes in the fair value of real estate investment funds was projected based on the information available in the regulations of the funds in question in relation to the period foreseen for the respective liquidation.

According to the estimate of future taxable income, the deferred taxes assets recorded as at 30 June 2023 and 31 December 2022 are adequate under the IAS 12 requirements.

In accordance with these assessments, the amount of unrecognised deferred tax related to tax losses, by year of origin is as follows:

(Thousands of euros)

Tax losses carried forward	30 June 2023	31 December 2022 (restated)
2014	161,895	161,895
2015	2	2
2016	286,419	286,419
2017	3,530	3,530
2018	118,295	118,295
2019	23,986	24,265
2020	3,260	3,337
2021	204,847	207,294
2022	23,776	21,080
2023	6,421	—
	832,431	826,117

The impact of income taxes in Net income and in other balances of Group's equity, as at 30 June 2023, is analysed as follows:

(Thousands of euros)

	30 June 2023		
	Net income for the period	Reserves	Exchange differences
Deferred taxes not depending on the future profits			
Impairment losses	(63,021)	—	—
Employee benefits	(75,351)	(3,243)	—
	(138,372)	(3,243)	—
Deferred taxes depending on the future profits			
Impairment losses	(2,359)	(1,560)	7,530
Tax losses carried forward (a)	(2,840)	—	348
Employee benefits	(9,010)	15,412	227
Financial assets at fair value through other comprehensive income	—	(58,749)	18,773
Derivatives	—	—	(89)
Intangible assets	(109)	—	59
Other tangible assets	558	—	(22)
Others	32,607	(194)	(18,296)
	18,847	(45,091)	8,530
	(119,525)	(48,334)	8,530
Current taxes			
Current period	(126,565)	(5)	—
Correction of previous periods	91	—	—
	(126,474)	(5)	—
	(245,999)	(48,339)	8,530

The impact of income taxes in Net income and in other balances of Group's equity, as at 30 June 2022, is analysed as follows:

(Thousands of euros)

	30 June 2022 (restated)		
	Net income for the period	Reserves	Exchange differences
Deferred taxes depending on the future profits			
Impairment losses	(85,021)	—	(3,006)
Tax losses carried forward (a)	7,034	(6,696)	857
Employee benefits	(3,229)	(161,930)	(102)
Financial assets at fair value through other comprehensive income	—	448,017	(7,925)
Derivatives	—	—	(517)
Intangible assets	(258)	—	(35)
Other tangible assets	799	—	10
Others	(30,161)	(47)	7,209
	(110,836)	279,344	(3,509)
Current taxes			
Current period	(45,713)	(19)	—
Correction of previous periods	783	—	—
	(44,930)	(19)	—
	(155,766)	279,325	(3,509)

(a) The amount recorded in reserves refers to the deferred tax on the part of tax loss arising from the deduction of negative equity changes recorded in reserves that contribute to the calculation of taxable income.

The reconciliation between the nominal tax rate and the effective tax rate is analysed as follows:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Net income before income taxes	722,740	203,504
Current tax rate (%)	31.5%	31.5%
Expected tax	(227,663)	(64,104)
Non-deductible impairment and provisions (a)	(69,640)	(78,886)
Mandatory contributions to the banking sector (b)	(16,708)	(25,591)
Results of companies accounted by the equity method	9,273	6,451
Interests on other equity instruments (c)	5,828	5,828
Effect of the tax rate difference (d)	32,282	8,474
Effect of recognition/derecognition net of deferred taxes (e)	20,385	(6,846)
Non-deductible costs and other corrections	(690)	(1,246)
Correction of previous periods	1,305	521
Autonomous tax	(371)	(367)
Total	(245,999)	(155,766)
Effective rate (%)	34.0%	76.5%

(a) In 2023 includes the negative amount of Euros 57,496,000 (2022: negative Euros 47,302,000) related to the impact of the non-deductibility for tax purposes of the provisions related to legal risks associated with the mortgage loans portfolio granted in foreign currency by Bank Millennium, such as the negative amount of Euros 11,736,000 (2022: negative euros 2,771,000) relating on the impact of the non-deductibility for tax purposes of the net reinforcement of provisions for risks and charges registered with Banco Comercial Português. In 2022 includes the negative amount of Euros 32,227,000 regarding the goodwill impairment associated to this subsidiary.

(b) Refers to mandatory contributions to the banking sector in Portugal and in Poland.

(c) Relates to the impact of the deduction for taxable income purposes of interest paid in respect of perpetual bonds representing subordinated debt issued in 2019.

(d) In 2023 this balance includes the amount of Euros 10,317,000 (2022: Euros 10,013,000) related with the effect of the taxation of 20% tax on interests of Mozambique's public debt securities and the amount of Euros 20,933,000 (2022: negative Euros 94,000) related to the effect of the difference in the tax rate on profits in Poland, which is 19%, on a net income before income tax.

(e) In 2023 includes the amount of Euros 29,469,000 related to the recognition of deferred tax assets related to temporary differences associated with potential losses in specialised credit recovery funds and the negative amount of Euros 7,446,000 (2022: negative Euros 6,581,000) related to the non-recognition/derecognition of deferred tax assets of tax losses.

32. Other assets

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Deposit account applications	62,067	51,371
Capital supplies	183,501	178,725
Obligations with post-employment benefits	568,101	593,494
Debtors for futures and options transactions	123,442	191,290
Real estate and other assets arising from recovered loans	378,607	—
Debtors		
Residents		
Receivables from real estate, transfers of assets and other securities	86,935	111,693
Prosecution cases / agreements with the Bank	11,970	12,163
SIBS	3,930	3,521
Others	61,159	66,744
Non-residents	26,939	30,584
Amounts due for collection	79,311	80,024
Interest and other amounts receivable	78,330	69,613
Amounts receivable on trading activity	113,818	3,234
Amounts due from customers	54,708	51,229
Artistic patrimony	28,796	28,796
Prepaid expenses	22,006	23,654
Subsidies receivables	5,486	10,764
Other recoverable tax	8,531	9,082
Gold and other precious metals	3,560	3,640
Capital supplementary contributions	165	165
Associated companies	81	145
Sundry assets	358,821	254,276
	2,260,264	1,774,207
Impairment for other assets	(293,810)	(191,752)
	1,966,454	1,582,455

As referred in note 46, as at 30 June 2023, the item Capital supplies includes the amount of Euros 176,165,000 (31 December 2022: Euros 171,397,000) arising from the transfers of assets to Specialized recovery funds which have impairment in the same amount.

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.

As at 30 June 2023, the detail of the item Real estate and other assets arising from recovered loans is analysed as follows:

(Thousands of euros)

	30 June 2023		
	Gross value	Impairment	Net value
Real estate			
Assets arising from recovered loans	178,244	(56,118)	122,126
Assets belong to investments funds and real estate companies	174,206	(34,812)	139,394
Assets for own use (closed branches)	12,842	(5,523)	7,319
Equipment	12,067	(81)	11,986
Other assets	1,248	(564)	684
	378,607	(97,098)	281,509

The changes occurred in Impairment of other assets, with the exception of impairment for Real estate and other assets arising from recovered loans are analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Balance on 1 January	191,752	260,199
Transfers resulting from changes in the Group's structure	—	(1,038)
Other transfers	—	908
Charge for the period (note 13)	8,815	17,699
Reversals for the period (note 13)	(3,973)	(7,047)
Amounts charged-off	(231)	(78,835)
Exchange rate differences	349	(134)
Balance at the end of the period	196,712	191,752

The changes occurred in impairment for Real Estate and other assets arising from recovered loans, are analysed as follow:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Balance on 1 January	—	—
Transfers	92,825	—
Charge for the period (note 13)	5,947	—
Reversals for the period (note 13)	(289)	—
Amounts charged-off	(1,388)	—
Exchange rate differences	3	—
Balance at the end of the period	97,098	—

33. Resources from credit institutions

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Resources and other financing from Central Banks		
Bank of Portugal	150,072	592,740
Central Banks abroad	118,842	14,736
	268,914	607,476
Resources from credit institutions in Portugal		
Sight deposits	59,181	92,493
Term Deposits	165,689	151,244
Other resources	1	—
	224,871	243,737
Resources from credit institutions abroad		
Repayable on demand	87,537	74,890
Term deposits	55,911	152,385
Loans obtained	277,378	293,387
CIRS and IRS operations collateralised by deposits (*)	117,261	92,299
Sales operations with repurchase agreement	1,052,545	—
Other resources	10,407	4,186
	1,601,039	617,147
	2,094,824	1,468,360

(*) 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.

As at 31 December 2022, the item Resources and others financing from Central Banks – of Portugal included a total amount associated with the TLTRO III program of Euros 600,000,000, having been repaid early in January 2023. Considering the financing characteristics and the nature of the respective lender, the Bank accounted for the TLTRO III operation under IFRS9. The Bank considered that the operation constitutes a variable rate financing, indexed to the Deposit Facility Rate of the European Central Bank (ECB), having fulfilled the necessary criteria for it. Specifically for the period between 24 June 2020 and 23 June 2022, the Bank complied with the conditions required for the application, to each of the two tranches of the financing, of a maximum interest rate of -1%. Consequently, it recognised in the financial statements, for the referred interest counting period, the rate of -1%. For the period between 24 June and 31 December 2022, the rate resulting from the provisions of the regulation applied for the calculation in the different subperiods.

34. Resources from customers and other loans

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Deposits from customers		
Repayable on demand	46,686,993	48,673,569
Term deposits	20,694,348	19,816,079
Saving accounts	5,550,880	6,315,759
Treasury bills and other assets sold under repurchase agreement	78,949	—
Cheques and orders to pay	608,274	564,369
Other	60,885	60,367
	73,680,329	75,430,143

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.

35. Non subordinated debt securities issued

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Bonds	54,701	53,799
Medium term notes (MTN)	1,348,198	1,347,967
Securitisations	135,739	142,062
	1,538,638	1,543,828
Corrections to the value of liabilities subject to hedging operations	(67,740)	(66,860)
Deferred cost expenses	(11,578)	(12,523)
Interests to pay	27,187	17,641
	1,486,507	1,482,086

36. Subordinated debt

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Bonds		
Non-Perpetual	1,395,168	1,376,856
Corrections to the value of liabilities subject to hedging operations (nota 53)	(66,978)	(72,040)
Deferred cost expenses	(2,378)	(2,436)
Interests to pay	23,993	30,676
	1,349,805	1,333,056

As at 30 June 2023, the subordinated debt issues are analysed as follows:

(Thousands of euros)

	30 June 2023					
Issue	Issue date	Maturity date	Interest rate	Nominal value	Book value	Own funds value (*)
Banco Comercial Português						
Bcp Fix Rate Reset Sub Notes-Emtn 854	December, 2017	December, 2027	See reference (i)	166,300	172,090	147,545
Bcp Subord Fix Rate Note Projeto Tagus Mtn 855	September, 2019	March, 2030	See reference (ii)	450,000	423,096	450,000
BCP Tier 2 Subord Callable Notes Due May 2032 - MTN 858	November, 2021	May, 2032	See reference (iii)	300,000	268,668	300,000
BCP2022 Tier 2 Sub Callable Notes Due 2 June 2033 MTN 860	December, 2022	March, 2033	See reference (iv)	133,700	132,667	133,700
Bank Millennium Group						
Bank Millennium - BKMO_071227R	December, 2017	December, 2027	9.7%	157,899	158,820	89,912
Bank Millennium - BKMO_300129W	January, 2019	January, 2029	9.29%	187,224	194,420	106,611
Magellan No. 3						
Magellan No. 3 Series 3 Class F	June, 2005	May, 2058	-	44	44	—
					1,349,805	1,227,768

(*) 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).

(iii) Interest rate of 4%, per annum, during the first 5 years and 6 months (corresponding to a spread of 4.065% over the average of the mid-swap rates of 5 and 6 years). At the end of the first 5 years and 6 months the interest rate will be reset to maturity based on the 5-year mid swaps rate prevailing at that time plus the Spread.

(iv) Fixed annual interest rate of 8.75% during the first 5.25 years. The annual interest rate from year 5.25 onwards was set at the 5-year mid-swap rate plus a 6.051%.

As at 31 December 2022, the subordinated debt issues are analysed as follows:

(Thousands of euros)

	31 December 2022 (restated)					
Issue	**Issue date**	**Maturity date**	**Interest rate**	**Nominal value**	**Book value**	**Own funds value (*)**
Banco Comercial Português						
Bcp Fix Rate Reset Sub Notes-Emtn 854	December, 2017	December, 2027	See reference (i)	166,300	164,044	164,175
Bcp Subord Fix Rate Note Projeto Tagus Mtn 855	September, 2019	March, 2030	See reference (ii)	450,000	428,740	450,000
BCP Tier 2 Subord Callable Notes Due May 2032 - MTN 858	November, 2021	May, 2032	See reference (iii)	300,000	274,350	300,000
BCP2022 Tier 2 Sub Callable Notes Due 2 June 2033 MTN 860	December, 2022	March, 2033	See reference (iv)	133,700	130,932	133,700
Grupo Bank Millennium						
Bank Millennium - BKMO_071227R	December, 2017	December, 2027	9.7%	149,521	150,475	98,956
Bank Millennium - BKMO_300129W	January, 2019	January, 2029	9.6%	177,290	184,471	117,334
Magellan No. 3						
Magellan No. 3 Series 3 Class F	June, 2005	May, 2058	-	44	44	—
					1,333,056	1,264,165

(*) 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).

(iii) Interest rate of 4%, per annum, during the first 5 years and 6 months (corresponding to a spread of 4.065% over the average of the mid-swap rates of 5 and 6 years). At the end of the first 5 years and 6 months the interest rate will be reset to maturity based on the 5-year mid swaps rate prevailing at that time plus the Spread.

(iv) Fixed annual interest rate of 8.75% during the first 5.25 years. The annual interest rate from year 5.25 onwards was set at the 5-year mid-swap rate plus a 6.051%.

37. Financial liabilities held for trading

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Short selling securities	19,971	1,022
Trading derivatives (note 24)		
Swaps	156,013	170,165
of which: Embedded derivatives	—	8
Options	85,131	60,901
of which: Embedded derivatives	78,073	53,487
Forwards	13,689	9,418
	254,833	240,484
	274,804	241,506
Level 2	175,164	186,130
Level 3	99,640	55,376

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 2023, the embedded derivatives valuation separated from the host contracts in accordance with the accounting policy presented in note 1 C5. in the amount of Euros 78,073,000 (31 December 2022: Euros 53,495,000). This note should be analysed together with note 24.

38. Financial liabilities designated at fair value through profit or loss

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Deposits from customers (*)	1,674,686	476,671
Certificates	968,186	850,681
Debt securities at fair value through profit and loss		
Medium term notes (MTN)	409,808	490,326
	3,052,680	1,817,678

(*) Deposits from customers whose remuneration is indexed to a set of shares and/or indices.

39. Provisions

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Provision for guarantees and other commitments	112,521	110,754
Other provisions for liabilities and charges	523,755	451,032
	636,276	561,786

Changes in Provisions for guarantees and other commitments are analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Balance on 1 January	110,754	110,649
Transfers	(1,989)	(708)
Charge for the period (note 14)	21,759	27,864
Reversals for the period (note 14)	(18,357)	(26,939)
Exchange rate differences	354	(112)
Balance at the end of the period	112,521	110,754

Changes in Other provisions for liabilities and charges are analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Balance on 1 January	451,032	348,095
Other transfers	514	(5,504)
Charge of the period for restructuring costs	—	4,414
Charge for the period (note 14)	386,554	569,226
Reversals for the period (note 14)	(1,831)	(1,854)
Amounts charged-off	(5,075)	(116,874)
Allocation to loan's portfolio (note 22)	(335,879)	(344,052)
Exchange rate differences	28,440	(2,419)
Balance at the end of the period	523,755	451,032

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 lawsuits, frauds and tax contingencies. As at 30 June 2023, the provisions constituted to cover tax contingencies totalled Euros 44,419,000 (31 December 2022: Euros 38,311,000) and are associated, essentially, to contingencies related to VAT and Stamp Duty.

At the end of December 2022, the balance of Other provisions for liabilities and charges was reinforced in the amount of Euros 4,414,000, referring to agreements already concluded with some employees whose effective departures will occur during the first half of 2023. Until 30 June 2023, the Bank has written-off the amount of Euros 1,806,000, corresponds to costs with the employee's departures (note 7).

Additionally, there are provisions for liabilities and charges recorded for corporate restructuring funds and carved-out assets of the Project Crow, completed in December 2022.

Provisions for legal risk related to foreign currency-indexed mortgage loans in Bank Millennium (Poland)

In 2021, Bank Millennium changed the accounting policy regarding the recognition of provisions for future claims related to active CHF mortgage loans in the balance sheet. As a result of changes in market conditions, such as the growing number of unfavourable court judgments declaring the entire agreement or certain provisions of these credits to be invalid, the Bank does not expect that all contractual cash flows related to these loans will be recovered. As a result, Bank Millennium allocates provisions for future claims and recognizes them as a reduction of the gross carrying amount of loans for which a decrease in future cash flows is expected, in accordance with paragraph B5.4.6 of IFRS 9 "Financial Instruments" (previously provisions for future claims used to be recognized in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"). As a result of the above change, the approach applied in accordance with IAS 37 will be continued only regarding claims relating to already repaid (or almost fully repaid) receivables not recognised in Bank Millennium's balance sheet.

As at 30 June 2023, the Loans and advances to customers portfolio in CHF has a gross amount of Euros 2,314,728,000 (31 December 2022: Euros 2,477,851,000).

As at 30 June 2023, the provisions estimated by Bank Millennium to address the legal risk related to foreign currency-indexed mortgage loans amount to Euros 1,480,184,000 (PLN 6,561,955,000), of which Euros 1,264,980,000 (PLN 5,607,911,000) are presented under assets, as a deduction from the gross amount of the loan portfolio in CHF (note 22) and Euros 215,204,000 (PLN 954,044,000) are presented under Provisions.

With reference to 31 December 2022, the provisions estimated by Bank Millennium to address the legal risk related to foreign currency-indexed mortgage loans amount to Euros 1,152,457,000 (PLN 5,395,344,000), of which Euros 976,782,000 (PLN 4,572,901,000) are presented under assets, as a deduction from the gross amount of the loan portfolio in CHF (note 22) and Euros 175,676,000 (PLN 822,443,000) are presented under Provisions.

The 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.

40. Other liabilities

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Interests and other amounts payable	157,470	163,843
Operations to be settled - foreign, transfers and deposits	189,800	212,208
Credit insurance received and to accrued	63,831	62,740
Holidays, subsidies and other remuneration payable	58,213	55,132
Transactions on securities to be settled	135,354	4,514
Public sector	48,329	43,628
Creditors		
Rents to pay	221,337	185,163
Deposit account and other applications	101,060	89,386
Suppliers	37,839	35,649
From factoring operations	37,964	41,618
For futures and options transactions	9,767	73,394
Liabilities not covered by the Group Pension Fund - amounts payable by the Group	13,346	10,819
Associated companies	—	21
Other creditors		
Residents	38,847	66,158
Non-residents	85,137	70,590
Deferred income	10,775	10,155
Other administrative costs payable	8,159	4,763
Other liabilities	305,939	262,192
	1,523,167	1,391,973

The balance Liabilities not covered by the Group Pension Fund - amounts payable by the Group includes the amount of Euros 9,513,000 (31 December 2022: Euros 6,777,000) related to the actual value of benefits attributed associated with mortgage loans to employees, retirees and former employees.

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. The analysis of this balance, by maturity, is as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Until 1 year	20,440	20,402
1 to 5 years	83,234	137,949
Over 5 years	155,662	33,485
	259,336	191,836
Accrued costs recognised in Net interest income	(37,999)	(6,673)
	221,337	185,163

41. Share capital, Share premium and Other equity instruments

As at 30 June 2023, the Bank's share capital amounts to Euros 3,000,000,000 and is represented by 15,113,989,952 nominative book-entry shares without nominal value, fully subscribed and paid up. Pursuant to the resolutions adopted at the General Meeting held on 20 December 2022, the Bank registered its new share capital of 3,000,000,000 Euros, maintaining the number of nominatives, book-entry shares without nominal value and of the voting rights.

As at 30 June 2023, 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 2023, the 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. 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.

As at 30 June 2023 and 31 December 2022, the shareholders who hold, individually or jointly, 5% or more of the Bank's capital, 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	4,525,940,191	29.95%	29.95%
Sonangol - Sociedade Nacional de Combustíveis de Angola, EP, directly	2,946,353,914	19.49%	19.49%
Total Qualified Shareholdings	7,472,294,105	49.44%	49.44%

42. 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. In accordance with the proposal for the appropriation of net income for the 2022 financial year approved at the General Shareholders' Meeting held on 24 May 2023, the Bank increased its legal reserves in the amount of Euros 47,841,000, thus, as at 30 June 2023 the Legal Reserves amount to Euros 316,375,000 (31 December 2022: Euros 268,534,000).

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).

43. Reserves and retained earnings

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Fair value changes - Gross amount		
Financial assets at fair value through other comprehensive income (note 24)		
Debt instruments (*)	(136,543)	(228,425)
Equity instruments	(18,269)	(25,846)
Of associated companies and other changes	(4,678)	7,838
Cash-flow hedge	(1,650,304)	(1,744,727)
From financial liabilities designated at fair value through profit or loss related to changes in own credit risk	1,416	182
	(1,808,378)	(1,990,978)
Fair value changes - Tax		
Financial assets at fair value through other comprehensive income		
Debt instruments	35,685	58,780
Equity instruments	1,526	1,550
Cash-flow hedge	513,777	540,755
From financial liabilities designated at fair value through profit or loss related to changes in own credit risk	(443)	(57)
	550,545	601,028
	(1,257,833)	(1,389,950)
Exchange differences arising on consolidation		
Bank Millennium, S.A.	(51,710)	(92,629)
BIM - Banco Internacional de Moçambique, S.A.	(147,064)	(139,373)
Banco Millennium Atlântico, S.A.	(178,825)	(143,989)
Others	2,043	2,073
	(375,556)	(373,918)
Application of IAS 29		
Effect on equity of Banco Millennium Atlântico, S.A.	50,325	42,316
Others	(3,965)	(3,965)
	46,360	38,351
Other reserves and retained earnings	3,108,436	2,997,779
	1,521,407	1,272,262

(*) 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.

The variation in the fair value of cash flow hedges reflects the economic impact on these hedges of the pronounced increase in market interest rates, an effect that is more than offset by the economic impact on the fair value of liabilities that are more sensitive to such an increase and that are accounted for at amortized cost.

In the first half of 2023, 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)

	2023					
	Balance as at 1 January	Fair value changes	Fair value hedge adjustment	Impairment in profit or loss	Disposals	Balance as at 30 June
Financial assets at fair value through other comprehensive income (note 24)						
Debt instruments						
Debt securities - Portuguese public issuers	(89,985)	33,236	(3,097)	236	4,257	(55,353)
Others	(138,440)	65,306	(8,332)	(350)	626	(81,190)
	(228,425)	98,542	(11,429)	(114)	4,883	(136,543)
Equity instruments	(25,846)	6,580	—	—	997	(18,269)
Associated companies and other changes						
Millenniumbcp Ageas	(3,725)	(7,060)	—	—	(496)	(11,281)
Others	11,563	(4,960)	—	—	—	6,603
	7,838	(12,020)	—	—	(496)	(4,678)
	(246,433)	93,102	(11,429)	(114)	5,384	(159,490)

During 2022 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)

	2022 (restated)					
	Balance as at 1 January	Fair value changes	Fair value hedge adjustment	Impairment in profit or loss	Disposals	Balance as at 31 December
Financial assets at fair value through other comprehensive income (note 24)						
Debt instruments						
Debt securities - Portuguese public issuers	41,380	(293,433)	146,264	(2,406)	18,210	(89,985)
Others	(32,684)	(183,482)	85,052	(2,617)	(4,709)	(138,440)
	8,696	(476,915)	231,316	(5,023)	13,501	(228,425)
Equity instruments	(30,242)	(3,183)	—	—	7,579	(25,846)
Associated companies and other changes						
Millenniumbcp Ageas	(24,485)	6,522	—	—	14,238	(3,725)
Others	9,640	1,923	—	—	—	11,563
	(14,845)	8,445	—	—	14,238	7,838
	(36,391)	(471,653)	231,316	(5,023)	35,318	(246,433)

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 2023	31 December 2022 (restated)
Fair value changes		
Debt instruments	(56,562)	(98,139)
Equity instruments	2,440	2,380
Cash-flow hedge	(22,417)	(43,281)
Other	5	7
	(76,534)	(139,033)
Deferred taxes		
Debt instruments	10,662	18,531
Equity instruments	(493)	(467)
Cash-flow hedge	4,259	8,223
	14,428	26,287
	(62,106)	(112,746)
Exchange differences arising on consolidation	(150,399)	(187,306)
Actuarial losses (net of taxes)	1,742	1,742
Other reserves and retained earnings	1,110,232	1,080,424
	899,469	782,114

The balance Non-controlling interests is analysed as follows:

(Thousands of euros)

	Balance Sheet		Income Statement	
	30 June 2023	31 December 2022 (restated)	30 June 2023	30 June 2022 (restated)
Continuing operations				
Bank Millennium Group	715,548	585,618	38,571	(28,257)
BIM - Banco Internacional de Moçambique Group	161,564	174,041	15,009	15,480
Other subsidiaries	22,357	22,455	(97)	(190)
	899,469	782,114	53,483	(12,967)

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)

	Bank Millennium Group		BIM - Banco International de Moçambique Group	
	30 June 2023	30 June 2022 (restated)	30 June 2023	30 June 2022 (restated)
Net income	77,297	(56,627)	48,499	46,465
Correction of net income from previous years	—	—	(3,447)	—
Adjusted net income	77,297	(56,627)	45,052	46,465
Net income attributable to the shareholders	38,726	(28,370)	30,043	30,985
Net income attributable to non-controlling interests	38,571	(28,257)	15,009	15,480
Other comprehensive income attributable to the shareholders	—	(86,769)	—	29,932
Other comprehensive income attributable to non-controlling interests	(91,305)	(86,422)	3,858	14,951
Total comprehensive income	(14,008)	(229,818)	48,910	91,348
	30 June 2023	31 December 2022 (restated)	30 June 2023	31 December 2022 (restated)
Balance sheet				
Financial assets	25,175,715	23,055,876	2,392,751	2,606,994
Non-financial assets	725,129	641,571	230,822	217,416
Financial liabilities	(23,501,191)	(21,684,366)	(2,056,213)	(2,235,210)
Non-financial liabilities	(965,654)	(839,464)	(83,593)	(68,008)
Equity	1,433,999	1,173,617	483,767	521,192
Equity attributed to the shareholders	718,451	587,999	322,602	347,559
Equity attributed to the non-controlling interests	715,548	585,618	161,165	173,633
Cash flows arising from:				
operating activities	1,296,598	2,134,937	75,605	104,089
investing activities	(1,557,402)	260,370	(3,925)	(12,141)
financing activities	(21,491)	(75,834)	(73,793)	(191,515)
Increase / (decrease) in cash and equivalents	(282,295)	2,319,473	(2,113)	(99,567)
Dividends paid during the period:				
attributed to the shareholders	—	—	47,478	119,244
attributed to the non-controlling interests	—	—	23,719	59,572
	—	—	71,197	178,816

45. Guarantees and other commitments

This balance is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Guarantees granted		
Guarantees	3,787,509	4,144,220
Stand-by letter of credit	83,761	57,084
Open documentary credits	299,763	258,591
Bails and indemnities	135,487	135,718
	4,306,520	4,595,613
Commitments to third parties		
Irrevocable commitments		
Term deposits contracts	2,563	1,621
Irrevocable credit lines	4,904,986	4,880,858
Securities subscription	27,860	41,285
Other irrevocable commitments	158,449	153,982
Revocable commitments		
Revocable credit lines	5,835,847	5,834,056
Bank overdraft facilities	842,140	998,886
Other revocable commitments	106,356	128,025
	11,878,201	12,038,713
Guarantees received	28,750,471	29,552,693
Commitments from third parties	12,625,854	13,453,876
Securities and other items held for safekeeping	80,012,952	75,348,414
Securities and other items held under custody by the Securities Depository Authority	82,881,011	82,314,713
Other off balance sheet accounts	144,899,984	131,084,605

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 39).

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.

The balance of Guarantees granted, Irrevocable credit lines and revocable commitments portfolio detailed by stage according with IFRS 9, is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Stage 1		
Gross amount	14,153,828	14,303,231
Impairment	(10,490)	(11,307)
	14,143,338	14,291,924
Stage 2		
Gross amount	1,504,612	1,768,595
Impairment	(14,126)	(14,893)
	1,490,486	1,753,702
Stage 3		
Gross amount	337,409	365,612
Impairment	(87,905)	(84,554)
	249,504	281,058
	15,883,328	16,326,684

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 that was based on the valuation of the senior security and the value of the transferred receivables. These junior securities, being subscribed by the Group, will entitle the Group to a contingent positive value if the value of the assets transferred exceeds the amount of the senior tranches plus the remuneration on them. 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. In first half of 2023 and in the financial year of 2022, no credits were sold to corporate restructuring funds.

The amounts accumulated as at 30 June 2023, related to these operations, are analysed as follows:

(Thousands of euros)

	Assets transferred	Net assets transferred	Received value	Net gains / (losses)
Fundo Recuperação FCR (a)	343,266	243,062	232,267	(10,795)
Fundo Aquarius FCR (b)	132,635	124,723	132,635	7,912
Discovery Real Estate Fund (b)	211,388	152,155	138,187	(13,968)
Fundo Vega FCR (c)	113,665	113,653	109,599	(4,054)
	800,954	633,593	612,688	(20,905)

The activity segments are as follows: a) Diversified; b) Real estate and tourism; and c) Real estate.

The amounts accumulated as at 31 December 2022, related to these operations, are analysed as follows:

(Thousands of euros)

	Assets transferred	Net assets transferred	Received value	Net gains / (losses)
Fundo Reestruturação Empresarial FCR	84,112	82,566	83,212	646
Fundo Recuperação FCR (a)	343,266	243,062	232,267	(10,795)
Fundo Aquarius FCR (b)	132,635	124,723	132,635	7,912
Discovery Real Estate Fund (b)	211,388	152,155	138,187	(13,968)
Fundo Vega FCR (c)	113,665	113,653	109,599	(4,054)
	885,066	716,159	695,900	(20,259)

The activity segments are as follows: a) Diversified; b) Real estate and tourism; and c) Real estate.

On 29 June 2023, all of the participation units held by BCP in the Fundo Reestruturação Empresarial FCR were sold, as a result the Group no longer held a position in that Fund.

As at 30 June 2023, the assets received under the scope of these operations are comprised of:

(Thousands of euros)

	30 June 2023		
	Senior securities	Junior securities	
	Participation units (note 24)	Capital supplies (note 32)	Total
Fundo Recuperação FCR			
Gross value	169,203	87,391	256,594
Impairment and other fair value adjustments	(137,364)	(87,391)	(224,755)
	31,839	—	31,839
Fundo Aquarius FCR			
Gross value	119,631	—	119,631
Impairment and other fair value adjustments	(12,212)	—	(12,212)
	107,419	—	107,419
Discovery Real Estate Fund			
Gross value	157,716	—	157,716
Impairment and other fair value adjustments	6,407	—	6,407
	164,123	—	164,123
Fundo Vega FCR			
Gross value	49,115	88,774	137,889
Impairment and other fair value adjustments	(9,761)	(88,774)	(98,535)
	39,354	—	39,354
Total Gross value	495,665	176,165	671,830
Total impairment and other fair value adjustments	(152,930)	(176,165)	(329,095)
	342,735	—	342,735

As at 30 June 2023, the book value of these assets considers the last Fund's Global Net Asset Value (NAV) communicated by the Management Companies.

The following aspects should also be mentioned: (i) these are Funds whose latest Limited Audit Reports available with reference to 31 December 2022, do not include reserves; (ii) the funds are subject to supervision by the competent authorities.

As at 31 December 2022, the assets received under the scope of these operations are comprised of:

(Thousands of euros)

	31 December 2022 (restated)		
	Senior securities	Junior securities	
	Participation units (note 24)	Capital supplies (note 32)	
Fundo Reestruturação Empresarial FCR			
Gross value	60,963	–	60,963
Impairment and other fair value adjustments	(37,966)	–	(37,966)
	22,997	–	22,997
Fundo Recuperação FCR			
Gross value	169,033	85,018	254,051
Impairment and other fair value adjustments	(134,767)	(85,018)	(219,785)
	34,266	–	34,266
Fundo Aquarius FCR			
Gross value	119,631	–	119,631
Impairment and other fair value adjustments	(11,527)	–	(11,527)
	108,104	–	108,104
Discovery Real Estate Fund			
Gross value	157,716	–	157,716
Impairment and other fair value adjustments	(1,801)	–	(1,801)
	155,915	–	155,915
Fundo Vega FCR			
Gross value	48,762	86,379	135,141
Impairment and other fair value adjustments	(9,899)	(86,379)	(96,278)
	38,863	–	38,863
Total Gross value	556,105	171,397	727,502
Total impairment and other fair value adjustments	(195,960)	(171,397)	(367,357)
	360,145	–	360,145

As at 31 December 2022, the book value of these assets considers the last Fund's Global Net Asset Value (NAV) communicated by the Management Companies.

The following aspects should also be mentioned: (i) these are Funds whose latest Limited Audit Reports available with reference to 30 June 2022 and Audit Reports available with reference to 31 December 2022 for 2 funds and 31 December 2021 for 3 funds, do not include reserves; (ii) the funds are subject to supervision by the competent authorities.

The detail of the commitments of subscribed and unpaid capital for each of the corporate restructuring funds is analysed as follows:

(Thousands of euros)

	30 June 2023			31 December 2022 (restated)		
Corporate restructuring funds	Subscribed capital	Capital realized	Subscribed and unpaid capital	Subscribed capital	Capital realized	Subscribed and unpaid capital
Fundo Reestruturação Empresarial FCR	—	—	—	51,212	46,486	4,726
Fundo Recuperação FCR	178,405	169,203	9,202	186,602	169,033	17,569
Fundo Aquarius FCR	134,205	119,631	14,574	134,205	119,631	14,574
Discovery Real Estate Fund	158,991	158,991	—	158,991	158,991	—
Fundo Vega FCR	48,150	46,202	1,948	48,150	45,870	2,280
Fundo Turismo Algarve	51,455	50,426	1,029	—	—	—
	571,206	544,453	26,753	579,160	540,011	39,149

There are additional subscription commitments for the fund Discovery, in the amount of Euros 1,107,000 (31 December 2022: Euros 1,107,000).

Project Crow

At the end of December 2022, the designated sale process for the Crow Project was completed, which included the sale to a related company of Davidson Kempner Capital Management LP (Purchaser) of 3 hotel assets belonging to the Fundo Recuperação and the sale of all shares/units of participation of the FLITPTREL and Fundo Recuperação Turismo funds, together with the assets directly and indirectly held by these two funds, with the exception of a set of assets that were transferred to the sellers and which, in the case of Banco Comercial Português, S.A. include the investment held in a Venture capital fund, in 2 real estate funds and in a company, as detailed in the table below.

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Financial assets not held for trading mandatorily at fair value through profit or loss (note 24)		
Fundo Turismo Algarve, FCR	50,341	50,426
Lusofundo - Fundo de Investimento Imobiliário Fechado	18,829	26,429
Fundo Especial de Investimento Imobiliário Fechado Eurofundo	9,647	12,091
	78,817	88,946
Non-current assets held for sale (note 27)		
FLITPTREL Tires, S.A.	—	17,919
Other assets (note 32)		
FLITPTREL Tires, S.A.	18,042	—
	96,859	106,865

As referred in note 39, there are provisions for liabilities and charges recorded for corporate restructuring funds and carved-out assets of the Project Crow, completed in December 2022.

47. Relevant events occurred in the first half of 2023

Bank Millennium Minimum requirements for own funds and liabilities subject to write down or conversion (MREL)

The Bank Millennium manages MREL indicators in a manner analogous to capital adequacy management.

The Bank Millennium received in June 2023 the joint decision of the resolution authorities obliging to meet MREL requirements. At the moment of communication of the decision, the Bank Millennium at the consolidated level is obliged to meet the minimum MREL-TREA requirements of 14.42% and MREL-TEM of 4.46%. The minimum subordination MREL-TREA was set at 14.28% and MREL-TEM 4.44%. At the same time, the above-mentioned decision sets updated minimum requirements that must be met by 31 December 2023, at the level of 18.89% and 5.91% (consolidated MREL-TREA and MREL-TEM).

In addition to these MREL levels, the Bank Millennium also needs to meet MREL with Combined Buffer Requirement (currently 2.75%).

MREL	30.06.2023	31.03.2023*	30.06.2022
MREL-TREA ratio	**14.93 %**	**14.26 %**	**15.16 %**
Minimum required level MREL-TREA	14.42 %	15.60 %	15.60 %
Surplus(+) / Deficit(-) of MREL-TREA (p.p.)	0.51 %	-1.34 %	-0.44 %
Minimum required level including Combined Buffer Requirement (CBR)	17.17 %	18.35 %	18.35 %
Surplus(+) / Deficit(-) of MREL-TREA+CBR (p.p.)	-2.24 %	-4.09 %	-3.19 %
MREL-TEM ratio	**5.87%**	**5.76%**	**6.78%**
Minimum required level of MREL-TEM	4.46 %	4.46 %	3.00 %
Surplus(+) / Deficit(-) of MREL-TEM (p.p.)	1.41 %	1.30 %	3.78 %

* All data for quarterly periods presented in these condensed interim consolidated financial statements of the Group have not been audited or reviewed by a statutory auditor.

Regarding the MREL requirements both MREL-TREA and MREL-TEM, the Bank Millennium Group presents a surplus compared to the level required as at the reporting date, but does not yet meet the MREL-TREA requirement, considering the combined buffer requirement.

As informed in the Current Report no. 19/2023, in June 2023 the Bank Guarantee Fund took an administrative decision under the terms of Articles 96a - 96d of the Bank Guarantee Fund Act, prohibiting the Bank from distributing profits in excess of the maximum distributable amount related to the minimum requirement for own funds and eligible liabilities (M-MDA).

After the improvement in the capital ratios above described, the Bank Millennium´s priority is to take further necessary steps towards meeting the MREL requirements, taking also into consideration the level required after the end of the interim period on 31 December 2023. The Bank Millennium plans to cover the shortfall by the end of 2023 through a combination of organic capital generation, optimization of risk weighted assets (including securitisations) and the issue of debt instruments, if required and market conditions allow. Having reference to that, the Bank Millennium prepared a Eurobond Issue Programme of the total nominal value not higher than EUR 3 billion, what was communicated in a current report in January 2022.

Resolutions of the Annual General Meeting of Banco Comercial Português, S.A.

Banco Comercial Português, S.A. concluded on 24 May 2023, through electronic means and, simultaneously, at the Bank's facilities, with 64.29% of the share capital represented, the Annual General Meeting of Shareholders, with the following resolutions:

Item One – Approval of the individual and consolidated Annual Report, balance sheet and financial statements of 2022, and the Corporate Governance Report, that includes a chapter on the remuneration of the management and supervisory bodies and the Sustainability Report;

Item Two – Approval of the proposal for the appropriation of profit concerning the 2022 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 updating of the policy for the remuneration of Members of the Management and Supervisory Bodies and the repeal of the regulation of reform of the Executive Directors;

Item Five – Approval of the update of the policy for selection and appointment of the Statutory Auditor or audit firm and the hiring of non-prohibited non-audit services, under the terms of the legislation in force;

Item Six – Approval of the acquisition and sale of own shares and bonds.

Approval of the application of article 352 (2) of the CRR

On 24 March 2023, BCP was notified of the favourable decision of the supervisory authority on the request for the application of article 352 (2) of the CRR for the exclusion of the calculation of weighted assets for market risk of certain structural exchange positions for hedging of regulatory ratios against changes in exchange rates. The change has an estimated impact on the fully implemented CET1 ratio of around 50 basis points and of around 70 basis points in the total capital ratio.

Signing of conditional agreement concerning the sale of Millennium Financial Services sp.zo.o. and strategic insurance cooperation

The Management Board of Bank Millennium S.A. informed that following necessary corporate approvals, on 13 February 2023, Bank Millennium executed the agreement (the "Agreement") for the sale of 80% of the shares (the “Shares”) in Millennium Financial Services sp. z o.o. (the “Company”) to Towarzystwo Ubezpieczeń na Życie Europa S.A. which acquires 72% of the Company’s shares and Towarzystwo Ubezpieczeń Europa S.A. which acquires 8% of the Company’s shares (collectively the "Buyers").

Bank Millennium concluded also with the Buyers and the Company certain agreements concerning exclusive insurance distribution model, including a cooperation agreement, distribution agreements and agency agreements (the "Strategic Insurance Cooperation"). The Strategic Insurance Cooperation provides for long term (10 years) bancassurance liaison in relation specified insurance products linked to loans offered by Bank Millennium.

On 29 March 2023, 80% of the shares (the "Shares") of Millennium Financial Services sp. z o.o. (the "Company") from the Bank to Towarzystwo Ubezpieczeń in Życie Europa S.A. which acquired 72% of the Company's shares and to Towarzystwo Ubezpieczeń Europa S.A. which acquired 8% of the Company's shares, as well as the payment of the price for the Shares to Bank Millennium S.A. The impacts of the Transaction are reflected in note 5 - Gains/(losses) arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss and note 16 - Gains/(losses) on disposal of subsidiaries and other assets.

The sale of the Shares by Bank Millennium S.A. to the Buyers constitutes the conclusion of the Transaction, resulting in the recognition of the corresponding positive financial result and triggers the commencement of the Strategic Insurance Cooperation between the Bank and the Buyers, as described above.

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.

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 (this class incorporates among other, factoring operations, current account credit, credit cards and overdrafts in demand deposits).

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 (Stage 3 loans), 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.

As in the case of credits without defined maturity, also for the resources from customers without defined maturity (demand deposits) it is considered that given the potential short term of the same, possibility of their liquidation at any time, the book value of these liabilities is a reasonable estimate of their fair value.

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 2023	31 December 2022 (restated)	30 June 2023	31 December 2022 (restated)	30 June 2023	31 December 2022 (restated)	30 June 2023	31 December 2022 (restated)
EUR	3.97%	2.44%	5.26%	5.15%	3.01%	3.38%	4.13%	2.77%
AOA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AUD	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.74%	3.76%
CAD	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.53%	5.11%
CHF	n.a.	n.a.	4.23%	4.48%	n.a.	n.a.	2.30%	1.58%
CNY	n.a.	n.a.	3.25%	n.a.	n.a.	n.a.	2.32%	1.64%
DKK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.67%	2.77%
GBP	n.a.	n.a.	8.41%	n.a.	n.a.	4.07%	5.86%	4.18%
HKD	n.a.	n.a.	4.58%	4.73%	n.a.	n.a.	5.19%	3.89%
JPY	n.a.	n.a.	2.48%	n.a.	n.a.	n.a.	n.a.	n.a.
MOP	n.a.	n.a.	4.25%	4.17%	n.a.	n.a.	4.98%	4.89%
MZN	19.51%	19.51%	22.83%	22.59%	n.a.	n.a.	16.04%	15.99%
NOK	n.a.	n.a.	7.46%	6.19%	n.a.	n.a.	4.92%	3.64%
PLN	7.20%	7.27%	8.88%	10.01%	7.13%	7.39%	6.79%	7.00%
SEK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.33%	3.53%
TRY	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	22.99%	n.a.
USD	5.66%	5.41%	6.68%	5.74%	5.74%	5.52%	5.24%	4.51%
ZAR	8.98%	8.61%	13.61%	13.05%	n.a.	n.a.	6.36%	5.45%

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. In this class of assets, the fair value corresponds to their book value.

Market interest rates are determined based on information released by the suppliers of financial content - Reuters and Bloomberg - more specifically because of 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, as referred in the accounting policy described in note 1 C1.1.1. The fair value of this class of assets, 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.

Market interest rates are determined based on information released by the suppliers of financial content - Reuters and Bloomberg - more specifically because of 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.

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 2023		31 December 2022 (restated)	
	EUR	PLN	EUR	PLN
Placed in the institutional market				
Subordinated	9.22%	–	9.33%	–
Senior	0.19%	–	0.19%	–
Placed in retail				
Senior and collateralised	4.11%	5.01%	3.37%	6.19%

For non-subordinated debt securities issued, the fair value calculation focused on all the components of these instruments, as a result the difference determined is a positive amount of Euros 73,752,000 (31 December 2022: a positive amount of Euros 72,745,000) and includes a payable amount of Euros 78,073,000 (31 December 2022: a payable amount of Euros 53,495,000) which reflects the fair value of embedded derivatives and are recorded in financial assets and liabilities held for trading (note 24 and 37).

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 2023				31 December 2022 (restated)			
	EUR	USD	GBP	PLN	EUR	USD	GBP	PLN
1 day	3.45%	5.10%	5.07%	6.74%	2.00%	4.45%	3.55%	6.76%
7 days	3.46%	5.14%	5.07%	6.74%	2.00%	4.47%	3.58%	6.76%
1 month	3.53%	5.29%	5.10%	6.76%	2.04%	4.57%	3.67%	6.83%
2 months	3.62%	5.40%	5.32%	6.78%	2.13%	4.66%	3.80%	6.87%
3 months	3.71%	5.52%	5.52%	6.80%	2.25%	4.77%	3.91%	6.92%
6 months	3.88%	5.82%	6.01%	6.85%	2.73%	5.07%	4.32%	7.04%
9 months	4.01%	5.88%	6.30%	6.87%	3.11%	5.28%	4.65%	7.09%
1 year	4.09%	5.63%	6.51%	6.35%	3.26%	5.11%	4.87%	7.35%
2 years	3.88%	5.07%	6.16%	5.72%	3.39%	4.69%	4.69%	6.97%
3 years	3.62%	4.64%	5.85%	5.29%	3.31%	4.33%	4.56%	6.53%
5 years	3.26%	4.18%	5.31%	4.98%	3.23%	4.02%	4.33%	6.20%
7 years	3.10%	3.97%	4.92%	4.93%	3.19%	3.89%	4.14%	6.13%
10 years	3.01%	3.83%	4.60%	5.01%	3.21%	3.82%	3.99%	6.20%
15 years	2.95%	3.76%	4.39%	5.24%	3.14%	3.79%	3.91%	6.45%
20 years	2.81%	3.70%	4.26%	5.30%	2.93%	3.72%	3.84%	6.49%
30 years	2.54%	3.46%	4.07%	5.30%	2.54%	3.48%	3.70%	6.49%

The following table shows the fair value of financial assets and liabilities of the Group, as at 30 June 2023:

(Thousands of euros)

	30 June 2023				
	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	–	–	3,884,338	3,884,338	3,884,338
Loans and advances to credit institutions repayable on demand	–	–	238,861	238,861	238,861
Financial assets at amortised cost					
Loans and advances to credit institutions	–	–	570,552	570,552	565,236
Loans and advances to customers (i)	–	–	54,396,653	54,396,653	53,318,356
Debt securities	–	–	16,247,089	16,247,089	15,531,620
Financial assets at fair value through profit or loss					
Financial assets held for trading	1,482,890	–	–	1,482,890	1,482,890
Financial assets not held for trading mandatorily at fair value through profit or loss	505,064	–	–	505,064	505,064
Financial assets designated at fair value through profit or loss	21,968	–	–	21,968	21,968
Financial assets at fair value through other comprehensive income	–	7,452,868	–	7,452,868	7,452,868
Hedging derivatives (ii)	45,593	–	–	45,593	45,593
	2,055,515	7,452,868	75,337,493	84,845,876	83,046,794
Liabilities					
Financial liabilities at amortised cost					
Resources from credit institutions	–	–	2,094,824	2,094,824	2,082,817
Resources from customers (i)	–	–	73,680,329	73,680,329	73,357,775
Non subordinated debt securities issued (i)	–	–	1,486,507	1,486,507	1,560,259
Subordinated debt (i)	–	–	1,349,805	1,349,805	1,419,718
Financial liabilities at fair value through profit or loss					
Financial liabilities held for trading	274,804	–	–	274,804	274,804
Financial liabilities designated at fair value through profit or loss	3,052,680	–	–	3,052,680	3,052,680
Hedging derivatives (ii)	103,393	–	–	103,393	103,393
	3,430,877	–	78,611,465	82,042,342	81,851,446

(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 Bank includes in the Book value column of the heading Financial assets at amortized cost - Debt securities the variation in the fair value of the hedged element attributable to the hedged risk (risk of interest rate) for securities to which the Bank is applying fair value hedge accounting.

Until 31 December 2022, the Fair value column of the heading Financial assets at cost amortized - Debt securities corresponded to the fair value plus the variation in the fair value of the hedged element attributable to the hedged risk (interest rate risk) for the securities in which the Bank was applying fair value hedge accounting. Since 31 December 2022, the difference between the two columns presented (Book value and Fair value) corresponded to potential gains on debt securities recorded in accounting at amortized cost, not considering the effects of applying hedge accounting (alternatively compared to the initial acquisition cost). As of 30 June 2023, for these instruments, the Bank began to apply a strict definition of Fair value, no longer adding at fair value the change in the fair value of the hedged item attributable to the hedged risk. This way, as of that date, the differential between the two columns referred to above (Book value and Fair value) corresponds to potential gains on debt securities recorded in the accounting at amortized cost after considering the effects of applying hedge accounting. In order to ensure the consistency and comparability of the information disclosed, the information relating to 31 December 2022 was presented consistently with the applied with reference to 30 June 2023.

The following table shows the fair value of financial assets and liabilities of the Group, as at 31 December 2022:

(Thousands of euros)

	31 December 2022 (restated)				
	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	—	—	6,022,001	6,022,001	6,022,001
Loans and advances to credit institutions repayable on demand	—	—	213,460	213,460	213,460
Financial assets at amortised cost					
Loans and advances to credit institutions	—	—	963,434	963,434	953,643
Loans and advances to customers (i)	—	—	54,675,793	54,675,793	53,436,993
Debt securities	—	—	13,035,582	13,035,582	12,248,074
Financial assets at fair value through profit or loss					
Financial assets held for trading	766,597	—	—	766,597	766,597
Financial assets not held for trading mandatorily at fair value through profit or loss	552,679	—	—	552,679	552,679
Financial assets at fair value through other comprehensive income	—	7,461,553	—	7,461,553	7,461,553
Hedging derivatives (ii)	59,703	—	—	59,703	59,703
	1,378,979	7,461,553	74,910,270	83,750,802	81,714,703
Liabilities					
Financial liabilities at amortised cost					
Resources from credit institutions	—	—	1,468,360	1,468,360	1,453,270
Resources from customers (i)	—	—	75,430,143	75,430,143	75,129,795
Non subordinated debt securities issued (i)	—	—	1,482,086	1,482,086	1,554,561
Subordinated debt (i)	—	—	1,333,056	1,333,056	1,305,013
Financial liabilities at fair value through profit or loss					
Financial liabilities held for trading	241,506	—	—	241,506	241,506
Financial liabilities designated at fair value through profit or loss	1,817,678	—	—	1,817,678	1,817,678
Hedging derivatives (ii)	178,000	—	—	178,000	178,000
	2,237,184	—	79,713,645	81,950,829	81,679,823

(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.

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 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 the estimation of CVA/DVA is not significant in the overall value of the derivative. 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. - those measured 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. - those measured 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. - those measured taking as reference the 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, and whose unobservable market data component incorporated in the estimation of the value adjustment.

The following table shows, by valuation levels, the fair value of financial assets and liabilities of the Group as at 30 June 2023:

(Thousands of euros)

	30 June 2023			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and deposits at Central Banks	3,884,338	–	–	3,884,338
Loans and advances to credit institutions repayable on demand	238,861	–	–	238,861
Financial assets at amortised cost				
Loans and advances to credit institutions	–	–	565,236	565,236
Loans and advances to customers	–	–	53,318,356	53,318,356
Debt securities	12,420,610	560,197	2,550,813	15,531,620
Financial assets at fair value through profit or loss				
Financial assets held for trading	1,074,269	92,876	315,745	1,482,890
Financial assets not held for trading mandatorily at fair value through profit or loss	–	–	505,064	505,064
Financial assets designated at fair value through profit or loss	21,968	–	–	21,968
Financial assets at fair value through other comprehensive income	6,151,025	274,606	1,027,237	7,452,868
Hedging derivatives	–	45,593	–	45,593
	23,791,071	973,272	58,282,451	83,046,794
Liabilities				
Financial liabilities at amortised cost				
Resources from credit institutions	–	–	2,082,817	2,082,817
Resources from customers	–	–	73,357,775	73,357,775
Non subordinated debt securities issued	–	–	1,560,259	1,560,259
Subordinated debt	–	–	1,419,718	1,419,718
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading	–	175,164	99,640	274,804
Financial liabilities designated at fair value through profit or loss	968,186	–	2,084,494	3,052,680
Hedging derivatives	–	103,393	–	103,393
	968,186	278,557	80,604,703	81,851,446

The following table shows, by valuation levels, the fair value of financial assets and liabilities of the Group as at 31 December 2022:

(Thousands of euros)

	31 December 2022 (restated)			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and deposits at Central Banks	6,022,001	–	–	6,022,001
Loans and advances to credit institutions repayable on demand	213,460	–	–	213,460
Financial assets at amortised cost				
Loans and advances to credit institutions	–	–	953,643	953,643
Loans and advances to customers	–	–	53,436,993	53,436,993
Debt securities	9,462,042	694,560	2,091,472	12,248,074
Financial assets at fair value through profit or loss				
Financial assets held for trading	389,954	81,347	295,296	766,597
Financial assets not held for trading mandatorily at fair value through profit or loss	–	–	552,679	552,679
Financial assets at fair value through other comprehensive income	6,489,282	322,514	649,757	7,461,553
Hedging derivatives	–	59,703	–	59,703
	22,576,739	1,158,124	57,979,840	81,714,703
Liabilities				
Financial liabilities at amortised cost				
Resources from credit institutions	–	–	1,453,270	1,453,270
Resources from customers	–	–	75,129,795	75,129,795
Non subordinated debt securities issued	–	–	1,554,561	1,554,561
Subordinated debt	–	–	1,305,013	1,305,013
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading	–	186,130	55,376	241,506
Financial liabilities designated at fair value through profit or loss	850,681	–	966,997	1,817,678
Hedging derivatives	–	178,000	–	178,000
	850,681	364,130	80,465,012	81,679,823

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 R.

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 2023**	**31 December 2022 (restated)**
Pensioners	17,084	17,111
Former Attendees Acquired Rights	3,467	3,495
Employees	6,378	6,370
	26,929	26,976

In accordance with the accounting policy described in note 1 R, 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 2023	**31 December 2022 (restated)**
Actual amount of the past services		
Pensioners	2,162,424	2,126,809
Former attendees acquired rights	165,214	161,387
Employees	513,086	502,428
	2,840,724	2,790,624
Pension fund value	(3,408,825)	(3,384,118)
Net (assets) / liabilities in balance sheet (note 32)	(568,101)	(593,494)
Accumulated actuarial deviations and changing assumptions effect recognised in Other comprehensive income	3,190,231	3,152,535

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 2023 amounts to Euros 196,381,000 (31 December 2022: Euros 197,486,000). The End of Career Premium also came to be borne by the pension fund under the basic pension plan.

In 2023, negotiations continued with all the unions subscribing to the Group's Collective Labour Agreements, for the conclusion of the full review of the respective clauses, negotiations which are still ongoing.

At the same time, negotiations took place with all the unions subscribed to the Group's Collective Labour Agreements for the revision of the Salary Tables and other clauses of pecuniary expression relative to the years 2023, negotiations that are still ongoing. Although no agreement has yet been reached, the Group unilaterally decided to carry out in March 2023, with retroactive to 1 January 2023, a provisional update of the Salary Tables, including diuturnities and the Bank's Contributions to SAMS by 3.00%, with the increase from 10.50 euros to 11.50 euros in lunch subsidy, corresponding to a growth of 9,52%. No adjustment was made to the values of the remaining pecuniary expression clauses. For the purposes of calculating liabilities, the assumption of 3.5% salary increase for 2023 was considered.

Regarding the revision of the Salary Tables and other clauses of pecuniary expression for 2022, the agreement of unions SNQTB – Sindicato Nacional dos Quadros e Técnicos Bancários and SIB – Sindicato Independente da Banca, has not yet been reached on the proposal presented by the Group on 22 June 2022, the content of which corresponds to what was agreed with the other unions, hence the negotiations are still ongoing.

The change in the projected benefit obligations is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Balance as at 1 January	2,790,624	3,497,622
Service cost	(4,766)	(11,727)
Interest cost / (income)	56,705	67,059
Actuarial losses / (gains)		
Not related to changes in actuarial assumptions	8,712	58,590
Related to changes in assumptions	57,269	(693,673)
Payments	(72,620)	(136,338)
Early retirement programmes and terminations by mutual agreement	1,288	2,223
Contributions of employees	3,512	6,868
Balance at the end of the period	2,840,724	2,790,624

The pensions paid by the Fund, including the Additional Complement, amounts to Euros 72,620,000 (31 December 2022: Euros 136,338,000).

The liabilities with health benefits are fully covered by the Pension Fund and correspond to Euros 244,193,000 (31 December 2022: Euros 241,345,000).

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 amounts to Euros 34,276,000 (31 December 2022: Euros 39,093,000), 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 pensions 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.

In the first half of 2023 and during the financial year of 2022, the changes occurred in the plan's assets value is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Balance as at 1 January	3,384,118	3,699,988
Employees' contributions	3,512	6,868
Actuarial gains / (losses)	28,285	(259,394)
Payments	(72,620)	(136,338)
Expected return on plan assets	65,521	72,988
Amount transferred to the Fund resulting from acquired rights unassigned related to the Complementary Plan	9	6
Balance at the end of the period	3,408,825	3,384,118

The elements of the Pension Fund's assets are analysed as follows:

(Thousands of euros)

	30 June 2023			31 December 2022 (restated)		
Asset class	Assets with market price in active market	Remaining	Total Portfolio	Assets with market price in active market	Remaining	Total Portfolio
Shares	82,314	1,183	83,497	96,817	1,183	98,000
Bonds and other fixed income securities	1,664,613	–	1,664,613	1,120,132	–	1,120,132
Participations units in investment funds	–	532,135	532,135	–	969,232	969,232
Participation units in real estate funds	–	303,292	303,292	–	308,404	308,404
Properties	–	281,003	281,003	–	275,493	275,493
Loans and advances to credit institutions and others	–	544,285	544,285	–	612,857	612,857
	1,746,927	1,661,898	3,408,825	1,216,949	2,167,169	3,384,118

The balance Properties includes buildings booked in the Fund's financial statements and used by the Group's companies which amounts to Euros 281,003,000 (31 December 2022: Euros 275,493,000).

The securities issued by Group's companies accounted in the portfolio of the Fund are analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Shares	–	4,301
Bonds and other fixed income securities	2,983	2,805
Loans and advances to credit institutions and others	74,663	128,476
	77,646	135,582

The evolution of net (assets) / liabilities in the balance sheet is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Balance as at 1 January	(593,494)	(202,366)
Recognised in the income statement:		
Service cost	(4,766)	(11,727)
Interest cost / (income) net of the balance liabilities coverage	(8,816)	(5,929)
Cost with early retirement programs	1,288	2,223
Amount transferred to the Fund resulting from acquired rights unassigned related to the Complementary Plan	(9)	(6)
	(12,303)	(15,439)
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	(28,285)	259,394
Difference between expected and effective obligations	8,712	58,590
Arising from changes in actuarial assumptions	57,269	(693,673)
	37,696	(375,689)
Balance at the end of the period	(568,101)	(593,494)

In accordance with IAS 19, the Group accounted for (income)/costs with post-employment benefits, which is analysed as follows:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Current service cost	(4,766)	(6,218)
Net interest cost in the liability coverage balance	(8,816)	1,905
Cost with early retirement programs	1,288	973
Amount transferred to the Fund resulting from acquired rights unassigned related to the Complementary Plan	(9)	(4)
(Income) / Cost of the period	(12,303)	(3,344)

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.

Assumptions used in the liability's assessment

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 2023	31 December 2022 (restated)
Salary growth rate (c)	2,25% in 2024 and 1% in the following years	3,75% in 2023; 2,25% in 2024 and 1% in the following years
Pension's growth rate (c)	2,0% in 2024 and 0.75% in the following years	3,0% in 2023; 2,0% in 2024 and 0.75% in the following years
Discount rate / Projected Fund's rate of return	4.00%	4.17%
Mortality tables		
Men	TV 88/90 less a year	TV 88/90 less a year
Women (a)	TV 99/01 less 2 years	TV 99/01 less 2 years
Disability rate	Non applicable	Non applicable
Turnover rate	Non applicable	Non applicable
Normal retirement age (b)	66 years and 4 months	66 years and 7 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 99/01 adjusted in less than 2 years (which implies an increase in hope life expectancy compared to that which would be considered in relation to their effective age).

b) Retirement age is variable. The normal retirement age increases one month for each civil year and cannot be higher than the normal retirement age in force in the General Social Security Regime (RGSS). The normal retirement age in the RGSS is variable and depends on the evolution of the average life expectancy at 65 years of age.

In 2022 the retirement age was 66 years and 7 months. For 2023 and 2024, the normal retirement age in the RGSS is 66 years and 4 months. The reduction in the retirement age was due to the evolution of the average life expectancy at 65 years in Portugal.

For the projection of life expectancy's increment, it was considered an increase of one year in every 10 years, with the maximum retirement age being set at 67 years and 2 months.

c) This rate refers to the growth for the years following the reporting year.

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.

The discount rate used to update the Bank's pension fund liabilities, regarding the defined benefit pension plans of its employees and managers, was determined based on an analysis carried out on a set of available information, which includes, among other elements, the market references for this indicator published by internationally recognized specialized entities and which are based, as defined by IAS 19, on market yields of a universe of high quality bond issues (low risk), different maturities, called in Euros and relating to a diverse and representative range of issuers (non-sovereign). With reference to 30 June 2023, the Group used a discount rate of 4.00% (31 December 2022: 4.17%).

The Actuarial gains 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 2023		31 December 2022 (restated)	
	Values effectively verified in %	Amount of deviations	Values effectively verified in %	Amount of deviations
Deviation between expected and actual liabilities		8,712		58,590
Changes on the assumptions:				
Discount rate		57,269		(1,108,506)
Salary and pensions growth rate		–		279,108
Mortality tables		–		63,571
Other changes		–		72,154
Deviation between expected income and income from funds	3%	(28,285)	-5.07 %	259,394
		37,696		(375,689)

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 2023		31 December 2022 (restated)	
	-0.25%	0.25%	-0.25%	0.25%
Discount rate	88,381	(82,501)	87,938	(82,095)
Pension's increase rate	(91,181)	95,192	(98,276)	102,703
Salary growth rate	(18,498)	22,113	(20,620)	23,675

(Thousands of euros)

	Impact resulting from changes in demographic assumptions			
	30 June 2023		31 December 2022 (restated)	
	- 1 year	+ 1 year	- 1 year	+ 1 year
Changes in mortality table (*)	85,162	(85,786)	83,017	(83,816)

(*) The impact of 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 R3, in the scope of the Defined Contribution Plan provided for the BCP Pension Fund of the BCP Group for employees who have been admitted until 1 July 2009, in 2022 was accounted for a cost of Euros 2 million as an estimated contribution given that the Group estimates that the following requirements will be 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 for staff costs in the first half of 2023 the amount of Euros 181,000 (30 June 2022: Euros 146,000) 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 and also in accordance with Article no. 33 of Notice 3/2020 of the Bank of Portugal, are considered related parties as well, the qualified shareholders of Banco Comercial Português, S.A. and the entities controlled by them or with which they are in a group relationship. Under the scope of the Portuguese Securities Code update, which came into force at the beginning of 2022, the reference threshold for qualifying holdings is 5%.

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 2023	31 December 2022 (restated)
Assets		
Financial assets at amortised cost		
Loans and advances to customers	93,813	97,744
Debt securities	66,200	79,787
	160,013	177,531
Liabilities		
Resources from customers	49,934	96,159
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	3,949	4,287
	53,883	100,446

Loans and advances to customers are net of impairment in the amount of Euros 950,000 (31 December 2022: Euros 914,000) and for Debt securities the amount of impairment is Euros 233,000 (31 December 2022: Euros 257,000).

During the first half of 2023 and 2022, the transactions with qualified shareholders, reflected in the consolidated income statement items, are as follows:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Income		
Interest and similar income	6,286	2,783
Commissions	171	397
	6,457	3,180
Costs		
Commissions	40	42
	40	42

The balances with qualified shareholders, reflected in the guarantees granted and revocable and irrevocable credit lines, are as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Guarantees granted	2,862	2,273
Revocable credit lines	18,084	18,171
	20,946	20,444

As at 30 June 2023, the Group has accounted for provisions for guarantees granted the amount of Euros 3,000 (31 December 2022: Euros 3,000) and provisions for revocable credit lines in the amount of Euros 262,000 (31 December 2022: Euros 229,000).

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 on the consolidated balance sheet, are analysed as follows:

(Thousands of euros)

	Loans and advances to customers		Resources from customers	
	30 June 2023	31 December 2022 (restated)	30 June 2023	31 December 2022 (restated)
Board of Directors				
Non-executive directors	3	10	10,099	8,180
Executive Committee (*)	31	46	3,189	2,716
Closely related people	20	14	2,711	2,629
Controlled entities	—	—	7	24
Key management members				
Key management members	6,390	6,575	11,434	10,180
Closely related people	2,177	2,475	4,377	4,497
Controlled entities	123	928	6,335	2,613
	8,744	10,048	38,152	30,839

(*) The item Loans to Customers corresponds to mortgage loans granted prior to the respective election and to the amount used from private credit cards which must be settled on the maturity date.

In accordance with Article 85, no. 9 of RGICSF, no credits were granted in the first half of 2023 and in the financial year of 2022.

In the first half of 2023 and 2022, the transactions with related parties discriminated in the following table, included in income items of the consolidated income statement, are as follows:

(Thousands of euros)

	Interest and similar income		Commissions income	
	30 June 2023	30 June 2022 (restated)	30 June 2023	30 June 2022 (restated)
Board of Directors				
Non-executive directors	—	—	14	17
Executive Committee	—	—	12	6
Closely related people	—	—	5	5
Key management members				
Key management members	72	10	31	32
Closely related people	39	6	18	23
Controlled entities	24	—	14	4
	135	16	94	87

In the first half of 2023 and 2022, 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 2023	30 June 2022 (restated)	30 June 2023	30 June 2022 (restated)
Board of Directors				
Non-executive directors	39	3	—	—
Executive Committee	2	—	—	—
Closely related people	12	1	—	—
Key management members				
Key management members	25	2	—	2
Closely related people	3	1	1	1
Controlled entities	3	—	1	1
	84	7	2	4

The revocable credit lines granted by the Group to the following related parties are as follows:

(Thousands of euros)

	Guarantees granted		Revocable credit lines	
	30 June 2023	31 December 2022 (restated)	30 June 2023	31 December 2022 (restated)
Board of Directors				
Non-executive directors	—	—	127	113
Executive Committee (*)	—	—	134	140
Closely related people	—	—	54	43
Key management members				
Key management members	5	5	720	825
Closely related people	—	—	174	164
Controlled entities	—	—	945	525
	5	5	2,154	1,810

(*) Corresponds to the maximum authorized and unused limit of private credit cards and overdraft authorization in a salary account under the same regime as all the Bank's other employees.

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 in the first half of 2023, are as follows:

		Number of securities					
Shareholders/Bondholders	Security	30 June 2023	31 December 2022 (restated)	Acquisitions	Disposals	Date	Unit price Euros
MEMBERS OF BOARD OF DIRECTORS							
Altina de Fátima Sebastián González Villamarin	BCP Shares	0	0				
Ana Paula Alcobia Gray	BCP Shares	0	0				
Cidália Maria da Mota Lopes	BCP Shares	2,184	2,184				
Fernando da Costa Lima	BCP Shares	18,986	18,986				
João Nuno Oliveira Jorge Palma	BCP Shares	1,723,818	1,364,642	636,836 (a)	277,660 (b)	23/6/2023	0.2200
Jorge Manuel Baptista Magalhães Correia	BCP Shares	388,500	388,298	202		20/1/2023	0.1900
	Bonds (i)	1	1				
	Bonds (ii)	1	1				
José Miguel Bensliman Schorcht da Silva Pessanha	BCP Shares	1,504,495	1,177,152	582,460 (a)	255,117 (b)	23/6/2023	0.2200
José Pedro Rivera Ferreira Malaquias	BCP Shares	9,808	9,808				
Júlia Gu (Xiao Xu Gu)	BCP Shares	0	0				
Lingjiang Xu	BCP Shares	0	0				
Lingzi Yuan (Smilla Yuan)	BCP Shares	0	0				
Maria José Henriques Barreto de Matos de Campos	BCP Shares	2,014,344	1,554,512	574,790 (a)	114,958 (b)	23/6/2023	0.2200
Miguel de Campos Pereira de Bragança	BCP Shares	2,111,178	1,725,908	674,727 (a)	289,457 (b)	23/6/2023	0.2200
Miguel Maya Dias Pinheiro	BCP Shares	2,501,557	2,018,854	839,483 (a)	356,780 (b)	23/6/2023	0.2200
Nuno Manuel da Silva Amado	BCP Shares	2,525,388	1,525,388	1,000,000		3/1/2023	0.1570
	Bonds (i)	2	2				
	Bonds (ii)	2	2				
	Bonds (iii)	1	1				
Rui Manuel da Silva Teixeira	BCP Shares	1,529,042	1,207,858	571,501 (a)	250,317 (b)	23/6/2023	0.2200
Valter Rui Dias de Barros	BCP Shares	0	0				
KEY MANAGEMENT MEMBERS							
Albino António Carneiro de Andrade	BCP Shares	133,881	128,684	5,197 (a)		23/6/2023	0.2200
Alexandre Manuel Casimiro de Almeida	BCP Shares	169,519	111,400	58,119 (a)		23/6/2023	0.2200
Américo João Pinto Carola	BCP Shares	140,747	104,945	63,588 (a)	27,786 (b)	23/6/2023	0.2200
Ana Maria Jordão F. Torres Marques Tavares	BCP Shares	255,931	215,340	63,819 (a)	23,228 (b)	23/6/2023	0.2200
Ana Patrícia Moniz Macedo	BCP Shares	35,864	0	63,588 (a)	27,724 (b)	23/6/2023	0.2200
António Augusto Amaral de Medeiros	BCP Shares	178,245	143,063	62,599 (a)	27,417 (b)	23/6/2023	0.2200
António Ferreira Pinto Júnior	BCP Shares	11,842	11,842				
António José Lindeiro Cordeiro	BCP Shares	93,898	64,134	49,854 (a)	20,090 (b)	23/6/2023	0.2200
António Luís Duarte Bandeira	BCP Shares	321,903	285,425	64,906 (a)	28,428 (b)	23/6/2023	0.2200
António Ricardo Fery Salgueiro Antunes	BCP Shares	120,117	61,361	58,756 (a)		23/6/2023	0.2200
António Vítor Martins Monteiro	BCP Shares	3,872	3,872				

(i) - Tejo Project - Fixed Rate Reset Perpetual Temporary Write Down Additional Tier 1 Capital Notes

(ii) - BCP *Tier 2 Subordinated Callable Notes*

(iii) - BCP 1.75% EUR 500M 6.5NC5.5 *Social Senior Preferred Notes*

(a) - identifies the increment in shares during the semester of this year corresponding to the annual deferred variable compensation of previous years

(b) - identifies the shares used in sell-cover in the semester of this year related to the increment of shares of variable remuneration.

Shareholders/Bondholders	Security	Number of securities: 30 June 2023	Number of securities: 31 December 2022 (restated)	Acquisitions	Disposals	Date	Unit price Euros
Artur Frederico Silva Luna Pais	BCP Shares	517,197	459,405	57,792 (a)		23/6/2023	0.2200
Belmira Abreu Cabral	BCP Shares	129,190	96,604	57,978 (a)	25,392 (b)	23/6/2023	0.2200
Bernardo Roquette de Aragão de Portugal Collaço	BCP Shares	89,825	54,362	62,103 (a)	26,640 (b)	23/6/2023	0.2200
Chi Wai Leung (Timothy)	BCP Shares	43,768	26,582	17,186 (a)		23/6/2023	0.2200
Constantino Alves Mousinho	BCP Shares	108,170	72,352	35,818 (a)		23/6/2023	0.2200
Fernando Maria Cardoso Rodrigues Bicho	BCP Shares	237	237				
Filipe Maria de Sousa Ferreira Abecasis	BCP Shares	174,218	135,398	68,947 (a)	30,127 (b)	23/6/2023	0.2200
Francisco António Caspa Monteiro	BCP Shares	225,015	186,219	69,030 (a)	30,234 (b)	23/6/2023	0.2200
Gonçalo Nuno Belo de Almeida Pascoal	BCP Shares	153,373	119,771	58,846 (a)	25,244 (b)	23/6/2023	0.2200
Hugo Miguel Martins Resende	BCP Shares	178,524	139,589	69,030 (a)	30,095 (b)	23/6/2023	0.2200
João Brás Jorge	BCP Shares	91,709	91,709				
João Manuel Rodrigues Tomé Cunha Martins	BCP Shares	0	0				
João Manuel Taveira Pinto Santos Paiva	BCP Shares	259,116	190,677	68,439 (a)		23/6/2023	0.2200
Jorge Filipe Nogueira Freire Cortes Martins	BCP Shares	107,720	48,257	59,463 (a)		23/6/2023	0.2200
Jorge Manuel Machado de Sousa Góis	BCP Shares	190,352	134,204	56,148 (a)		23/6/2023	0.2200
Jorge Manuel Magalhães Oliveira Pereira	BCP Shares	57,488	25,460	56,785 (a)	24,757 (b)	23/6/2023	0.2200
Jorge Manuel Nobre Carreteiro	BCP Shares	111,764	55,988	55,776 (a)		23/6/2023	0.2200
Jorge Octávio Neto dos Santos	BCP Shares	471,191	471,191				
José Artur Gouveia Coelho Caetano	BCP Shares	0	0				
José Carlos Benito Garcia de Oliveira	BCP Shares	37,941	37,941				
José Gonçalo Prior Regalado	BCP Shares	147,115	79,184	67,931 (a)		23/6/2023	0.2200
José Guilherme Potier Raposo Pulido Valente	BCP Shares	315,008	280,081	62,144 (a)	27,217 (b)	23/6/2023	0.2200
José Maria Gonçalves Pereira Brandão de Brito	BCP Shares	87,138	55,225	52,660 (a)	20,747 (b)	23/6/2023	0.2200
Luis Miguel Manso Correia dos Santos	BCP Shares	285,820	216,790	69,030 (a)		23/6/2023	0.2200
Maria Constança C. Brandão Amado Fonseca G. Santos	BCP Shares	800	800				
Maria de Fátima Coelho Dias	BCP Shares	0	0				
Maria de Los Angeles Sanchez Sanchez	BCP Shares	61,375	41,011	36,232 (a)	15,868 (b)	23/6/2023	0.2200
Maria Helena Soledade Nunes Henriques	BCP Shares	268,800	232,863	63,943 (a)	28,006 (b)	23/6/2023	0.2200
Maria Manuela de Araújo Mesquita Reis	BCP Shares	228,036	190,663	62,599 (a)	25,226 (b)	23/6/2023	0.2200
Maria Rita Sítima Fonseca Lourenço	BCP Shares	229,265	173,448	55,817 (a)		23/6/2023	0.2200
Mário António Pinho Gaspar Neves	BCP Shares	142,301	108,172	60,616 (a)	26,487 (b)	23/6/2023	0.2200
Mário Madeira Robalo Fernandes	BCP Shares	220,539	156,951	63,588 (a)		23/6/2023	0.2200
Nelson Luís Vieira Teixeira	BCP Shares	147,970	108,936	68,356 (a)	29,322 (b)	23/6/2023	0.2200
Nuno Alexandre Ferreira Pereira Alves	BCP Shares	251,695	183,959	67,736 (a)		23/6/2023	0.2200
Nuno Miguel Nobre Botelho	BCP Shares	144,294	85,625	58,669 (a)		23/6/2023	0.2200
Pedro José Mora de Paiva Beija	BCP Shares		138,202		50,673	17/1/2023	0.1934
		156,559		69,030 (a)		23/6/2023	0.2200
Pedro Manuel Francisco da Silva Dias	BCP Shares	152,178	111,149	68,493 (a)	27,464 (b)	23/6/2023	0.2200
Pedro Manuel Macedo Vilas Boas	BCP Shares	213,238	146,870	66,368 (a)		23/6/2023	0.2200
Pedro Manuel Rendas Duarte Turras	BCP Shares	146,367	105,371	68,439 (a)	27,443 (b)	23/6/2023	0.2200

(a) - identifies the increment in shares during the semester of this year corresponding to the annual deferred variable compensation of previous years

(b) - identifies the shares used in sell-cover in the semester of this year related to the increment of shares of variable remuneration.

		Number of securities					
Shareholders/Bondholders	Security	30 June 2023	31 December 2022 (restated)	Acquisitions	Disposals	Date	Unit price Euros
Ricardo Potes Valadares	BCP Shares	100,121	68,014	55,354 (a)	23,247 (b)	23/6/2023	0.2200
Rosa Maria Ferreira Vaz Santa Bárbara	BCP Shares		117,023		68,163	5/1/2023	0.1712
		87,324		68,439 (a)	29,975 (b)	23/6/2023	0.2200
	Bonds (i)	1	1				
Rui Emanuel Agapito Silva	BCP Shares	145,528	109,252	64,315 (a)	28,039 (b)	23/6/2023	0.2200
Rui Fernando da Silva Teixeira	BCP Shares	221,892	186,154	63,588 (a)	27,850 (b)	23/6/2023	0.2200
Rui Manuel Pereira Pedro	BCP Shares	408,353	339,819	68,534 (a)		23/6/2023	0.2200
Rui Miguel Alves Costa	BCP Shares	348,163	279,133	69,030 (a)		23/6/2023	0.2200
Rui Nelson Moreira de Carvalho Maximino	BCP Shares	146,835	110,273	64,823 (a)	28,261 (b)	23/6/2023	0.2200
Rui Pedro da Conceição Coimbra Fernandes	BCP Shares		143,793		102,700	21/6/2023	0.2200
		79,629		63,588 (a)	25,052 (b)	23/6/2023	0.2200
Tiago Alexandre Machado Ferreira Mateus	BCP Shares	52,540	2,128	50,412 (a)		23/6/2023	0.2200
Vânia Alexandra Machado Marques Correia	BCP Shares	160,146	115,226	56,148 (a)	11,228 (b)	23/6/2023	0.2200
PEOPLE CLOSELY RELATED TO THE PREVIOUS CATEGORIES							
de: Cidália Maria da Mota Lopes							
Alexandre Miguel Martins Ventura	BCP Shares	2,184	2,184				
de: José Miguel Bensliman Schorcht da Silva Pessanha							
Herança de Anne Marie Bensliman Silva Pessanha	BCP Shares	139	139				
de: Maria José Henriques Barreto de Matos de Campos							
Armando Lopes de Campos	BCP Shares	35	35				
Ivone Monteiro Lopes de Campos	BCP Shares	25	25				
Ricardo Gil Monteiro Lopes de Campos	BCP Shares	(c)	(c)				
de: Rui Manuel da Silva Teixeira							
Maria Helena Espassandim Catão	BCP Shares	576	576				
de: Américo João Pinto Carola							
Ana Isabel Salgueiro Antunes	BCP Shares	29	29				
de: Ana Maria Jordão F. Torres Marques Tavares							
Álvaro Manuel Coreia Marques Tavares	BCP Shares	25,118	25,118				
Francisco Jordão Torres Marques Tavares	BCP Shares	1,016	1,016				
Maria Avelina V. C. L. J. Teixeira Diniz	BCP Shares	16,770	16,770				
de: António Luís Duarte Bandeira							
Ana Margarida Rebelo A. M. Soares Bandeira	BCP Shares	2,976	2,976				
António da Silva Bandeira	BCP Shares	20,000	20,000				
de: António Vítor Martins Monteiro							
Isabel Maria Vaz Leite Pinto Martins Monteiro	BCP Shares	3,104	3,104				
de: Francisco António Caspa Monteiro							
Ricardo Miranda Monteiro	BCP Shares	1,639	1,639				
Rita Miranda Monteiro	BCP Shares	1,639	1,639				
de: José Gonçalo Prior Regalado							
Américo Simões Regalado	BCP Shares	880	880				
de: Maria Helena Soledade Nunes Henriques							
João Paulo Rodrigues Taborda Gonçalves	BCP Shares	130	130				
de: Maria Manuela de Araújo Mesquita Reis							
Luís Filipe da Silva Reis	BCP Shares	280,000	280,000				
de: José Pedro Rivera Ferreira Malaquias							
Maria Joana de Oliveira Monteiro Ferreira Malaquias	BCP Shares	(d)	(d)				
de: Pedro Manuel Francisco da Silva Dias							
Filomena Maria Brito Francisco Dias	BCP Shares	4,290	4,290				

(a) - identifies the increment in shares during the semester of this year corresponding to the annual deferred variable compensation of previous years

(b) - identifies the shares used in sell-cover in the semester of this year related to the increment of shares of variable remuneration.

(c) - solidary ownership in both securities accounts, and Dr. Ricardo Campos is the first holder and Eng.ª Maria José Campos is the 2nd holder of the securities account.

(d) - solidary ownership in both securities accounts, and Dr. José Pedro Ferreira Malaquias is the first holder and Maria Joana Ferreira Malaquias is the 2nd holder of the securities account.

C) Balances and transactions with associated companies

The balances with associated companies included in the consolidated balance sheet items, except for the item investments in associated companies, are as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Assets		
Loans and advances to credit institutions repayable on demand	10,597	8,834
Financial assets at amortised cost		
Loans and advances to credit institutions	202,170	206,078
Loans and advances to customers	2,907	59,487
Financial assets at fair value through profit or loss		
Financial assets held for trading	3,465	—
Other assets	12,386	11,497
	231,525	285,896
Liabilities		
Financial liabilities at amortised cost		
Resources from credit institutions	13,196	62,845
Resources from customers	185,453	211,193
Non subordinated debt securities issued	—	2,002
Financial liabilities held for trading	6,219	3,894
Other liabilities	376	8
	205,244	279,942

In the first half of 2023 and 2022, the transactions with associated companies included in the consolidated income statement items are as follows:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Income		
Interest and similar income	3,578	1,526
Commissions	28,161	26,217
Profits from financial operations	58	86
Other operating income	905	643
	32,702	28,472
Costs		
Interest and similar expenses	1,710	454
Commissions	5	45
Other administrative costs	1,279	84
Losses from financial operations	74	(581)
Other operating losses	1,254	51
	4,322	53

The guarantees granted and revocable and irrevocable credit lines by the Group over associated companies are as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Guarantees granted	812	7,539
Revocable credit lines	9,630	9,527
	10,442	17,066

Under the scope of the Group's insurance mediation activities, the remuneration from services provided is analysed as follows:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Life insurance		
Saving products	12,533	14,577
Mortgage and consumer loans	10,486	10,560
Others	1	—
	23,020	25,137
Non-Life insurance		
Accidents and health	11,809	10,599
Motor	2,029	1,939
Multi-Risk Housing	4,177	3,705
Others	923	803
	18,938	17,046
	41,958	42,183

Remuneration from insurance intermediation services was received through bank transfers and resulted from insurance intermediation with Ocidental - Companhia Portuguesa de Seguros de Vida, S.A. and Ageas Portugal - Companhia de Seguros, S.A. (Millenniumbcp Ageas Group). 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 activities, by nature, are analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Funds receivable for payment of life insurance commissions	11,219	11,467
Funds receivable for payment of non-life insurance commissions	9,349	8,835
	20,568	20,302

The commissions received result from insurance mediation contracts and investment contracts, under the terms established in the contracts in force. The mediation commissions are calculated according to 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 commercialisation 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 2023	31 December 2022 (restated)
Assets		
Financial assets held for trading	—	209
	—	209
Liabilities		
Resources from customers	80,110	145,303
Non subordinated debt securities issued	9,551	13,199
Financial liabilities held for trading	—	3,475
	89,661	161,977

In the first half of 2023 and during the financial year of 2022, there were no transactions related to other financial instruments between the Group and the Pension Fund.

In the first half of 2023 and 2022, income and expenses with the Pension Fund included in the items of the consolidated income statement are as follows:

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Income		
Commissions	548	1,174
Expenses		
Other administrative costs	6,905	7,114

The balance Other administrative costs corresponds to rents incurred under the scope of the Pension Fund's properties in which the tenant is the Group.

As at 30 June 2023 and 31 December 2022, the guarantees granted by the Group to the Pension Fund amount to 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 and Corporate; 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 and Corporate 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, in order to defend the value and managing credit risk, in a sustainable medium and long term perspective;

- Trade Finance Department, 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);

The Private Banking segment, for the purposes of geographical segments, comprises:

- Private Banking Division in Portugal, which ensures the monitoring of clients with high net worth, based on a commitment to excellence and a personalized relationship with clients;

- Wealth Management Division, which provides advisory customer services and portfolio management for clients in the Private Banking network and the affluent segment.

For the purposes of business segments also includes Millennium bcp Bank & Trust in Cayman Islands (entity liquidated in 2022) that is 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 the contribution of the associate in Angola and the contribution of the discontinued operation in Cayman Islands.

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 Millennium bcp Bank & Trust in the Cayman Islands which, in this context, is 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 in Portugal were calculated considering 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 2023, 31 December 2022 and 30 June 2022 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 2023. 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) or relevant changes in the dynamics of allocation of indirect revenues and costs, as described in the previous paragraph, ensuring the comparability of the information provided in the reported periods.

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 2023, the net contribution of the major business segments, for the income statement, is analysed as follows:

(Thousands of euros)

	30 June 2023						
	Commercial banking			Companies and Corporate in Portugal	Private banking	Other	Consolidated
	Retail in Portugal	Foreign business (1)	Total				
INCOME STATEMENT							
Net interest income	410,507	666,833	1,077,340	92,129	17,166	187,725	1,374,360
Net fees and commissions income	218,230	106,820	325,050	67,739	15,987	(21,728)	387,048
Other net income	7,595	(5,345)	2,250	12,640	1	(87,076)	(72,185)
Net gains arising from trading activity (2)	825	121,751	122,576	88	53	1,764	124,481
Dividends from equity instruments	—	675	675	—	—	500	1,175
Share of profit of associates under the equity method	—	1,701	1,701	—	—	27,721	29,422
Net operating revenue	637,157	892,435	1,529,592	172,596	33,207	108,906	1,844,301
Operating expenses	175,139	254,725	429,864	30,898	7,640	93,099	561,501
Results on modification (3)	—	(11,597)	(11,597)	—	—	—	(11,597)
Impairment for credit and financial assets (4)	(15,371)	(39,710)	(55,081)	(87,625)	(307)	(3,873)	(146,886)
Other impairments and provisions (5)	(98)	(354,050)	(354,148)	—	—	(47,429)	(401,577)
Net income before income tax	446,549	232,353	678,902	54,073	25,260	(35,495)	722,740
Income tax	(139,770)	(109,246)	(249,016)	(16,925)	(7,906)	27,848	(245,999)
Net income after income tax from continuing operations	306,779	123,107	429,886	37,148	17,354	(7,647)	476,741
Income arising from discontinued operations	—	—	—	—	—	(9)	(9)
Net income for the period	306,779	123,107	429,886	37,148	17,354	(7,656)	476,732
Non-controlling interests	—	(53,581)	(53,581)	—	—	98	(53,483)
Net income for the period attributable to Bank's Shareholders	306,779	69,526	376,305	37,148	17,354	(7,558)	423,249

(1) Includes the contribution associated with the investments held in Angola, in Banco Millennium Atlântico.

(2) Includes results from financial operations at fair value through profit or loss, results from foreign exchange, results from hedge accounting operations and results arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss.

(3) Includes the results of contractual amendments, namely, costs arising from negotiations with customers holding mortgage loans in foreign currency, hitherto accounted for in other impairments and provisions.

(4) Includes impairment of financial assets at amortised cost, 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, highlighting the provisions for legal proceedings related to mortgage loans granted in Swiss francs, booked by the Polish subsidiary.

As at 30 June 2023, the net contribution of the major operational Segments, for the balance sheet, is analysed as follows:

(Thousands of euros)

	30 June 2023						
	Commercial banking						
	Retail in Portugal	Foreign business	Total	Companies and Corporate in Portugal	Private banking	Other	Consolidated
BALANCE SHEET							
Cash and Loans and advances to credit institutions	13,810,992	2,693,783	16,504,775	1,719,531	2,331,172	(15,861,727)	4,693,751
Loans and advances to customers (1)	26,176,616	17,400,257	43,576,873	11,597,417	344,964	816,391	56,335,645
Financial assets (2)	—	7,474,391	7,474,391	—	—	16,342,089	23,816,480
Other assets	—	999,684	999,684	—	—	5,104,534	6,104,218
Total Assets	39,987,608	28,568,115	68,555,723	13,316,948	2,676,136	6,401,287	90,950,094
Resources from credit institutions (3)	211,411	167,160	378,571	1,362,067	—	354,186	2,094,824
Resources from customers (4)	37,706,899	24,777,697	62,484,596	10,374,711	2,527,396	(31,687)	75,355,016
Debt securities issued (5)	1,235,744	56,789	1,292,533	1,874	130,676	1,439,417	2,864,500
Other financial liabilities (6)	—	555,759	555,759	—	—	1,172,243	1,728,002
Other liabilities (7)	—	1,049,247	1,049,247	—	—	1,281,534	2,330,781
Total Liabilities	39,154,054	26,606,652	65,760,706	11,738,652	2,658,072	4,215,693	84,373,123
Total Equity	833,554	1,961,463	2,795,017	1,578,296	18,064	2,185,594	6,576,971
Total Liabilities and Equity	39,987,608	28,568,115	68,555,723	13,316,948	2,676,136	6,401,287	90,950,094
Number of employees	3,595	9,393	12,988	439	136	2,086	15,649

(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 2022, the net contribution of the major business segments, for the income statement, is analysed as follows:

(Thousands of euros)

	30 June 2022 (restated)						
	Commercial banking						
	Retail in Portugal	Foreign business (1)	Total	Companies and Corporate in Portugal	Private banking	Other	Consolidated
INCOME STATEMENT							
Net interest income	294,179	553,679	847,858	107,655	8,677	20,968	985,158
Net fees and commissions income	206,299	110,347	316,646	74,023	16,399	(19,485)	387,583
Other net income	11,552	(105,202)	(93,650)	32,627	(4)	(116,199)	(177,226)
Net gains arising from trading activity (2)	2,086	(17,595)	(15,509)	54	150	57,529	42,224
Dividends from equity instruments	—	660	660	—	—	12,213	12,873
Share of profit of associates under the equity method	—	(1,298)	(1,298)	—	—	21,762	20,464
Net operating revenue	514,116	540,591	1,054,707	214,359	25,222	(23,212)	1,271,076
Operating expenses	161,838	221,879	383,717	28,779	7,722	95,978	516,196
Impairment for credit and financial assets (3)	(12,812)	(39,617)	(52,429)	(125,080)	192	(4,496)	(181,813)
Other impairments and provisions (4)	(197)	(321,271)	(321,468)	—	—	(48,095)	(369,563)
Net income before income tax	339,269	(42,176)	297,093	60,500	17,692	(171,781)	203,504
Income tax	(106,191)	(72,563)	(178,754)	(18,936)	(5,392)	47,316	(155,766)
Net income after income tax from continuing operations	233,078	(114,739)	118,339	41,564	12,300	(124,465)	47,738
Income arising from discontinued operations	—	(310)	(310)	—	1,789	—	1,479
Net income for the period	233,078	(115,049)	118,029	41,564	14,089	(124,465)	49,217
Non-controlling interests	—	12,778	12,778	—	—	189	12,967
Net income for the period attributable to Bank's Shareholders	233,078	(102,271)	130,807	41,564	14,089	(124,276)	62,184

(1) Includes the contribution associated with the investments held in Angola, in Banco Millennium Atlântico.

(2) results from financial operations at fair value through profit or loss, results from foreign exchange, results from hedge accounting operations and results arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss.

(3) Includes impairment of financial assets at amortised cost, 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).

(4) Includes impairment of non-current assets held for sale, investments in associated companies, goodwill, other assets and provisions, highlighting the provisions for legal proceedings related to mortgage loans granted in Swiss francs, booked by the Polish subsidiary.

As at 31 December 2022, the net contribution of the major operational Segments, for the balance sheet, is analysed as follows:

(Thousands of euros)

	31 December 2022 (restated)						
	Commercial banking						
	Retail in Portugal	Foreign business	Total	Companies and Corporate in Portugal	Private banking	Other	Consolidated
BALANCE SHEET							
Cash and Loans and advances to credit institutions	13,202,529	3,208,230	16,410,759	2,049,107	2,336,011	(13,596,982)	7,198,895
Loans and advances to customers (1)	26,110,904	16,983,242	43,094,146	12,166,559	346,853	590,126	56,197,684
Financial assets (2)	—	5,458,513	5,458,513	—	—	14,895,710	20,354,223
Other assets	—	942,640	942,640	—	—	5,183,301	6,125,941
Total Assets	39,313,433	26,592,625	65,906,058	14,215,666	2,682,864	7,072,155	89,876,743
Resources from credit institutions (3)	259,996	158,808	418,804	2,209,963	—	(1,160,407)	1,468,360
Resources from customers (4)	37,053,686	23,173,054	60,226,740	10,430,254	2,524,083	2,725,737	75,906,814
Debt securities issued (5)	1,201,403	52,066	1,253,469	—	141,613	1,428,011	2,823,093
Other financial liabilities (6)	—	535,648	535,648	—	—	1,216,914	1,752,562
Other liabilities (7)	—	907,471	907,471	—	—	1,081,676	1,989,147
Total Liabilities	38,515,085	24,827,047	63,342,132	12,640,217	2,665,696	5,291,931	83,939,976
Total Equity	798,348	1,765,578	2,563,926	1,575,449	17,168	1,780,224	5,936,767
Total Liabilities and Equity	39,313,433	26,592,625	65,906,058	14,215,666	2,682,864	7,072,155	89,876,743
Number of employees	3,519	9,491	13,010	444	140	2,149	15,743

(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.

As at 30 June 2023, the net contribution of the major geographic segments, for the income statement, is analysed as follows:

(Thousands of euros)

	30 June 2023								
	Portugal								
	Retail banking	Companies and Corporate	Private banking	Other	Total	Poland	Mozambique	Other [1]	Consolidated
INCOME STATEMENT									
Net interest income	410,507	92,129	17,166	187,725	707,527	561,062	105,771	—	1,374,360
Net fees and commissions income	218,230	67,739	15,987	(21,728)	280,228	87,239	19,581	—	387,048
Other net income	7,595	12,640	1	(87,076)	(66,840)	(6,636)	1,291	—	(72,185)
Net gains arising from trading activity [2]	825	88	53	1,764	2,730	114,222	7,529	—	124,481
Dividends from equity instruments	—	—	—	500	500	675	—	—	1,175
Share of profit of associates under the equity method	—	—	—	27,721	27,721	—	943	758	29,422
Net operating revenue	637,157	172,596	33,207	108,906	951,866	756,562	135,115	758	1,844,301
Operating expenses	175,139	30,898	7,640	93,099	306,776	193,582	61,143	—	561,501
Results on modification [3]	—	—	—	—	—	(11,597)	—	—	(11,597)
Impairment for credit and financial assets [4]	(15,371)	(87,625)	(307)	(3,873)	(107,176)	(34,010)	(5,700)	—	(146,886)
Other impairments and provisions [5]	(98)	—	—	(47,429)	(47,527)	(349,911)	(4,139)	—	(401,577)
Net income before income tax	446,549	54,073	25,260	(35,495)	490,387	167,462	64,133	758	722,740
Income tax	(139,770)	(16,925)	(7,906)	27,848	(136,753)	(90,166)	(19,080)	—	(245,999)
Net income after income tax from continuing operations	306,779	37,148	17,354	(7,647)	353,634	77,296	45,053	758	476,741
Income arising from discontinued operations	—	—	—	(9)	(9)	—	—	—	(9)
Net income for the period	306,779	37,148	17,354	(7,656)	353,625	77,296	45,053	758	476,732
Non-controlling interests	—	—	—	98	98	(38,572)	(15,009)	—	(53,483)
Net income for the period attributable to Bank's Shareholders	306,779	37,148	17,354	(7,558)	353,723	38,724	30,044	758	423,249

(1) Includes the contribution associated with the investments held in Angola, in Banco Millennium Atlântico.

(2) Includes results from financial operations at fair value through profit or loss, results from foreign exchange, results from hedge accounting operations and results arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss.

(3) Includes the results of contractual amendments, namely, costs arising from negotiations with customers holding mortgage loans in foreign currency, hitherto accounted for in other impairments and provisions.

(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 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, highlighting the provisions for legal proceedings related to mortgage loans granted in Swiss francs, booked by the Polish subsidiary.

As at 30 June 2023, the net contribution of the major geographic segments, for the balance sheet is analysed as follows:

(Thousands of euros)

	30 June 2023								
	Portugal								
	Retail banking	Companies and Corporate	Private banking	Other	Total	Poland	Mozambique	Other	Consolidated
BALANCE SHEET									
Cash and Loans and advances to credit institutions	13,810,992	1,719,531	2,331,172	(15,861,727)	1,999,968	1,648,959	1,044,824	—	4,693,751
Loans and advances to customers (1)	26,176,616	11,597,417	344,964	816,391	38,935,388	16,735,226	665,031	—	56,335,645
Financial assets (2)	—	—	—	16,342,089	16,342,089	6,791,530	682,896	(35)	23,816,480
Other assets	—	—	—	5,104,534	5,104,534	725,129	230,822	43,733	6,104,218
Total Assets	39,987,608	13,316,948	2,676,136	6,401,287	62,381,979	25,900,844	2,623,573	43,698	90,950,094
Resources from other credit institutions (3)	211,411	1,362,067	—	354,186	1,927,664	117,963	49,197	—	2,094,824
Resources from customers (4)	37,706,899	10,374,711	2,527,396	(31,687)	50,577,319	22,770,681	2,007,016	—	75,355,016
Debt securities issued (5)	1,235,744	1,874	130,676	1,439,417	2,807,711	56,789	—	—	2,864,500
Other financial liabilities (6)	—	—	—	1,172,243	1,172,243	555,759	—	—	1,728,002
Other liabilities (7)	—	—	—	1,281,534	1,281,534	965,654	83,593	—	2,330,781
Total Liabilities	39,154,054	11,738,652	2,658,072	4,215,693	57,766,471	24,466,846	2,139,806	—	84,373,123
Total Equity	833,554	1,578,296	18,064	2,185,594	4,615,508	1,433,998	483,767	43,698	6,576,971
Total Liabilities and Equity	39,987,608	13,316,948	2,676,136	6,401,287	62,381,979	25,900,844	2,623,573	43,698	90,950,094
Number of employees	3,595	439	136	2,086	6,256	6,869	2,524	0	15,649

(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 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 2022, the net contribution of the major geographic segments, for the income statement, is analysed as follows:

(Thousands of euros)

	30 June 2022 (restated)								
	Portugal								
	Retail banking	Companies and Corporate	Private banking	Other	Total	Poland	Mozambique	Other [1]	Consolidated
INCOME STATEMENT									
Net interest income	294,179	107,655	7,705	20,968	430,507	461,452	92,227	972	985,158
Net fees and commissions income	206,299	74,023	16,374	(19,485)	277,211	92,065	18,282	25	387,583
Other net income	11,552	32,627	31	(116,199)	(71,989)	(106,680)	1,478	(35)	(177,226)
Net gains arising from trading activity [2]	2,086	54	140	57,529	59,809	(28,180)	10,585	10	42,224
Dividends from equity instruments	—	—	—	12,213	12,213	660	—	—	12,873
Share of profit of associates under the equity method	—	—	—	21,762	21,762	—	878	(2,176)	20,464
Net operating revenue	514,116	214,359	24,250	(23,212)	729,513	419,317	123,450	(1,204)	1,271,076
Operating expenses	161,838	28,779	7,216	95,978	293,811	168,591	53,289	505	516,196
Impairment for credit and financial assets [3]	(12,812)	(125,080)	192	(4,496)	(142,196)	(33,147)	(6,470)	—	(181,813)
Other impairments and provisions [4]	(197)	—	—	(48,095)	(48,292)	(320,656)	(615)	—	(369,563)
Net income before income tax	339,269	60,500	17,226	(171,781)	245,214	(103,077)	63,076	(1,709)	203,504
Income tax	(106,191)	(18,936)	(5,392)	47,316	(83,203)	(55,862)	(16,702)	1	(155,766)
Net income after income tax from continuing operations	233,078	41,564	11,834	(124,465)	162,011	(158,939)	46,374	(1,708)	47,738
Income arising from discontinued operations	—	—	—	—	—	—	(310)	1,789	1,479
Net income for the period	233,078	41,564	11,834	(124,465)	162,011	(158,939)	46,064	81	49,217
Non-controlling interests	—	—	—	189	189	28,258	(15,480)	—	12,967
Net income for the period attributable to Bank's Shareholders	233,078	41,564	11,834	(124,276)	162,200	(130,681)	30,584	81	62,184

(1) Includes the contribution associated with the investments held in Angola, in Banco Millennium Atlântico.

(2) Includes results from financial operations at fair value through profit or loss, results from foreign exchange, results from hedge accounting operations and results arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss.

(3) 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 amortised cost not associated with credit operations.

(4) Includes impairment of non-current assets held for sale, investments in associated companies, goodwill, other assets and provisions, highlighting the provisions for legal proceedings related to mortgage loans granted in Swiss francs, booked by the Polish subsidiary.

As at 31 December 2022, the net contribution of the major geographic segments, for the balance sheet is analysed as follows:

(Thousands of euros)

	31 December 2022 (restated)								
	Portugal								
	Retail banking	Companies and Corporate	Private banking	Other	Total	Poland	Mozambique	Other (1)	Consolidated
BALANCE SHEET									
Cash and Loans and advances to credit institutions	13,202,529	2,049,107	2,336,011	(13,596,982)	3,990,665	2,193,520	1,014,710	—	7,198,895
Loans and advances to customers (1)	26,110,904	12,166,559	346,853	590,126	39,214,442	16,355,525	627,717	—	56,197,684
Financial assets (2)	—	—	—	14,895,710	14,895,710	4,506,830	951,716	(33)	20,354,223
Other assets	—	—	—	5,183,301	5,183,301	641,572	230,266	70,802	6,125,941
Total Assets	39,313,433	14,215,666	2,682,864	7,072,155	63,284,118	23,697,447	2,824,409	70,769	89,876,743
Resources from other credit institutions (3)	259,996	2,209,963	—	(1,160,407)	1,309,552	155,411	3,397	—	1,468,360
Resources from customers (4)	37,053,686	10,430,254	2,524,083	2,725,737	52,733,760	20,941,241	2,231,813	—	75,906,814
Debt securities issued (5)	1,201,403	—	141,613	1,428,011	2,771,027	52,066	—	—	2,823,093
Other financial liabilities (6)	—	—	—	1,216,914	1,216,914	535,648	—	—	1,752,562
Other liabilities (7)	—	—	—	1,081,676	1,081,676	839,464	68,007	—	1,989,147
Total Liabilities	38,515,085	12,640,217	2,665,696	5,291,931	59,112,929	22,523,830	2,303,217	—	83,939,976
Total Equity	798,348	1,575,449	17,168	1,780,224	4,171,189	1,173,617	521,192	70,769	5,936,767
Total Liabilities and Equity	39,313,433	14,215,666	2,682,864	7,072,155	63,284,118	23,697,447	2,824,409	70,769	89,876,743
Number of employees	3,519	444	140	2,149	6,252	6,987	2,504	0	15,743

(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) 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.

Reconciliation of net income of reportable segments with the net income attributable to shareholders

(Thousands of euros)

	30 June 2023	30 June 2022 (restated)
Net contribution		
Retail banking in Portugal	306,779	233,078
Companies and Corporate	37,148	41,564
Private Banking	17,353	11,834
Foreign business (continuing operations)	123,108	(114,272)
Non-controlling interests (1)	(53,581)	12,778
	430,807	184,982
Income arising from discontinued or discontinuing operations	—	1,479
	430,807	186,461
Amounts not allocated to segments		
Net interest income - bonds portfolio	136,111	28,595
Net interest income - other (2)	51,615	(7,627)
Foreign exchange activity	7,257	28,510
Gains / (losses) arising from sales of subsidiaries and other assets	(2,339)	(15,012)
Equity accounted earnings	27,721	21,762
Impairment and other provisions (3)	(51,302)	(52,591)
Operational costs	(93,099)	(95,978)
Gains on sale of Portuguese public debt	(3,322)	(9,937)
Gains on sale of foreign public debt	(160)	19,829
Mandatory contributions	(72,583)	(88,534)
Loans sale	(6,608)	5,363
Income from other financial assets not held for trading mandatorily at fair value through profit or loss (4)	1,287	2,189
Taxes (5)	27,848	47,316
Income from discontinued operations	(9)	—
Non-controlling interests	98	189
Others (6)	(30,073)	(8,351)
Total not allocated to segments	(7,558)	(124,277)
Consolidated net income	423,249	62,184

(1) Corresponds mainly to the income attributable to third parties related to the subsidiaries in Poland and in Mozambique.

(2) Includes net interest income arising from internal transfer of liquidity, interest rate risk, cost of whosale funding and others.

(3) 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.

(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.

(6) It includes other operations not allocated previously namely funding for non-interest bearing assets and strategic financial investments.

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, goodwill and other intangible assets and the additional value adjustments necessary for the prudent valuation requirements applied to all assets at fair value, adjustments related to minimum commitment with collective investments undertakings, insufficient coverage for non-performing exposures and with the amount of securitisation positions, eligible for deduction as an alternative to a 1 250 % risk weight. 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 non-controlling 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 irrevocable payment commitments for the Single Resolution Fund, the fair value of the collateral for irrevocable commitments from the Deposits Guarantee Fund and the additional coverage for non-performing exposures, are also deducted, due to a SREP (Supervisory Review and Evaluation Process) recommendation.

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 non-controlling 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 non-controlling 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 assets already recorded on the balance sheet of 1 January 2014, according to the new regulation, which period ends in 2023.

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, including additional Pilar 2 requirements, O-SII and capital conservation buffer, as following:

2023 Minimum Capital Requirements

BCP Consolidated	Phased-in	of which: Pilar 1	Pilar 2	*Buffers*	Fully implemented	of which: Pilar 1	Pilar 2	*Buffers*
CET1	9.41%	4.50%	1.41%	3.25%	9.41%	4.50%	1.41%	3.50%
T1	11.38%	6.00%	1.88%	3.25%	11.38%	6.00%	1.88%	3.50%
Total	14.00%	8.00%	2.50%	3.25%	14.00%	8.00%	2.50%	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 2023	31 December 2022 (restated)
Common equity tier 1 (CET1)		
Share capital	3,000,000	3,000,000
Share Premium	16,471	16,471
Reserves and retained earnings	2,170,197	1,715,797
Non-controlling interests eligible to CET1	537,906	433,767
Regulatory adjustments to CET1	137,456	276,422
	5,862,030	5,442,457
Tier 1		
Capital Instruments	400,000	400,000
Non-controlling interests eligible to AT1	98,908	96,341
	6,360,938	5,938,798
Tier 2		
Subordinated debt	1,031,245	1,047,875
Non-controlling interests eligible to Tier 2	275,256	271,800
Other	8,114	20,240
	1,314,615	1,339,915
Total own funds	7,675,553	7,278,713
RWA - Risk weighted assets		
Credit risk	36,767,845	36,265,788
Market risk	832,687	2,611,404
Operational risk	4,178,551	4,178,551
CVA	67,693	47,016
	41,846,776	43,102,759
Capital ratios		
CET1	14.0%	12.6%
Tier 1	15.2%	13.8%
Tier 2	3.1%	3.1%
Total own funds	18.3%	16.9%

The presented amounts include the accumulated net income.

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 (e.g. credit, market, operational) or non-financial risks (e.g. legal and compliance, reputational) to which the Group's business is subject to.

The Bank implemented a regular process for identifying and assessing the risks to which its activity is exposed, which conclusions are presented to the management bodies and influence the update of the Group’s risk appetite and risk strategy.

Internal organisation

The Board of Directors of Banco Comercial Português is responsible for the definition of the risk strategy and policies, including the approval of the principles and rules of the highest level to be followed in risk management of the Group, as well as the guidelines dictating the allocation of capital to the business lines.

The Board of Directors, through the Audit Committee and Committee for Risk Assessment, 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. Other commissions regularly monitor specific risks, namely the Compliance and Operational Risks Commission, the Credit and Non-performing Assets Monitoring Commission, the Pension Funds Risk Monitoring Commission, the Operational Resilience Commission (with a focus on information technologies and cybernetics), the Sustainability Commission and the Corporate Risk Monitoring Commission.

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 Board of Directors 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 2023	31 December 2022 (restated)
Central Governments or Central Banks	23,047,319	22,898,387
Regional Governments or Local Authorities	1,234,647	1,012,723
Administrative and non-profit Organisations	351,594	412,223
Multilateral Development Banks	178,495	114,633
Other Credit Institutions	2,807,576	3,279,977
Retail and Corporate customers	69,702,680	69,798,319
Other items (*)	9,822,978	10,153,154
	107,145,289	107,669,416

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 loan's 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 Kingdom, 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 countryside 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 equivalence between the internal rating levels (Rating Master Scale) and the external ratings of the international rating agencies:

	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 2023 and 31 December 2022 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 2023, 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 2023				
	Gross exposure				
Category	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	**Total**
Financial assets at amortised cost					
Loans and advances to credit institutions (note 21)	570,774	—	—	—	570,774
Loans and advances to customers (note 22)	46,467,662	7,357,697	2,093,680	40,832	55,959,871
Debt instruments (note 23)	16,199,685	62,209	2,841	—	16,264,735
Debt instruments at fair value through other comprehensive income (note 24) (*)	7,428,010	—	1,127	—	7,429,137
Guarantees and other commitments (note 45) (**)	14,153,829	1,504,602	334,397	3,021	15,995,849
Total	84,819,960	8,924,508	2,432,045	43,853	96,220,366

(*) 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.

(**) Includes the balances of guarantees granted, irrevocable credit lines and revocable commitments

(Thousands of euros)

	30 June 2023				
	Impairment losses				
Category	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	**Total**
Financial assets at amortised cost					
Loans and advances to credit institutions (note 21)	222	—	—	—	222
Loans and advances to customers (note 22)	244,069	272,265	1,030,256	16,628	1,563,218
Debt instruments (note 23)	16,168	741	737	—	17,646
Debt instruments at fair value through other comprehensive income (note 24) (*)	—	—	1,127	—	1,127
Guarantees and other commitments (note 39)	10,490	14,126	87,905	—	112,521
Total	270,949	287,132	1,120,025	16,628	1,694,734

(Thousands of euros)

	30 June 2023				
	Net exposure				
Category	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	**Total**
Financial assets at amortised cost					
Loans and advances to credit institutions (note 21)	570,552	—	—	—	570,552
Loans and advances to customers (note 22)	46,223,593	7,085,432	1,063,424	24,204	54,396,653
Debt instruments (note 23)	16,183,517	61,468	2,104	—	16,247,089
Debt instruments at fair value through other comprehensive income (note 24) (*)	7,428,010	—	—	—	7,428,010
Guarantees and other commitments (note 45) (**)	14,143,339	1,490,476	246,492	3,021	15,883,328
Total	84,549,011	8,637,376	1,312,020	27,225	94,525,632

(*) 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.

(**) Includes the balances of guarantees granted, irrevocable credit lines and revocable commitments.

As at 31 December 2022, 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 2022 (restated)				
	Gross exposure				
Category	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	**Total**
Financial assets at amortised cost					
Loans and advances to credit institutions (note 21)	964,296	–	–	–	964,296
Loans and advances to customers (note 22)	46,395,996	7,564,235	2,170,979	46,956	56,178,166
Debt instruments (note 23)	12,990,232	55,787	3,802	–	13,049,821
Debt instruments at fair value through other comprehensive income (note 24) (*)	7,434,152	–	1,067	–	7,435,219
Guarantees and other commitments (note 45) (**)	14,303,231	1,768,595	364,691	921	16,437,438
Total	82,087,907	9,388,617	2,540,539	47,877	94,064,940

(*) 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.

(**) Includes the balances of guarantees granted, irrevocable credit lines and revocable commitments.

(Thousands of euros)

	31 December 2022 (restated)				
	Impairment losses				
Category	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	**Total**
Financial assets at amortised cost					
Loans and advances to credit institutions (note 21)	862	–	–	–	862
Loans and advances to customers (note 22)	214,470	284,448	985,557	17,898	1,502,373
Debt instruments (note 23)	13,409	720	110	–	14,239
Debt instruments at fair value through other comprehensive income (note 24) (*)	–	–	1,067	–	1,067
Guarantees and other commitments (note 39)	11,307	14,893	84,435	119	110,754
Total	240,048	300,061	1,071,169	18,017	1,629,295

(Thousands of euros)

	31 December 2022 (restated)				
	Net exposure				
Category	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	**Total**
Financial assets at amortised cost					
Loans and advances to credit institutions (note 21)	963,434	–	–	–	963,434
Loans and advances to customers (note 22)	46,181,526	7,279,787	1,185,422	29,058	54,675,793
Debt instruments (note 23)	12,976,823	55,067	3,692	–	13,035,582
Debt instruments at fair value through other comprehensive income (note 24) (*)	7,434,152	–	–	–	7,434,152
Guarantees and other commitments (note 45) (**)	14,291,924	1,753,702	280,256	802	16,326,684
Total	81,847,859	9,088,556	1,469,370	29,860	92,435,645

(*) 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.

(**) Includes the balances of guarantees granted, irrevocable credit lines and revocable commitments

The maximum exposure to credit risk of financial assets not subject to impairment requirements is analysed as follows:

(Thousands of euros)

	30 June 2023	31 December 2022 (restated)
Financial assets held for trading (note 24)		
Debt instruments	1,022,559	338,813
Derivatives	411,557	394,183
Financial assets not held for trading mandatorily at fair value through profit or loss		
Debt instruments (note 24)	477,682	504,200
Hedging derivatives (note 25)	45,593	59,703
Total	1,979,359	1,296,899

- 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").

As at 30 June 2023, 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 2023									
		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	24,945,471	2,376,328	174,845	90,390	2,641,563	236,462	155,290	391,752	11,224	27,990,010
Individuals-Other	7,859,172	1,078,028	126,357	43,572	1,247,957	257,621	300,417	558,038	16,892	9,682,059
Financial Companies	2,688,722	97,320	29	21	97,370	51,225	2,166	53,391	—	2,839,483
Non-financial companies - Corporate	10,178,006	760,370	1,497	1,563	763,430	211,154	83,088	294,242	2,141	11,237,819
Non-financial companies - SME-Corporate	9,998,053	2,236,565	18,809	2,901	2,258,275	687,206	107,234	794,440	10,850	13,061,618
Non-financial companies -SME-Retail	6,519,873	1,487,514	43,129	17,389	1,548,032	180,482	158,447	338,929	2,746	8,409,580
Non-financial companies -Other	518,159	31,822	—	3	31,825	81	—	81	—	550,065
Other loans	14,684,494	336,025	31	—	336,056	45	—	45	—	15,020,595
Total	77,391,950	8,403,972	364,697	155,839	8,924,508	1,624,276	806,642	2,430,918	43,853	88,791,229
Impairment										
Individuals-Mortgage	27,587	20,031	2,567	4,510	27,108	50,242	60,883	111,125	5,544	171,364
Individuals-Other	57,288	38,448	17,074	11,180	66,702	99,641	193,328	292,969	10,937	427,896
Financial Companies	14,459	2,996	2	1	2,999	21,983	1,275	23,258	—	40,716
Non-financial companies - Corporate	31,081	20,681	69	192	20,942	100,426	45,356	145,782	—	197,805
Non-financial companies - SME-Corporate	45,960	73,307	1,432	461	75,200	327,994	57,719	385,713	147	507,020
Non-financial companies -SME-Retail	82,462	82,766	4,571	3,828	91,165	91,665	68,291	159,956	—	333,583
Non-financial companies -Other	506	122	—	—	122	81	—	81	—	709
Other loans	11,606	2,890	4	—	2,894	14	—	14	—	14,514
Total	270,949	241,241	25,719	20,172	287,132	692,046	426,852	1,118,898	16,628	1,693,607
Net exposure										
Individuals-Mortgage	24,917,884	2,356,297	172,278	85,880	2,614,455	186,220	94,407	280,627	5,680	27,818,646
Individuals-Other	7,801,884	1,039,580	109,283	32,392	1,181,255	157,980	107,089	265,069	5,955	9,254,163
Financial Companies	2,674,263	94,324	27	20	94,371	29,242	891	30,133	—	2,798,767
Non-financial companies - Corporate	10,146,925	739,689	1,428	1,371	742,488	110,728	37,732	148,460	2,141	11,040,014
Non-financial companies - SME-Corporate	9,952,093	2,163,258	17,377	2,440	2,183,075	359,212	49,515	408,727	10,703	12,554,598
Non-financial companies -SME-Retail	6,437,411	1,404,748	38,558	13,561	1,456,867	88,817	90,156	178,973	2,746	8,075,997
Non-financial companies -Other	517,653	31,700	—	3	31,703	—	—	—	—	549,356
Other loans	14,672,888	333,135	27	—	333,162	31	—	31	—	15,006,081
Total	77,121,001	8,162,731	338,978	135,667	8,637,376	932,230	379,790	1,312,020	27,225	87,097,622
% of impairment coverage										
Individuals-Mortgage	0.11%	0.84%	1.47%	4.99%	1.03%	21.25%	39.21%	28.37%	49.39%	0.61%
Individuals-Other	0.73%	3.57%	13.51%	25.66%	5.34%	38.68%	64.35%	52.50%	64.75%	4.42%
Financial Companies	0.54%	3.08%	6.90%	4.76%	3.08%	42.91%	58.86%	43.56%	0.00%	1.43%
Non-financial companies - Corporate	0.31%	2.72%	4.61%	12.28%	2.74%	47.56%	54.59%	49.54%	0.00%	1.76%
Non-financial companies - SME-Corporate	0.46%	3.28%	7.61%	15.89%	3.33%	47.73%	53.83%	48.55%	1.35%	3.88%
Non-financial companies -SME-Retail	1.26%	5.56%	10.60%	22.01%	5.89%	50.79%	43.10%	47.19%	0.00%	3.97%
Non-financial companies -Other	0.10%	0.38%	0.00%	0.00%	0.38%	100.00%	0.00%	100.00%	0.00%	0.13%
Other loans	0.08%	0.86%	12.90%	0.00%	0.86%	31.11%	0.00%	31.11%	0.00%	0.10%
Total	0.35%	2.87%	7.05%	12.94%	3.22%	42.61%	52.92%	46.03%	37.92%	1.91%

As at 31 December 2022, 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 2022 (restated)									
		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	25,213,881	2,320,624	151,906	89,857	2,562,387	284,276	142,817	427,093	10,525	28,213,886
Individuals-Other	7,614,004	958,714	118,276	42,895	1,119,885	252,456	284,486	536,942	19,621	9,290,452
Financial Companies	3,569,566	80,945	61	—	81,006	72,980	1,494	74,474	7,545	3,732,591
Non-financial companies - Corporate	9,621,830	700,538	660	13	701,211	204,523	91,575	296,098	—	10,619,139
Non-financial companies - SME-Corporate	10,238,522	2,798,567	5,339	2,559	2,806,465	761,101	95,135	856,236	6,733	13,907,956
Non-financial companies -SME-Retail	6,024,603	1,683,407	30,867	14,532	1,728,806	231,377	117,109	348,486	3,453	8,105,348
Non-financial companies -Other	558,812	46,613	2	—	46,615	113	—	113	—	605,540
Other loans	11,812,537	342,203	39	—	342,242	—	30	30	—	12,154,809
Total	74,653,755	8,931,611	307,150	149,856	9,388,617	1,806,826	732,646	2,539,472	47,877	86,629,721
Impairment										
Individuals-Mortgage	15,380	23,667	4,083	5,262	33,012	56,519	56,440	112,959	5,452	166,803
Individuals-Other	52,559	31,277	18,676	11,224	61,177	104,108	180,916	285,024	12,436	411,196
Financial Companies	8,491	1,701	4	—	1,705	36,543	1,245	37,788	—	47,984
Non-financial companies - Corporate	27,484	18,218	22	—	18,240	87,043	43,500	130,543	—	176,267
Non-financial companies - SME-Corporate	46,296	81,667	506	660	82,833	298,455	46,890	345,345	129	474,603
Non-financial companies -SME-Retail	78,239	92,784	4,090	3,226	100,100	106,533	51,896	158,429	—	336,768
Non-financial companies -Other	512	129	—	—	129	5	—	5	—	646
Other loans	11,087	2,860	5	—	2,865	—	9	9	—	13,961
Total	240,048	252,303	27,386	20,372	300,061	689,206	380,896	1,070,102	18,017	1,628,228
Net exposure										
Individuals-Mortgage	25,198,501	2,296,957	147,823	84,595	2,529,375	227,757	86,377	314,134	5,073	28,047,083
Individuals-Other	7,561,445	927,437	99,600	31,671	1,058,708	148,348	103,570	251,918	7,185	8,879,256
Financial Companies	3,561,075	79,244	57	—	79,301	36,437	249	36,686	7,545	3,684,607
Non-financial companies - Corporate	9,594,346	682,320	638	13	682,971	117,480	48,075	165,555	—	10,442,872
Non-financial companies - SME-Corporate	10,192,226	2,716,900	4,833	1,899	2,723,632	462,646	48,245	510,891	6,604	13,433,353
Non-financial companies -SME-Retail	5,946,364	1,590,623	26,777	11,306	1,628,706	124,844	65,213	190,057	3,453	7,768,580
Non-financial companies -Other	558,300	46,484	2	—	46,486	108	—	108	—	604,894
Other loans	11,801,450	339,343	34	—	339,377	—	21	21	—	12,140,848
Total	74,413,707	8,679,308	279,764	129,484	9,088,556	1,117,620	351,750	1,469,370	29,860	85,001,493
% of impairment coverage										
Individuals-Mortgage	0.06%	1.02%	2.69%	5.86%	1.29%	19.88%	39.52%	26.45%	51.80%	0.59%
Individuals-Other	0.69%	3.26%	15.79%	26.17%	5.46%	41.24%	63.59%	53.08%	63.38%	4.43%
Financial Companies	0.24%	2.10%	6.56%	0.00%	2.10%	50.07%	83.33%	50.74%	0.00%	1.29%
Non-financial companies - Corporate	0.29%	2.60%	3.33%	0.00%	2.60%	42.56%	47.50%	44.09%	0.00%	1.66%
Non-financial companies - SME-Corporate	0.45%	2.92%	9.48%	25.79%	2.95%	39.21%	49.29%	40.33%	1.92%	3.41%
Non-financial companies -SME-Retail	1.30%	5.51%	13.25%	22.20%	5.79%	46.04%	44.31%	45.46%	0.00%	4.15%
Non-financial companies -Other	0.09%	0.28%	0.00%	0.00%	0.28%	4.42%	0.00%	4.42%	0.00%	0.11%
Other loans	0.09%	0.84%	12.82%	0.00%	0.84%	0.00%	30.00%	30.00%	0.00%	0.11%
Total	0.32%	2.82%	8.92%	13.59%	3.20%	38.14%	51.99%	42.14%	37.63%	1.88%

As at 30 June 2023, 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 2023									
		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	32,804,643	3,454,356	301,202	133,962	3,889,520	494,083	455,707	949,790	28,116	37,672,069
Non-financial companies - Trade	5,364,013	704,345	10,411	3,751	718,507	89,275	48,399	137,674	4,872	6,225,066
Non-financial companies - Construction	2,101,746	646,460	11,252	2,990	660,702	359,174	36,500	395,674	6,164	3,164,286
Non-financial companies - Manufacturing industries	5,747,472	795,174	12,307	5,458	812,939	152,827	131,934	284,761	2,089	6,847,261
Non-financial companies -Other activities	2,073,315	440,825	2,132	899	443,856	62,666	17,455	80,121	40	2,597,332
Non-financial companies - Other services	11,927,545	1,929,467	27,333	8,758	1,965,558	414,981	114,481	529,462	2,572	14,425,137
Other Services /Other activities	17,373,216	433,345	60	21	433,426	51,270	2,166	53,436	—	17,860,078
Total	77,391,950	8,403,972	364,697	155,839	8,924,508	1,624,276	806,642	2,430,918	43,853	88,791,229
Impairment										
Loans to individuals	84,875	58,479	19,641	15,690	93,810	149,883	254,211	404,094	16,481	599,260
Non-financial companies - Trade	22,518	24,058	1,396	920	26,374	35,311	22,038	57,349	132	106,373
Non-financial companies - Construction	12,406	11,941	759	695	13,395	156,152	20,935	177,087	—	202,888
Non-financial companies - Manufacturing industries	56,566	46,550	993	975	48,518	64,351	69,798	134,149	15	239,248
Non-financial companies -Other activities	7,687	18,281	347	143	18,771	36,528	8,422	44,950	—	71,408
Non-financial companies - Other services	60,832	76,046	2,577	1,748	80,371	227,824	50,173	277,997	—	419,200
Other Services /Other activities	26,065	5,886	6	1	5,893	21,997	1,275	23,272	—	55,230
Total	270,949	241,241	25,719	20,172	287,132	692,046	426,852	1,118,898	16,628	1,693,607
Net exposure										
Loans to individuals	32,719,768	3,395,877	281,561	118,272	3,795,710	344,200	201,496	545,696	11,635	37,072,809
Non-financial companies - Trade	5,341,495	680,287	9,015	2,831	692,133	53,964	26,361	80,325	4,740	6,118,693
Non-financial companies - Construction	2,089,340	634,519	10,493	2,295	647,307	203,022	15,565	218,587	6,164	2,961,398
Non-financial companies - Manufacturing industries	5,690,906	748,624	11,314	4,483	764,421	88,476	62,136	150,612	2,074	6,608,013
Non-financial companies -Other activities	2,065,628	422,544	1,785	756	425,085	26,138	9,033	35,171	40	2,525,924
Non-financial companies - Other services	11,866,713	1,853,421	24,756	7,010	1,885,187	187,157	64,308	251,465	2,572	14,005,937
Other Services /Other activities	17,347,151	427,459	54	20	427,533	29,273	891	30,164	—	17,804,848
Total	77,121,001	8,162,731	338,978	135,667	8,637,376	932,230	379,790	1,312,020	27,225	87,097,622
% of impairment coverage										
Loans to individuals	0.26%	1.69%	6.52%	11.71%	2.41%	30.34%	55.78%	42.55%	58.62%	1.59%
Non-financial companies - Trade	0.42%	3.42%	13.41%	24.53%	3.67%	39.55%	45.53%	41.66%	2.71%	1.71%
Non-financial companies - Construction	0.59%	1.85%	6.75%	23.24%	2.03%	43.48%	57.36%	44.76%	0.00%	6.41%
Non-financial companies - Manufacturing industries	0.98%	5.85%	8.07%	17.86%	5.97%	42.11%	52.90%	47.11%	0.72%	3.49%
Non-financial companies -Other activities	0.37%	4.15%	16.28%	15.91%	4.23%	58.29%	48.25%	56.10%	0.00%	2.75%
Non-financial companies - Other services	0.51%	3.94%	9.43%	19.96%	4.09%	54.90%	43.83%	52.51%	0.00%	2.91%
Other Services /Other activities	0.15%	1.36%	10.00%	4.76%	1.36%	42.90%	58.86%	43.55%	0.00%	0.31%
Total	0.35%	2.87%	7.05%	12.94%	3.22%	42.61%	52.92%	46.03%	37.92%	1.91%

As at 31 December 2022, 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 2022 (restated)									
		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	32,827,885	3,279,338	270,182	132,752	3,682,272	536,732	427,303	964,035	30,146	37,504,338
Non-financial companies - Trade	5,312,463	827,990	9,921	4,283	842,194	91,204	45,688	136,892	4,715	6,296,264
Non-financial companies - Construction	2,010,021	771,490	3,040	1,033	775,563	363,418	32,791	396,209	1,851	3,183,644
Non-financial companies - Manufacturing industries	5,836,145	1,013,888	9,380	4,983	1,028,251	162,228	117,804	280,032	928	7,145,356
Non-financial companies - Other activities	2,107,745	395,981	3,587	1,007	400,575	101,252	17,354	118,606	44	2,626,970
Non-financial companies - Other services	11,177,393	2,219,776	10,940	5,798	2,236,514	479,012	90,182	569,194	2,648	13,985,749
Other Services / Other activities	15,382,103	423,148	100	—	423,248	72,980	1,524	74,504	7,545	15,887,400
Total	74,653,755	8,931,611	307,150	149,856	9,388,617	1,806,826	732,646	2,539,472	47,877	86,629,721
Impairment										
Loans to individuals	67,939	54,944	22,759	16,486	94,189	160,627	237,356	397,983	17,888	577,999
Non-financial companies - Trade	22,306	26,555	1,168	1,110	28,833	35,530	20,294	55,824	129	107,092
Non-financial companies - Construction	11,517	16,055	551	288	16,894	154,391	18,769	173,160	—	201,571
Non-financial companies - Manufacturing industries	54,925	54,821	1,293	1,258	57,372	65,474	58,761	124,235	—	236,532
Non-financial companies - Other activities	7,701	15,667	529	154	16,350	44,356	8,459	52,815	—	76,866
Non-financial companies - Other services	56,082	79,700	1,077	1,076	81,853	192,285	36,003	228,288	—	366,223
Other Services / Other activities	19,578	4,561	9	—	4,570	36,543	1,254	37,797	—	61,945
Total	240,048	252,303	27,386	20,372	300,061	689,206	380,896	1,070,102	18,017	1,628,228
Net exposure										
Loans to individuals	32,759,946	3,224,394	247,423	116,266	3,588,083	376,105	189,947	566,052	12,258	36,926,339
Non-financial companies - Trade	5,290,157	801,435	8,753	3,173	813,361	55,674	25,394	81,068	4,586	6,189,172
Non-financial companies - Construction	1,998,504	755,435	2,489	745	758,669	209,027	14,022	223,049	1,851	2,982,073
Non-financial companies - Manufacturing industries	5,781,220	959,067	8,087	3,725	970,879	96,754	59,043	155,797	928	6,908,824
Non-financial companies - Other activities	2,100,044	380,314	3,058	853	384,225	56,896	8,895	65,791	44	2,550,104
Non-financial companies - Other services	11,121,311	2,140,076	9,863	4,722	2,154,661	286,727	54,179	340,906	2,648	13,619,526
Other Services / Other activities	15,362,525	418,587	91	—	418,678	36,437	270	36,707	7,545	15,825,455
Total	74,413,707	8,679,308	279,764	129,484	9,088,556	1,117,620	351,750	1,469,370	29,860	85,001,493
% of impairment coverage										
Loans to individuals	0.21%	1.68%	8.42%	12.42%	2.56%	29.93%	55.55%	41.28%	59.34%	1.54%
Non-financial companies - Trade	0.42%	3.21%	11.77%	25.92%	3.42%	38.96%	44.42%	40.78%	2.74%	1.70%
Non-financial companies - Construction	0.57%	2.08%	18.13%	27.88%	2.18%	42.48%	57.24%	43.70%	0.00%	6.33%
Non-financial companies - Manufacturing industries	0.94%	5.41%	13.78%	25.25%	5.58%	40.36%	49.88%	44.36%	0.00%	3.31%
Non-financial companies - Other activities	0.37%	3.96%	14.75%	15.29%	4.08%	43.81%	48.74%	44.53%	0.00%	2.93%
Non-financial companies - Other services	0.50%	3.59%	9.84%	18.56%	3.66%	40.14%	39.92%	40.11%	0.00%	2.62%
Other Services / Other activities	0.13%	1.08%	9.00%	0.00%	1.08%	50.07%	82.28%	50.73%	0.00%	0.39%
Total	0.32%	2.82%	8.92%	13.59%	3.20%	38.14%	51.99%	42.14%	37.63%	1.88%

As at 30 June 2023, 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 2023									
		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	55,059,447	6,613,377	221,524	81,305	6,916,206	1,227,411	351,087	1,578,498	16,708	63,570,859
Poland	21,070,448	1,386,277	123,497	68,348	1,578,122	387,942	378,609	766,551	27,145	23,442,266
Mozambique	1,262,055	404,318	19,676	6,186	430,180	8,923	76,946	85,869	—	1,778,104
Total	77,391,950	8,403,972	364,697	155,839	8,924,508	1,624,276	806,642	2,430,918	43,853	88,791,229
Impairment										
Portugal	163,331	190,973	8,834	6,076	205,883	549,132	140,731	689,863	—	1,059,077
Poland	101,265	45,733	15,734	13,030	74,497	141,457	236,772	378,229	16,628	570,619
Mozambique	6,353	4,535	1,151	1,066	6,752	1,457	49,349	50,806	—	63,911
Total	270,949	241,241	25,719	20,172	287,132	692,046	426,852	1,118,898	16,628	1,693,607
Net exposure										
Portugal	54,896,116	6,422,404	212,690	75,229	6,710,323	678,279	210,356	888,635	16,708	62,511,782
Poland	20,969,183	1,340,544	107,763	55,318	1,503,625	246,485	141,837	388,322	10,517	22,871,647
Mozambique	1,255,702	399,783	18,525	5,120	423,428	7,466	27,597	35,063	—	1,714,193
Total	77,121,001	8,162,731	338,978	135,667	8,637,376	932,230	379,790	1,312,020	27,225	87,097,622
% of impairment coverage										
Portugal	0.30%	2.89%	3.99%	7.47%	2.98%	44.74%	40.08%	43.70%	0.00%	1.67%
Poland	0.48%	3.30%	12.74%	19.06%	4.72%	36.46%	62.54%	49.34%	61.26%	2.43%
Mozambique	0.50%	1.12%	5.85%	17.23%	1.57%	16.33%	64.13%	59.17%	0.00%	3.59%
Total	0.35%	2.87%	7.05%	12.94%	3.22%	42.61%	52.92%	46.03%	37.92%	1.91%

As at 31 December 2022, 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 2022 (restated)									
		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	54,604,642	7,155,127	159,209	66,646	7,380,982	1,410,285	306,213	1,716,498	19,011	63,721,133
Poland	18,184,099	1,377,667	142,519	81,498	1,601,684	386,990	343,753	730,743	28,866	20,545,392
Mozambique	1,865,014	398,817	5,422	1,712	405,951	9,551	82,680	92,231	—	2,363,196
Total	74,653,755	8,931,611	307,150	149,856	9,388,617	1,806,826	732,646	2,539,472	47,877	86,629,721
Impairment										
Portugal	150,039	205,954	7,124	5,447	218,525	550,372	124,012	674,384	—	1,042,948
Poland	83,818	42,151	19,641	14,566	76,358	136,847	210,573	347,420	18,017	525,613
Mozambique	6,191	4,198	621	359	5,178	1,987	46,311	48,298	—	59,667
Total	240,048	252,303	27,386	20,372	300,061	689,206	380,896	1,070,102	18,017	1,628,228
Net exposure										
Portugal	54,454,603	6,949,173	152,085	61,199	7,162,457	859,913	182,201	1,042,114	19,011	62,678,185
Poland	18,100,281	1,335,516	122,878	66,932	1,525,326	250,143	133,180	383,323	10,849	20,019,779
Mozambique	1,858,823	394,619	4,801	1,353	400,773	7,564	36,369	43,933	—	2,303,529
Total	74,413,707	8,679,308	279,764	129,484	9,088,556	1,117,620	351,750	1,469,370	29,860	85,001,493
% of impairment coverage										
Portugal	0.27%	2.88%	4.47%	8.17%	2.96%	39.03%	40.50%	39.29%	0.00%	1.64%
Poland	0.46%	3.06%	13.78%	17.87%	4.77%	35.36%	61.26%	47.54%	62.42%	2.56%
Mozambique	0.33%	1.05%	11.45%	20.97%	1.28%	20.80%	56.01%	52.37%	0.00%	2.52%
Total	0.32%	2.82%	8.92%	13.59%	3.20%	38.14%	51.99%	42.14%	37.63%	1.88%

As at 30 June 2023, the gross exposure, by type of financial instrument, internal rating and stage, is analysed as follows:

(Thousands of euros)

	30 June 2023							
	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	47,838,639	9,974,406	4,229,968	1,555	1,193,551	63,238,119	260,459	62,977,660
stage 2	1,447,248	2,007,607	3,235,164	352,371	377,516	7,419,906	273,006	7,146,900
stage 3	—	—	—	2,076,454	20,067	2,096,521	1,030,993	1,065,528
POCI	1,393	2,037	1,230	36,063	108	40,831	16,628	24,203
	49,287,280	11,984,050	7,466,362	2,466,443	1,591,242	72,795,377	1,581,086	71,214,291
Debt instruments at fair value through other comprehensive income (*)								
stage 1	6,203,092	125,429	11,256	50	1,088,183	7,428,010	—	7,428,010
stage 3	—	—	—	—	1,127	1,127	1,127	—
	6,203,092	125,429	11,256	50	1,089,310	7,429,137	1,127	7,428,010
Guarantees and other commitments (**)								
stage 1	8,727,761	3,871,371	1,378,580	3,531	172,588	14,153,831	10,490	14,143,341
stage 2	209,665	495,904	657,898	33,568	107,567	1,504,602	14,126	1,490,476
stage 3	—	—	—	334,181	216	334,397	87,905	246,492
POCI	4	2	3	3,012	—	3,021	—	3,021
	8,937,430	4,367,277	2,036,481	374,292	280,371	15,995,851	112,521	15,883,330
Total	64,427,802	16,476,756	9,514,099	2,840,785	2,960,923	96,220,365	1,694,734	94,525,631

(*) 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 (note 45).

As at 31 December 2022, the gross exposure, by type of financial instrument, internal rating and stage, is analysed as follows:

(Thousands of euros)

	31 December 2022 (restated)							
	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	44,625,339	10,468,892	3,984,622	2,862	1,268,808	60,350,523	228,741	60,121,782
stage 2	1,456,028	1,911,502	3,321,694	373,651	557,148	7,620,023	285,168	7,334,855
stage 3	—	—	—	2,165,309	9,472	2,174,781	985,667	1,189,114
POCI	1,928	9,048	1,122	34,782	77	46,957	17,898	29,059
	46,083,295	12,389,442	7,307,438	2,576,604	1,835,505	70,192,284	1,517,474	68,674,810
Debt instruments at fair value through other comprehensive income (*)								
stage 1	6,600,955	169,240	34,790	—	629,167	7,434,152	—	7,434,152
stage 3	—	—	—	—	1,067	1,067	1,067	—
	6,600,955	169,240	34,790	—	630,234	7,435,219	1,067	7,434,152
Guarantees and other commitments (**)								
stage 1	9,105,641	3,673,579	1,312,038	57	211,917	14,303,232	11,307	14,291,925
stage 2	219,327	390,858	832,431	34,840	291,138	1,768,594	14,893	1,753,701
stage 3	—	—	—	364,627	64	364,691	84,435	280,256
POCI	—	—	—	921	—	921	119	802
	9,324,968	4,064,437	2,144,469	400,445	503,119	16,437,438	110,754	16,326,684
Total	62,009,218	16,623,119	9,486,697	2,977,049	2,968,858	94,064,941	1,629,295	92,435,646

(*) 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 (note 45).

As at 30 June 2023, the financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments subject to individual and collective impairment, by segment, are presented in the following table:

(Thousands of euros)

	30 June 2023					
	Gross Exposure			Impairment losses		
Segment	Individual	Collective	Total	Individual	Collective	Total
Individuals - Mortgage	30,868	27,959,142	27,990,010	9,676	161,688	171,364
Individuals - Other	10,582	9,671,477	9,682,059	5,920	421,976	427,896
Financial Companies	54,504	2,784,979	2,839,483	23,028	17,688	40,716
Non-financial companies - Corporate	285,651	10,952,168	11,237,819	143,815	53,990	197,805
Non-financial companies - SME - Corporate	623,877	12,437,741	13,061,618	347,799	159,221	507,020
Non-financial companies -SME - Retail	113,947	8,295,633	8,409,580	79,484	254,099	333,583
Non-financial companies - Other	—	550,065	550,065	—	709	709
Other loans	—	15,020,595	15,020,595	—	14,514	14,514
Total	1,119,429	87,671,800	88,791,229	609,722	1,083,885	1,693,607

As at 31 December 2022, the financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments subject to individual and collective impairment, by segment, are presented in the following table

(Thousands of euros)

	31 December 2022 (restated)					
	Gross Exposure			Impairment losses		
Segment	Individual	Collective	Total	Individual	Collective	Total
Individuals - Mortgage	30,700	28,183,186	28,213,886	9,386	157,417	166,803
Individuals - Other	26,953	9,263,499	9,290,452	18,543	392,653	411,196
Financial Companies	81,059	3,651,532	3,732,591	37,622	10,362	47,984
Non-financial companies - Corporate	276,046	10,343,093	10,619,139	126,378	49,889	176,267
Non-financial companies - SME - Corporate	654,073	13,253,883	13,907,956	301,952	172,651	474,603
Non-financial companies -SME - Retail	158,552	7,946,796	8,105,348	94,878	241,890	336,768
Non-financial companies - Other	—	605,540	605,540	—	646	646
Other loans	—	12,154,809	12,154,809	—	13,961	13,961
Total	1,227,383	85,402,338	86,629,721	588,759	1,039,469	1,628,228

As at 30 June 2023, the financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments subject to individual and collective impairment, by sector of activity are presented in the following table:

(Thousands of euros)

	30 June 2023					
	Gross Exposure			Impairment losses		
Sector of activity	Individual	Collective	Total	Individual	Collective	Total
Loans to individuals	41,450	37,630,619	37,672,069	15,596	583,664	599,260
Non-financial companies - Trade	58,302	6,166,764	6,225,066	30,511	75,862	106,373
Non-financial companies - Construction	321,712	2,842,574	3,164,286	163,960	38,928	202,888
Non-financial companies - Manufacturing industry	190,559	6,656,702	6,847,261	104,337	134,911	239,248
Non-financial companies - Other activities	54,507	2,542,825	2,597,332	36,393	35,015	71,408
Non-financial companies - Other services	398,395	14,026,742	14,425,137	235,897	183,303	419,200
Other Services /Other activities	54,504	17,805,574	17,860,078	23,028	32,202	55,230
Total	1,119,429	87,671,800	88,791,229	609,722	1,083,885	1,693,607

As at 31 December 2022, the financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments subject to individual and collective impairment, by sector of activity are presented in the following table: tables:

(Thousands of euros)

	31 December 2022 (restated)					
	Gross Exposure			Impairment losses		
Sector of activity	Individual	Collective	Total	Individual	Collective	Total
Loans to individuals	57,653	37,446,685	37,504,338	27,929	550,070	577,999
Non-financial companies - Trade	56,649	6,239,615	6,296,264	30,640	76,452	107,092
Non-financial companies - Construction	308,289	2,875,355	3,183,644	158,454	43,117	201,571
Non-financial companies - Manufacturing industry	173,248	6,972,108	7,145,356	93,885	142,647	236,532
Non-financial companies - Other activities	95,832	2,531,138	2,626,970	44,541	32,325	76,866
Non-financial companies - Other services	454,653	13,531,096	13,985,749	195,688	170,535	366,223
Other Services /Other activities	81,059	15,806,341	15,887,400	37,622	24,323	61,945
Total	1,227,383	85,402,338	86,629,721	588,759	1,039,469	1,628,228

As at 30 June 2023, the financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments subject to individual and collective impairment, by geography, are presented in the following table:

(Thousands of euros)

	30 June 2023					
	Gross Exposure			Impairment losses		
Geography	Individual	Collective	Total	Individual	Collective	Total
Portugal	936,203	62,634,656	63,570,859	526,536	532,541	1,059,077
Poland	117,620	23,324,646	23,442,266	41,003	529,616	570,619
Mozambique	65,606	1,712,498	1,778,104	42,183	21,728	63,911
Total	1,119,429	87,671,800	88,791,229	609,722	1,083,885	1,693,607

As at 31 December 2022, the financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments subject to individual and collective impairment, by geography, are presented in the following table:

(Thousands of euros)

	31 December 2022 (restated)					
	Gross Exposure			Impairment losses		
Geography	Individual	Collective	Total	Individual	Collective	Total
Portugal	1,053,955	62,667,178	63,721,133	511,657	531,291	1,042,948
Poland	98,717	20,446,675	20,545,392	37,219	488,394	525,613
Mozambique	74,711	2,288,485	2,363,196	39,883	19,784	59,667
Total	1,227,383	85,402,338	86,629,721	588,759	1,039,469	1,628,228

The columns Gross exposure and Collective impairment losses of the previous tables include loans subject to individual analysis for which the Group has concluded that there is no objective evidence of impairment.

As at 30 June 2023, 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 2023					
Year of production	Construction and Commercial Real Estate	Companies - Other Activities	Mortgage loans	Individuals - Other	Other loans	Total
2013 and previous						
Number of operations	15,438	27,733	291,070	713,843	383	1,048,467
Value (Euros '000)	972,295	3,355,136	9,602,516	1,301,573	56,549	15,288,069
Impairment constituted (Euros '000)	78,205	54,300	112,246	21,106	502	266,359
2014						
Number of operations	1,121	4,472	8,291	76,419	83	90,386
Value (Euros '000)	75,132	499,308	344,471	122,000	183,522	1,224,433
Impairment constituted (Euros '000)	5,950	5,556	4,920	4,418	852	21,696
2015						
Number of operations	1,583	5,745	10,266	104,877	123	122,594
Value (Euros '000)	92,979	639,728	490,664	170,414	45,109	1,438,894
Impairment constituted (Euros '000)	2,104	22,379	4,333	8,269	33,522	70,607
2016						
Number of operations	1,788	7,462	11,639	122,751	53	143,693
Value (Euros '000)	136,873	1,145,778	582,493	233,162	3,407	2,101,713
Impairment constituted (Euros '000)	3,515	12,135	4,613	15,169	223	35,655
2017						
Number of operations	2,240	9,391	19,070	131,741	95	162,537
Value (Euros '000)	166,158	1,057,771	1,123,501	275,091	14,363	2,636,884
Impairment constituted (Euros '000)	7,908	16,749	5,933	19,276	783	50,649
2018						
Number of operations	4,760	17,038	25,402	250,955	185	298,340
Value (Euros '000)	436,344	2,086,603	1,729,477	583,600	305,006	5,141,030
Impairment constituted (Euros '000)	7,041	32,018	6,871	39,955	1,232	87,117
2019						
Number of operations	8,081	24,910	28,832	557,968	175	619,966
Value (Euros '000)	564,250	1,891,523	2,091,056	1,052,024	117,400	5,716,253
Impairment constituted (Euros '000)	7,531	46,952	5,857	70,352	2,964	133,656
2020						
Number of operations	9,292	34,894	34,587	279,263	219	358,255
Value (Euros '000)	990,900	3,789,239	2,548,391	708,709	134,005	8,171,244
Impairment constituted (Euros '000)	14,401	76,290	7,828	40,303	1,724	140,546
2021						
Number of operations	10,102	35,258	51,370	434,117	275	531,122
Value (Euros '000)	992,382	2,948,165	4,274,672	1,182,327	353,448	9,750,994
Impairment constituted (Euros '000)	13,476	52,262	9,913	64,997	2,744	143,392
2022						
Number of operations	10,817	37,009	37,447	733,347	642	819,262
Value (Euros '000)	1,612,512	4,936,231	3,721,467	2,003,950	183,308	12,457,468
Impairment constituted (Euros '000)	16,193	50,628	5,901	68,280	1,447	142,449
2023						
Number of operations	8,437	91,480	13,643	733,840	4,117	851,517
Value (Euros '000)	1,170,809	4,389,975	1,406,702	1,564,729	201,309	8,733,524
Impairment constituted (Euros '000)	6,134	146,781	3,215	33,551	2,241	191,922
Total						
Number of operations	73,659	295,392	531,617	4,139,121	6,350	5,046,139
Value (Euros '000)	7,210,634	26,739,457	27,915,410	9,197,579	1,597,426	72,660,506
Impairment constituted (Euros '000)	162,458	516,050	171,630	385,676	48,234	1,284,048

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 2022, 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 2022 (restated)					
Year of production	Construction and Commercial Real Estate	Companies - Other Activities	Mortgage loans	Individuals - Other	Other loans	Total
2012 and previous						
Number of operations	15,703	25,791	293,344	677,001	384	1,012,223
Value (Euros '000)	970,246	3,194,423	10,117,624	1,228,014	81,780	15,592,087
Impairment constituted (Euros '000)	73,617	51,428	106,931	17,378	646	250,000
2013						
Number of operations	1,121	3,600	10,115	65,523	17	80,376
Value (Euros '000)	64,192	510,025	376,049	106,759	2,537	1,059,562
Impairment constituted (Euros '000)	3,236	3,441	5,681	3,329	6	15,693
2014						
Number of operations	1,234	4,859	8,737	82,035	86	96,951
Value (Euros '000)	76,217	509,250	356,743	126,516	183,780	1,252,506
Impairment constituted (Euros '000)	5,049	9,235	4,719	4,618	855	24,476
2015						
Number of operations	1,691	6,284	10,836	112,676	124	131,611
Value (Euros '000)	106,007	908,354	515,361	185,482	44,947	1,760,151
Impairment constituted (Euros '000)	1,947	23,398	3,874	9,116	27,758	66,093
2016						
Number of operations	1,911	8,196	12,280	134,403	55	156,845
Value (Euros '000)	154,183	1,209,277	616,181	256,858	4,248	2,240,747
Impairment constituted (Euros '000)	5,274	13,961	4,432	17,195	174	41,036
2017						
Number of operations	2,568	11,100	20,277	142,014	96	176,055
Value (Euros '000)	219,318	1,228,140	1,202,742	305,913	13,230	2,969,343
Impairment constituted (Euros '000)	2,807	17,900	5,830	21,347	720	48,604
2018						
Number of operations	5,312	19,488	26,701	286,638	203	338,342
Value (Euros '000)	498,338	2,227,925	1,833,809	655,719	309,885	5,525,676
Impairment constituted (Euros '000)	7,262	32,931	6,511	43,836	1,607	92,147
2019						
Number of operations	8,703	27,962	30,166	595,430	185	662,446
Value (Euros '000)	632,970	2,098,246	2,198,981	1,221,662	144,135	6,295,994
Impairment constituted (Euros '000)	7,295	45,754	5,735	75,179	3,002	136,965
2020						
Number of operations	9,891	37,416	36,088	313,758	255	397,408
Value (Euros '000)	1,148,968	4,324,442	2,656,294	809,745	165,228	9,104,677
Impairment constituted (Euros '000)	13,228	83,686	7,361	42,424	1,638	148,337
2021						
Number of operations	10,744	37,545	53,486	524,347	340	626,462
Value (Euros '000)	1,146,704	3,355,457	4,464,436	1,376,201	388,696	10,731,494
Impairment constituted (Euros '000)	15,760	51,953	8,848	61,243	2,299	140,103
2022						
Number of operations	14,046	117,544	38,354	1,108,878	4,678	1,283,500
Value (Euros '000)	2,097,778	7,566,584	3,822,846	2,514,949	364,556	16,366,713
Impairment constituted (Euros '000)	19,365	169,939	5,788	64,160	2,593	261,845
Total						
Number of operations	72,924	299,785	540,384	4,042,703	6,423	4,962,219
Value (Euros '000)	7,114,921	27,132,123	28,161,066	8,787,818	1,703,022	72,898,950
Impairment constituted (Euros '000)	154,840	503,626	165,710	359,825	41,298	1,225,299

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 2023, the following table includes the fair value of the collaterals by segments (not limited by the value of the collateral) associated to the loan's portfolio:

	30 June 2023					
	Construction and Commercial Real Estate		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	7,750	10,419	9,029	72,151	461,768	274
Value (Euros '000)	944,492	266,540	1,366,188	1,686,091	63,843,249	15,144
>= 0.5 M€ and < 1 M€						
Number	755	64	1,244	264	6,436	4
Value (Euros '000)	529,406	42,789	873,225	183,790	4,157,878	2,272
>= 1 M€ and < 5 M€						
Number	667	44	1,142	193	1,100	1
Value (Euros '000)	1,373,938	80,653	2,293,217	370,850	1,704,767	1,083
>= 5 M€ and < 10 M€						
Number	108	2	120	18	12	—
Value (Euros '000)	741,653	10,714	844,287	126,153	77,928	—
>= 10 M€ and < 20 M€						
Number	59	1	60	11	2	—
Value (Euros '000)	796,235	20,630	857,816	161,101	21,129	—
>= 20 M€ and < 50 M€						
Number	27	—	40	2	—	—
Value (Euros '000)	801,813	—	1,206,601	44,911	—	—
>= 50 M€						
Number	4	—	15	4	—	—
Value (Euros '000)	306,589	—	1,827,616	836,012	—	—
Total Number	9,370	10,530	11,650	72,643	469,318	279
Total Value (Euros '000)	5,494,126	421,326	9,268,950	3,408,908	69,804,951	18,499

(*) The fair value of real estate collateral relates to the PVT included in valuations.

(**) Includes, namely, securities, deposits and fixed assets pledges.

As at 31 December 2022, the following table includes the fair value of the collaterals by segments (not limited by the value of the collateral) associated to the loan's portfolio:

	31 December 2022 (restated)					
	Construction and Commercial Real Estate		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	6,822	9,575	9,030	71,315	468,372	303
Value (Euros '000)	882,242	223,661	1,369,613	1,489,242	62,924,078	17,038
>= 0.5 M€ and < 1 M€						
Number	741	70	1,189	236	6,321	4
Value (Euros '000)	520,105	47,186	832,819	162,741	4,080,818	2,230
>= 1 M€ and < 5 M€						
Number	634	47	1,110	205	1,062	1
Value (Euros '000)	1,307,513	84,190	2,223,387	395,940	1,636,182	1,267
>= 5 M€ and < 10 M€						
Number	108	2	118	15	14	—
Value (Euros '000)	737,705	10,838	852,256	102,251	86,476	—
>= 10 M€ and < 20 M€						
Number	50	2	57	13	1	—
Value (Euros '000)	651,146	21,833	809,825	194,916	11,110	—
>= 20 M€ and < 50 M€						
Number	22	—	40	1	—	—
Value (Euros '000)	636,352	—	1,208,432	20,452	—	—
>= 50 M€						
Number	6	—	14	2	—	—
Value (Euros '000)	455,600	—	1,245,381	523,630	—	—
Total Number	8,383	9,696	11,558	71,787	475,770	308
Total Value (Euros '000)	5,190,663	387,708	8,541,713	2,889,172	68,738,664	20,535

(*) The fair value of real estate collateral relates to the PVT included in valuations.

(**) Includes, namely, securities, deposits and fixed assets pledges.

As at 30 June 2023, the following table includes the LTV (*loan-to-value*) ratio by segments Construction and Commercial Real Estate (CRE), Companies - Other Activities and Mortgage loans:

(Thousands of euros)

	30 June 2023				
Segment/Ratio	**Number of properties**	**Stage 1**	**Stage 2**	**Stage 3**	**Impairment**
Construction and CRE					
Without associated collateral	n.a.	1,467,093	393,968	81,507	71,459
<60%	25,752	1,163,584	227,523	41,820	31,586
>=60% and <80%	3,264	371,395	82,289	21,098	13,944
>=80% and <100%	1,146	187,118	17,667	77,990	58,944
>=100%	913	80,326	69,149	53,083	30,298
Companies - Other Activities					
Without associated collateral	n.a.	10,418,167	1,439,032	259,393	387,148
<60%	50,822	1,846,118	560,401	145,055	80,391
>=60% and <80%	15,924	1,032,638	263,698	89,793	46,531
>=80% and <100%	9,706	507,888	412,025	42,918	38,558
>=100%	2,665	530,580	163,743	291,899	177,972
Mortgage loans					
Without associated collateral	n.a.	66,217	3,761	10,172	12,010
<60%	382,513	13,449,077	1,335,395	247,628	109,206
>=60% and <80%	124,412	8,405,079	893,914	106,946	34,244
>=80% and <100%	36,707	2,746,343	360,141	49,019	21,182
>=100%	5,321	192,446	58,671	22,742	12,984

As at 31 December 2022, the following table includes the LTV (*loan-to-value*) ratio by segments Construction and Commercial Real Estate (CRE), Companies - Other Activities and Mortgage loans:

(Thousands of euros)

	31 December 2022 (restated)				
Segment/Ratio	**Number of properties**	**Stage 1**	**Stage 2**	**Stage 3**	**Impairment**
Construction and CRE					
Without associated collateral	n.a.	1,528,695	453,957	73,399	70,799
<60%	25,799	1,019,694	259,169	42,667	31,589
>=60% and <80%	2,771	376,094	81,106	21,337	9,536
>=80% and <100%	1,067	131,874	46,414	58,121	49,541
>=100%	979	74,888	73,472	61,705	40,249
Companies - Other Activities					
Without associated collateral	n.a.	10,285,172	1,651,463	284,131	393,519
<60%	49,259	1,563,296	495,030	141,344	65,781
>=60% and <80%	16,491	991,449	329,502	128,863	48,995
>=80% and <100%	11,106	576,326	406,133	72,826	47,386
>=100%	2,741	654,901	202,769	280,711	146,244
Mortgage loans					
Without associated collateral	n.a.	53,715	2,892	10,403	10,816
<60%	383,344	13,363,029	1,310,064	261,616	102,636
>=60% and <80%	129,126	8,530,613	844,549	112,000	32,431
>=80% and <100%	39,677	2,884,194	357,767	58,421	19,953
>=100%	6,013	235,017	60,244	30,008	15,674

As at 30 June 2023, the following table includes the fair value and the net book value of the properties classified as Non-current assets held for sale (note 27), by type of asset:

(Thousands of euros)

	30 June 2023					
	Assets arising from recovered loans results		Assets belong to investments funds and real estate companies		Total	
Asset	Appraised value	Book value	Appraised value	Book value	Appraised value	Book value
Land						
Urban	90,165	58,738	197,798	197,798	287,963	256,536
Rural	5,462	2,893	20,855	20,855	26,317	23,748
Buildings in development						
Commercials	869	544	—	—	869	544
Mortgage loans	2,550	1,438	—	—	2,550	1,438
Constructed buildings						
Commercials	39,822	25,968	—	—	39,822	25,968
Mortgage loans	66,814	52,022	846	846	67,660	52,868
Other	37,223	37,104	—	—	37,223	37,104
	242,905	178,707	219,499	219,499	462,404	398,206

As at 31 December 2022, the following table includes the fair value and the net book value of the properties classified as Non-current assets held for sale (note 27), by type of asset:

(Thousands of euros)

	31 December 2022 (restated)					
	Assets arising from recovered loans results		Assets belong to investments funds and real estate companies		Total	
Asset	Appraised value	Book value	Appraised value	Book value	Appraised value	Book value
Land						
Urban	126,593	84,970	199,094	199,094	325,687	284,064
Rural	5,318	2,996	20,768	20,768	26,086	23,764
Buildings in development						
Commercials	869	517	—	—	869	517
Mortgage loans	2,550	1,491	—	—	2,550	1,491
Other	11	11	—	—	11	11
Constructed buildings						
Commercials	62,390	43,304	—	—	62,390	43,304
Mortgage loans	82,549	64,015	185	185	82,734	64,200
Other	38,697	38,574	—	—	38,697	38,574
	318,977	235,878	220,047	220,047	539,024	455,925

Credit portfolio monitoring process

The Bank has in place a credit portfolio management and monitoring processes, namely with regard to the assessment of the risk profile of the exposure in different portfolios/segments. These procedures have the purpose of identifying and closely monitoring the customers potentially more affected by the macroeconomic and/or geopolitical context, anticipating possible difficulties in complying the responsibilities and defining credit and performance strategies adjusted to the specific specificities of each customer/group of customers, with a view to both maintaining support to customers considered viable and mitigating credit risk in cases where there are risks of loss in the exposure value.

The importance of this new approach is reinforced by the uncertainty that impacted the activity in recent times, with a particular focus on the pandemic context that emerged in early 2020 and, and the impacts resulting from the geopolitical conflict between Russia and Ukraine, reinforcing threats that were already appearing in areas such as constraints in logistics and distribution chains, limitations in access to raw materials and certain goods, increased energy costs, inflationary pressures and rising interest rates.

The main guidelines of the credit portfolio monitoring approach can be characterized as presented below:

- Global and transversal: Analysis of the entire credit portfolio of the Bank, being excluded from the special monitoring only customers with a better risk profile (in the case of retail) or with exposures of a lower size (in the case of retail and corporate).

- Specialized: Monitoring by the “Comité de Acompanhamento de Risco de Empresas” (CARE), and Credit Division in coordination with the Rating Division for the corporate segment and by the Retail Recovery Division for individuals and small businesses. The cases monitored by the CARE committee, are related to clients covered by a set of criteria that combine exposure size and risk factors like the rating assigned, IFRS 9 staging and, for the corporate segment, the level of leverage and whether the sector in which it operates is considered highly vulnerable.

- Segmented: Prioritization of approach/analysis recurrence based on risk signs, in order to gather additional information and agree on appropriate and sustainable financial restructuring solutions in a timely manner.

- Prospective: Use of predictive models, in order to anticipate potential future defaults, avoiding a reactive approach.

- Standardized: Both in terms of risk models and monitoring, and in terms of credit solutions for which it is possible to identify pre-defined alternatives (retail segments).

- Convenient and innovative: Making the restructuring journey simpler and more convenient both in terms of credit solutions and channels, extending the restructuring offer to the App for consumer credit and mortgages.

Specifically in the corporate segment, the process of portfolio follow-up and monitoring can be generically characterized as described below, having as a fundamental component the attribution of credit strategies, among pre-defined options, with review periods differentiated according to the level of risk associated to the strategy attributed:

1. Client Assessment and presentation of Indicative Credit Strategy by the Rating Division (for customers with ratings assigned by corporate rating models);

2. Approval, by the competent credit decision levels, of a credit strategy for each customer, taking into consideration the Indicative Credit Strategy from the Rating Division, the information received from the area that follows the client and the inputs received as a result of the customer interaction process;

3. Decision, negotiation and formalisation of the operations that will ensure that the approved strategy is pursued and the approved credit limits are met (Credit Division, Areas that follow the client and Operations Division);

4. Monitoring the Credit Strategy and the evolution of the customer's activity (Credit Division, Areas that follow the client and Specialised Committees - CARE);

5. Monitoring of the credit portfolio and effectiveness of the portfolio monitoring process and credit strategy attribution (Risk Office), based on a set of KPIs, (e.g. percentage of the credit portfolio with valid risk strategy; evolution of credit exposure to customers with a reduction strategy; adequacy of the credit strategy to the customer's performance);

6. In the attribution of the customer's credit strategy, besides the intrinsic factors of the customer, more transversal factors are taken into consideration, such as the evaluation of the sectorial risk and ESG impacts (periodically reviewed with the support of the Economic, Sustainability and Criptoactives Studies Division) and taking into consideration the attribution of a ESG rating regarding the clients with most relevant exposures;

7. The occurrence of effective and/or potential risk events (signs of default/delinquency; breach of contractual covenants; severe alteration in sector risk; alteration in the corporate/shareholder structure), trigger an extraordinary/ anticipated revision of the strategy.

Within the scope of this monitoring process and with an impact on other complementary procedures adopted by the Bank, namely for reporting purposes, the Bank defines a list of sectors considered as more vulnerable to the macroeconomic environment, which is reviewed periodically (at least annually), also involving the preparation of report presenting a detailed characterisation of its loan portfolio under a sectoral perspective.

Additional measures with impact on the Impairment level

i. Updating macroeconomic scenarios and the parameters of the collective impairment model

Taking into account the changes and uncertainty of the context and the economic outlook essentially marked by a context conditioned by the maintenance of relatively high levels of inflation and interest rates, an update of the macroeconomic scenarios used in the collective impairment analysis model in Portugal was carried out in June 2023, based on three scenarios (Central Scenario, Optimistic and Pessimistic) prepared by the Bank's Economic Studies area.

The referred scenarios, which are used in the Bank for several purposes other than the impairment calculation, took into consideration the existing projections of reputed entities.

The tables below systematise the projections for 2023 and 2024 considered for Portugal concerning the central scenarios with regard to some of the critical variables used in the calculation of collective impairment.

Update of main macroeconomic scenario assumptions (Base Scenario) - Portugal

	December 2022 Scenario		June 2023 Scenario		Difference	
Variable	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**
Unemployment rate	5.88%	5.92%	6.81%	6.68%	0.93%	0.76%
3 months Euribor Rate	3.17%	3.10%	3.42%	3.62%	0.25%	0.52%
Savings Rate	5.33%	6.00%	6.32%	7.05%	1.00%	1.05%
Inflation Rate	5.83%	3.25%	5.22%	3.30%	-0.60%	0.05%

Regarding Poland, an update of the macroeconomic assumptions was also carried out in relation to those considered in December 2022, which translates into the terms presented in the table below regarding the projections for 2023 and 2024 foreseen in the central scenario.

Update of main macroeconomic scenario assumptions (Base Scenario) - Poland

	December 2022 Scenario		June 2023 Scenario		Difference	
Variable	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**
Unemployment rate	5.80%	6.00%	5.30%	5.50%	-0.50%	-0.50%
Nominal GDP annual evolution	13.80%	8.90%	13.20%	8.70%	-0.60%	-0.20%
Consumption annual evolution	0.70%	1.80%	0.50%	2.00%	-0.20%	0.20%
Disposable Income	4.90%	4.80%	13.20%	8.40%	8.30%	3.60%
EUR/PLN exchange rate	4,64	4,52	4,50	4,43	-0,14	-0,09
CHF/PLN exchange rate	4,65	4,48	4,54	4,38	-0,11	-0,10

The following tables describe the weightings assigned in Portugal and Poland to the different macroeconomic scenarios considered at the end of 2022 and June 2023, which can be considered as conservative:

Weightings of the macroeconomic scenarios considered

	Weightings			
	Portugal		Poland	
Scenario	**Dec 2022**	**Jun 2023**	**Dec 2022**	**Jun 2023**
Central	60 %	60 %	65 %	65 %
Upside	10 %	10 %	10 %	10 %
Downside	30 %	30 %	25 %	25 %

For Portugal, a simulation of an additional one percentage point worsening in the evolution of the key indicators for the collective impairment estimate was carried out, which translates into the impacts shown in the table below, based on the collective impairment of the portfolio in Portugal as at 30 June 2023, which amounted to Euros 439 million (this figure does not include the impairment amounts calculated by the overlays methodology described in point ii. of this section).

Sensitivity analysis on the calculation of collective impairment (June 2023)

Variable	Estimated impact (% variation)
100 bp Unemployment Rate aggravation	5.08%
100 bp 3 months Euribor aggravation	7.36%
100 bp Savings Rate aggravation	0.45%
100 bp Inflation Rate aggravation	5.22%

ii. Impairment overlays

In order to incorporate an additional level of conservatism in the impairment values, the Bank defined and implemented a methodology of complementary of identification of significant increase in credit risk situations and potential signs of impairment.

This approach adopts differentiated criteria in relation to the base methodologies in force, with distinct processes having been adopted for the calculation of overlays for the corporate and individual customers segments.

The overlays currently in place intend in particular to address the context of uncertainty related to the current geopolitical crisis, the constraints still existing in distribution chains, inflationary pressures and the increase in interest rates, an environment that constitutes a disruption of the context that prevailed until the end of 2021, characterized by low levels of interest rates and inflation.

This positioning is in line with the guidelines on this matter issued by the Supervisors in what regards the identification and measurement of credit risk in contexts of uncertainty, so that the release of overlays constituted in the context of the pandemic should be carried out with prudence and taking into account the possible need for new overlays to respond to the current context.

The exercise carried out reflected, in terms of impairment value, in the calculation of the estimated impact arising from potential migrations of customers with higher risk to Stage 2 and Stage 3, based on the various factors considered in the analysis. It should be noted that the most significant impact occurred in the corporate segment. The methodology developed by the Bank was considered for the calculation and recording of impairment at the reference date of the accounts, without affecting the classification of credit exposures by stages in the Bank's loan portfolio.

In Poland, the Bank also adopted a policy of recording overlays. Taking into consideration the country's specific reality, adjustments to the overlay's methodology had already been incorporated in 2022 to address the impacts of the geopolitical crisis.

As a result of the implementation of this methodology, the Bank calculated an additional impairment to that resulting from the collective analysis model, therefore with characteristics of overlays, whose amount on 31 December 2022 was approximately Euros 93.7 million in Portugal (Euros 95 million in December 2022) and Euros 45.3 million in Poland (Euros 33.9 million in December 2022).

Government measures to mitigate the impacts on mortgage contracts

Decree-Law 80-A/2022

Specifically with regard to Decree-Law 80-A/2022, a Portuguese Government act of 25 November 2022 that established measures to mitigate the effects of the increase in the reference indexing factors of credit contracts for the acquisition or construction of permanent house ownership, it is worth highlighting the fact that it introduced the obligation for Financial Institutions to approach individual customers with mortgage credit who potentially fit into the requirements set out in that act.

In what concerns Millennium bcp, a contact was promoted with about 180 thousand customers, requesting information in order to calculate the respective effort rate.

On 19 July 2023, the number of clients who had shown interest in evaluating the support mechanisms provided for under Decree Law 80-A/2022 amounted to around 10 thousand.

Decree-Law 20-B/2023

Decree-Law 20-B/2023, a Portuguese Government regulation of 22 March 2023, embodied the legislative package "Mais Habitação", providing extraordinary support to families, namely through the creation of support for borrowers of credit agreements for permanent own housing in the form of a temporary subsidy of the interest component, in situations where the index rate exceeds a certain threshold.

On 19 July 2023, loans with subsidies already processed amounted to exposures of approximately Euros 56 million, with an average monthly subsidy of Euros 37.

Credit concentration risk

The Group's policy relating to the identification, measurement, and evaluation of the concentration risk in credit risk is approved by the Bank's management body, applied to all Group entities, and is based on the following guidelines:

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' (*), 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 metrics regarding the concentration of exposure to Sovereigns and geographic concentration exclude the countries in which the Group has significant operations (Portugal, Poland and Mozambique) and the respective Sovereigns.

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(Non-performing exposures) positions are covered by the NPE reduction Plan defined and executed at Group BCP level.

The limits in force as at 30 June 2023, for the exposure to Single-name, in terms of the Net Exposure weight over the Consolidated Own Funds, are the following:

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	0.6%
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;

As at 30 June 2023:

- 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. 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 30 June 2023, 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. At this date, 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.

The credit concentration risk is measured and monitored by the Risk Office supported on a database on credit exposures (the *Risk Office Datamart*), monthly updated by the Group's systems, which feeds the risk management system of the Group.

The Risk Office maintains a simulation tool for supporting the analysis of the impact on changes on the Customers exposures in the consumption of the respective concentration limits, which is used by the Credit Division and by the Commercial Networks 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 portfolios of the financial markets' areas – Trading and Financing – based on multiples of the risk limits defined for them, aiming to limit the maximum losses that may occur in these areas. If these limits are reached, a review of the underlying business strategy and the assumptions relating to the management of the positions in question is mandatory.

Market risks of the prudential trading book (1)

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%.

The Group also uses another integrated market risk measure that allows monitoring of all risk sub-types considered relevant. This measure integrates the assessment of generic risk, specific risk, non-linear risk and commodity risk. Each of these sub-types of risk is measured individually, using an appropriate risk model, with the integrated measure calculated from the measures for each one, without considering any type of diversification between the four sub-types (worst approach case scenario).

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, measured by the methodologies referred to above:

(Thousands of euros)

	30 June 2023	Max of global risk in the period	Min of global risk in the period	30 June 2022 (restated)
Generic Risk (VaR)	1,694	5,295	1,049	3,945
Interest Rate Risk	1,461	3,842	962	2,949
FX Risk	270	3,309	482	2,557
Equity Risk	913	185	589	402
Diversification effects	*(950)*	*(2,041)*	*(984)*	*(1,963)*
Specific Risk	575	22	15	28
Non-Linear Risk	—	—	—	—
Commodities Risk	—	—	—	—
Global Risk	2,269	5,317	1,064	3,973

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.

(1) Trading Book - positions allocated to the Trading Management Area (and not specifically to the accounting trading book)

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 2023			
Currency	**-200 bp(*)**	**- 100 bp (*)**	**+ 100 bp**	**+ 200 bp**
CHF	3,239	1,626	(1,635)	(3,279)
EUR	(122,716)	(60,170)	54,142	105,184
PLN	103,845	49,930	(46,280)	(89,212)
USD	(28,026)	(13,673)	13,034	25,467
	(43,658)	(22,287)	19,261	38,160

(*) 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 2022 (restated)			
Currency	**-200 bp(*)**	**- 100 bp (*)**	**+ 100 bp**	**+ 200 bp**
CHF	1,422	741	(763)	(1,544)
EUR	(99,549)	(50,069)	50,011	99,465
PLN	(71,253)	(35,436)	34,996	69,502
USD	(32,091)	(15,661)	14,937	29,193
	(201,471)	(100,425)	99,181	196,616

(*) 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 2023	31 December 2022 (restated)	30 June 2023	30 June 2022 (restated)
AOA	905.2350	543.2680	593.8258	508.9727
BRL	5.2649	5.6390	5.4902	5.5042
CHF	0.9762	0.9872	0.9880	1.0283
MOP	8.8074	8.5744	8.8074	8.4491
MZN	69.7100	68.1850	69.3783	70.1346
PLN	4.4332	4.6816	4.6304	4.6374
USD	1.0912	1.0667	1.0819	1.0942

Foreign exchange and equity risk of the banking book

The foreign exchange 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 balance sheet foreign exchange risk. The structural foreign exchange exposures, included those resulting from financial holdings in subsidiaries, are not included in this transfer and may be covered by market operations, taking into consideration the defined strategy for managing structural foreign exchange risk, whose objective is to hedge against the volatility in the CET1 ratio that stems from changes in foreign currency exchange rates.

As at 30 June 2023, the Group 's financial investments in foreign currency were not hedged.

Whenever these hedges exist on a consolidated basis, are identified in accounting terms as net investment hedges, in accordance with the IFRS nomenclature. On an individual basis, they are designated as fair value hedges of equity investments.

The information on the gains and losses on instruments used to hedge net investments in foreign institutions are recognized in foreign exchange reserves and presented in the statement of comprehensive income.

The transfer to Portugal of funds, including dividends, that are owed by BCP's subsidiaries or associates in third countries, namely outside the European Union, may be subject to the restrictions and exchange controls that, at any given time, are in force in the country in which the subsidiaries are constituted or associated.

In what concerns to the equity risk, the Group keeps a set of small-scale, low-risk positions, essentially in the investment portfolio, namely resulting from execution/payment processes. The management of these positions is carried out by a specialized area of the Group, with the respective risk being controlled through the metrics and limits defined for controlling market risks.

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 structural 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, to enable the decision making that leads to the maintenance of financing conditions adequate to the continuation of the business.

The methodological aspects of the control of liquidity risk are a responsibility of the Risk Commission. This control includes the regular 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 2023, the Group's three operations maintained robust liquidity positions, based mainly on retail deposit bases endowed with high stability and resilience. This characteristic was once again demonstrated by the total immunity they revealed to the sequence of liquidity events that affected banks in the US and Europe throughout the second quarter of 2023.

In Portugal, and despite the significant migration of deposits that began in the first quarter of 2023 to non-banking savings products, BCP's balance sheet resources still demonstrate a slight increase at the end of the first half of the year and on an annual basis, due to the strong growth observed throughout the second half of 2022. This evolution corresponded to an increase in BCP's market share in balance sheet customer funds, a trend that continued at least until the end of the first quarter of 2023.

The Liquidity Coverage Ratio (LCR) on a consolidated basis reached 214% at the close of June 2023, compared to 261% on 30 June 2022. This surplus of Euros 10 billion (compared to Euros 14 billion on 30 June 2022) exceeds the 100% regulatory minimum requirement. The achievement is attributed to the presence of highly liquid asset portfolios in an amount compatible with the prudent management of the Group's short-term liquidity.

The Group reinforced the disposition of the stable funding base, characterized by the large share of customer deposits in the funding structure, collateralized funding and medium and long-term instruments, which enabled the stable funding ratio (Article 428 of Regulation (EU) 2019/876) as at 30 June 2023 to stand at 155% (153% on 30 June 2022).

The Group demonstrates a strong and stable funding position, as evidenced by its credit transformation ratio on deposits, which was calculated in accordance with Bank of Portugal Instruction No. 16/2004. As of 30 June 2023, the credit transformation ratio stands at 75%, while it was slightly higher at 78% on 30 June 2022.

It should be noted that, in the annual risk review for 2023, the internal limits for the RAS indicators remained unchanged facing 2022.

In Portugal, and with regard to the wholesale funding structure, after the early repayment at the end of 2022 of the first tranche of the Targeted Longer-Term Refinancing Operation III (LTRO III, "TLTRO III" in English abbreviation), in the gross amount of Euros 7,550,070,000 the Bank reimbursed the remaining tranche in January 2023, in the amount of Euros 600,000,000.

The liquidity buffer available for discount at the ECB stood at Euros 25,157,172,000 on 30 June 2023, Euros 1,350,457,000 below the value verified at the end of 2022. This evolution resulted from the unfavourable evolution of the commercial gap from a liquidity perspective (mainly due to the reduction in the deposit base) and the reversal of the haircuts applicable to securities eligible for discount for pre-pandemic levels, factors moderated by the favourable evolution of liquidity affecting derivatives margin accounts and some appreciation in the securities portfolio. In June 2023, the liquidity buffer comprised a long position of Euros 855,236,000 on the ECB.

As at 30 June 2023, Bank Millennium and BIM also held resilient liquidity positions, supported by robust discountable buffers at the respective central banks, with all regulatory and internal indicators in their comfort zones.

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 2023	31 December 2022 (restated)
European Central Bank	15,455,768	13,677,518
Other Central Banks	4,546,568	5,213,823
	20,002,336	18,891,341

As at 30 June 2023 the gross amount discounted with the European Central Bank is null (31 December 2022: Euros 600,000,000). The amount discounted with the Bank of Mozambique amounts to Euros 1,874,000 (31 December 2022: Euros 2,165,000). There are no discounted amounts with other central banks.

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 2023	31 December 2022 (restated)
Collateral eligible for ECB, after haircuts:		
The pool of ECB monetary policy (i)	15,455,768	13,677,518
Outside the pool of ECB monetary policy	8,696,169	10,269,081
	24,151,937	23,946,599
Net borrowing at the ECB (ii)	(855,236)	(2,574,146)
From which, placement of the Bank of Portugal	150,000	—
Liquidity buffer (iii)	25,157,173	26,520,745

i) Corresponds to the amount reported in COLMS (Bank of Portugal application).

ii) Includes as at 30 June 2023 the amount of the uncollateralized borrowings with the Bank of Portugal (Euros 150,000,000), deducted from deposits with the Bank of Portugal and other liquidity with the Eurosystem (Euros 1,517,265,000) in excess over the minimum cash reserves (Euros 512,029,000). The value of the uncollateralized borrowing with the Bank of Portugal is not relevant for the purpose of calculating the liquidity buffer.

iii) Eligible collateral available for discount with the ECB, after haircuts, deducted from the net funding at the ECB and increased by the uncollateralized borrowing with the Bank of Portugal.

The Group's counterbalancing capacity is defined by the ability to generate additional liquidity in the short term to deal with possible situations of financial stress. The measures for its reinforcement are described in the Recovery Plan which, as at 30 June 2023, had a total estimated value for Portugal of Euros 3,000,000,000, arising from the sale of corporate bonds and commercial paper, securitization of a portfolio of consumer credit and issuance of retained covered bonds to be mobilized for the ECB's monetary policy pool.

In consolidated terms, the refinancing risk of medium and long-term instruments will remain at very low levels over the next three years, with annual refinancing needs with no material expression.

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 Implementing Regulation (EU) 2021/637 of 15 March 2021 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 2023							
	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 disclosing institution	3,000,344	1,653,186			86,909,592	22,287,887		
Equity instruments	—	—	—	—	116,179	—	116,179	—
Debt securities	1,653,186	1,653,186	1,435,567	1,435,567	21,603,573	17,086,861	20,714,608	16,115,300
of which: securitisations	—	—	—	—	25,723	—	21,500	—
of which: issued by general governments	1,613,416	1,613,416	1,396,913	1,396,913	16,085,782	15,530,173	15,138,117	14,591,383
of which: issued by financial corporations	—	—	—	—	1,724,731	208,908	1,725,703	209,314
of which: issued by non-financial corporations	39,770	39,770	38,654	38,654	2,702,984	508,262	2,712,587	508,262
Other assets	951,087	—			64,383,432	5,201,025		

(1) Table's figures are calculated by the median of the values disclosed in the regulatory information for the previous 4 quarters.

(2) EHQLA (*Set as Extremely High-Quality Liquid Assets*) e HQLA (*High-Quality Liquid Assets*).

Collateral received and own debt securities issued

(Thousands of euros)

	30 June 2023			
	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 disclosing institution	—	—	119,983	1,072
Debt securities	—	—	1,072	1,072
of which: issued by general governments	—	—	1,072	1,072
Loans and advances other than loans on demand	—	—	114,391	—
Own covered bonds and securitisations issued and not yet pledged			8,992,316	—
TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	3,000,344	1,653,186		

(1) Table's figures are calculated by the median of the values disclosed in the regulatory information for the previous 4 quarters.

(2) EHQLA (*Set as Extremely High-Quality Liquid Assets*) e HQLA (*High-Quality Liquid Assets*).

Sources of encumbrance

(Thousands of euros)

Sources of encumbrance	Matching liabilities, contingent liabilities and securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
Carrying amount of selected financial liabilities	1,700,902	2,521,259

The table's figures are calculated by the median of the values disclosed in the regulatory information for the previous 4 quarters.

At the end of first semester of 2023, and according to the EBA methodology, the total encumbered assets represents 3% of the Group's total balance sheet assets. The encumbered Loans to customers represents 25% of the total encumbered assets, while Debt securities represents 55%.

Portugal's funding operations, namely Repo operations, the collateralization of derivatives and securitisation programs are the main sources of asset encumbrance. The collateralization of Repo and derivative operations, as well as financing operations with the European Investment Bank, is assured by sovereign debt eligible for central banks, as well as public sector companies' bonds. Securitisation programs are collateralised by certain Loans to Customers' portfolios.

At the end of first semester of 2023, the Other assets includes unencumbered assets in the amount of Euros 4,594,142,000 related to Loans on demand, the amount of Euros 55,189,122,000 related to Loans and advances other than loans on demand (of which encumbered assets in the amount of Euros 737,524,000) and the amount of Euros 6,918,730,000, mostly unencumbered and 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 2023, BCP Group has a Euros 12.5 billion BCP Covered Bond Programme ("BCP Programme") with Euros 9.2 billion of covered bonds outstanding. The BCP Programme is backed by a Euros 11.3 billion portfolio of residential mortgages, providing an overcollateralization ("OC") of 23.1%, which is above the minimum of 14% currently required by rating agencies.

The Portuguese covered bond legislation affords covered bond holders a dual-recourse, firstly over the issuer, secondly over the cover pool that may also include other eligible assets, over which they benefit from a special preferential claim. The Portuguese covered bond legislation ensures total segregation of the covered pool from any future issuer's insolvent estate, for the benefit of covered bond holders, who have precedence over claims of any other of the issuer's creditors in case of issuer insolvency, thus and to this extent superseding the general insolvency and recovery legislation. Residential mortgages in a cover pool are subject to certain eligibility criteria inscribed in the Portuguese covered bond legislation, among them a maximum LTV 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 is framed by the "3 Lines of Defence" Corporate Governance 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 process's 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 function (materialised in the Risk Office) and the Compliance function (materialised in the Compliance Office) represent the 2nd Line of Defence and are 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. The Internal Audit function embodies the 3rd Line of Defence and supervises the appropriate fulfilment of the functions and activities of the remaining two lines of defence.

In the first half of 2023, the usual operational risk management activities continued to be executed 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.

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 mobilisation 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.

Covenants

The contractual terms of instruments of various wholesale funding instruments encompass obligations assumed by entities belonging to the Group as borrowers or issuers, concerning general duties of corporate conduct, maintenance of banking activity and the inexistence of special guarantees constituted for the benefit of other creditors ("negative pledge"). These terms essentially reflect the internationally adopted standards for each of the types of debt instruments used by the Group.

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 2023, 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 2023			
	Hedging instruments			
		Book value		
Type of hedging	Notional	Assets	Liabilities	Change in fair value (A)
Fair value hedge				
Interest rate risk				
Interest rate swaps	11,129,387	14,754	10,226	(37,741)
Foreign exchange risk				
Currency and interest rate swap	435,321	1,282	8,575	(32)
	11,564,708	16,036	18,801	(37,773)
Cash flows hedging				
Interest rate risk				
Interest rate swaps	19,571,214	2,052	52,729	222,056
Foreign exchange risk				
Currency and interest rate swap	1,133,584	27,505	31,863	10,818
	20,704,798	29,557	84,592	232,874
Total	32,269,506	45,593	103,393	195,101

(A) Changes in fair value used to calculate the ineffectiveness of the hedge

As at 31 December 2022, 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 2022 (restated)			
	Hedging instruments			
		Book value		
Type of hedging	Notional	Assets	Liabilities	Change in fair value (A)
Fair value hedge				
Interest rate risk				
Interest rate swaps	11,962,045	27,696	7,031	309,506
Foreign exchange risk				
Currency and interest rate swap	431,257	2,999	18,432	(717)
	12,393,302	30,695	25,463	308,789
Cash flows hedging				
Interest rate risk				
Interest rate swaps	14,559,138	—	110,562	(1,513,397)
Foreign exchange risk				
Currency and interest rate swap	1,273,663	29,008	41,975	(10,527)
	15,832,801	29,008	152,537	(1,523,924)
Total	28,226,103	59,703	178,000	(1,215,135)

(A) Changes in fair value used to calculate the ineffectiveness of the hedge

As at 30 June 2023, the table below includes the detail of the hedged items:

(Thousands of euros)

		30 June 2023						
		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)	804,416	–	(63,892)	–	9,550	n/a	n/a
	(H)	3,151,039	–	(451,447)	–	17,298	n/a	n/a
	(C)	3,501,064	–	(276,549)	–	27,572	n/a	n/a
	(D)	–	10,000	–	(413)	413	n/a	n/a
	(E)	–	412,350	–	(1,948)	(518)	n/a	n/a
	(F)	–	1,302,663	–	(67,740)	880	n/a	n/a
	(G)	–	996,522	–	(66,978)	(5,062)	n/a	n/a
Foreign exchange risk								
Currency and interest rate swap		–	435,321	–	(1,217)	111	n/a	n/a
		7,456,519	3,156,856	(791,888)	(138,296)	50,244	n/a	n/a
Cash flows hedging								
Interest rate risk								
Interest rate swaps	(B)	14,420,779	–	–	–	(222,056)	(1,556,909)	(107,481)
Foreign exchange risk								
Currency and interest rate swap	(B)	1,133,584	–	–	–	(13,335)	(8,157)	(174)
		15,554,363	–	–	–	(235,391)	(1,565,066)	(107,655)
Total		23,010,882	3,156,856	(791,888)	(138,296)	(185,147)	(1,565,066)	(107,655)

(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 2022, the table below includes the detail of the hedged items:

(Thousands of euros)

		31 December 2022 (restated)						
		Hedged items						
							Cash flow hedge reserve / Currency translation reserve	
	Balance sheet item	Book value		Cumulative value of the adjustments		Change in fair value (A)	Hedging relationships in effect	Hedging relationships discontinued
Type of hedging		Assets	Liabilities	Assets	Liabilities			
Fair value hedge								
Interest rate risk								
Interest rate swaps	(B)	814,689	—	(71,691)	—	(70,012)	n/a	n/a
	(H)	1,524,001	—	(510,086)	—	(181,718)	n/a	n/a
	(C)	3,437,415	—	(285,374)	(3,278)	(210,181)	n/a	n/a
	(D)	—	10,000	—	517	580	n/a	n/a
	(E)	—	12,350	—	(1,232)	718	n/a	n/a
	(F)	—	1,295,542	—	(66,860)	65,881	n/a	n/a
	(G)	—	998,066	—	(72,040)	67,509	n/a	n/a
Foreign exchange risk								
Currency and interest rate swap		—	431,257	—	(1,131)	1,079	n/a	n/a
		5,776,105	2,747,215	(867,151)	(144,024)	(326,144)	n/a	n/a
Cash flows hedging								
Interest rate risk								
Interest rate swaps	(B)	14,558,924	—	—	—	1,513,397	(1,775,249)	7,644
Foreign exchange risk								
Currency and interest rate swap	(B)	1,273,663	—	—	—	11,473	(20,123)	(280)
		15,832,587	—	—	—	1,524,870	(1,795,372)	7,364
Total		21,608,692	2,747,215	(867,151)	(144,024)	1,198,726	(1,795,372)	7,364

(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

The reconciliation of each equity component and an analysis of other comprehensive income attributable to hedge accounting, with reference to 30 June 2023 and 31 December 2022, is as follows:

(Thousands of euros)

	Cash flow hedge reserve		Exchange differences	
	30 June 2023	31 December 2022 (restated)	30 June 2023	31 December 2022 (restated)
Balance as at 1 January	(1,788,008)	(141,642)	–	55,326
Amounts recognised in other comprehensive income:				
Hedging cash flows				
Changes in fair value of currency and interest rate swaps	232,753	(1,523,207)	–	–
Foreign exchange changes	(4,860)	1,725	–	–
Hedge breakage	(115,124)	(123,938)	–	–
Ineffectiveness of coverage recognised in results	(121)	1,333	–	–
Others	2,639	(2,279)	–	–
Hedging of net investments - foreign exchange risk				
Reclassified to the income statement	–	–	–	3,685
Change in the fair value of settled transactions	–	–	–	(59,011)
Balance at the end of the period	(1,672,721)	(1,788,008)	–	–

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 2023:

(Thousands of euros)

	30 June 2023					
				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)	–	12,392		–	–
Foreign exchange risk						
Currency and interest rate swap	(D)	–	79		–	–
		–	12,471		–	–
Cash flows hedging						
Interest rate risk						
Interest rate swaps	(D)	(36,592)	–	(E)	9,130	–
Foreign exchange risk						
Currency and interest rate swap	(D)	(6,028)	121		–	–
		(42,620)	121		9,130	–
Total		(42,620)	12,592		9,130	–

(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

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 2022:

(Thousands of euros)

	31 December 2022 (restated)					
				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)	—	(17,717)		—	—
Foreign exchange risk						
Currency and interest rate swap	(D)	—	362		—	—
		—	(17,355)		—	—
Cash flows hedging						
Interest rate risk						
Interest rate swaps	(D)	(66,333)	(238)	(E)	54,861	—
Foreign exchange risk						
Currency and interest rate swap	(D)	(15,838)	(1,333)		—	—
		(82,171)	(1,571)		54,861	—
Total		(82,171)	(18,926)		54,861	—

(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

The table below shows the detail of hedging instruments, as at 30 June 2023, by maturity:

(Thousands of euros)

	30 June 2023					
	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	21,800	18,350	11,089,237	11,129,387	14,754	10,226
Fixed interest rate (average)	1.09%	2.32%	3.07%	3.06%		
Fair value hedging derivatives related to currency risk changes						
OTC Market:						
Currency and interest rate swap	155,799	279,522	—	435,321	1,282	8,575
Cash flow hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps	54,137	2,618,359	16,898,718	19,571,214	2,052	52,729
Cash flow hedging derivatives related to currency risk changes:						
OTC Market:						
Currency and interest rate swap	189,053	846,296	98,235	1,133,584	27,505	31,863
Total derivatives traded by						
OTC Market:	420,789	3,762,527	28,086,190	32,269,506	45,593	103,393

The table below shows the detail of hedging instruments, as at 31 December 2022, by maturity:

(Thousands of euros)

	31 December 2022 (restated)					
	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	293,467	377,114	11,291,464	11,962,045	27,696	7,031
Fixed interest rate (average)	1.05%	1.44%	2.44%	2.38%		
Fair value hedging derivatives related to currency risk changes						
OTC Market:						
Currency and interest rate swap	98,439	332,818	—	431,257	2,999	18,432
Cash flow hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps	240,409	278,751	14,039,978	14,559,138	—	110,562
Cash flow hedging derivatives related to currency risk changes:						
OTC Market:						
Currency and interest rate swap	153,720	685,365	434,578	1,273,663	29,008	41,975
Total derivatives traded by						
OTC Market:	786,035	1,674,048	25,766,020	28,226,103	59,703	178,000

Climate risks - Integration of ESG Factors in Risk Management

In its risk classification, Millennium BCP recognises the ESG category which includes factors associated with the climate and environmental components, and also with social and governance aspects.

These factors are not considered separately; in fact, they are seen as elements likely to affect positively or negatively the financial performance and solvency of the Bank's customer's and counterparties. This way, the materialisation of their impacts occurs by means of the "traditional" categories: credit risk, market risk, operational & reputation risk, liquidity and financing risks.

Within this context, and with the purpose of promoting the integration of ESG factors in risk management, the Bank implemented a set of processes and methodologies to identify, assess, manage and monitor the impact of the ESG category in overall risk, in accordance with the framework and policies already established for the remaining financial and non-financial risks.

Governance Model

The governance model for risks arising from ESG factors follows a structure based on three lines of defence which, under the leadership of the Board of Directors (and respective delegations on the Executive Committee), ensure its adequate assessment and management.

The first-line functions comprise all the departments and business areas that interact with the Bank's customers, counterparties and suppliers, collect the information and data that support the assessment of their risk profiles (and of their respective operations) and structure the commercial solutions with characteristics associated with the ESG or with the promotion of control of their impacts on the Bank's risk profile.

The Sustainability Function fits in the first line of defense and its responsibilities include a) the overall management of the sustainability strategy and plans of Millennium BCP and of its financial group; b) the direct orientation and operational support to the first and second lines of defence in the performance of their main responsibilities in this scope; c) the development of policies, methodologies, analyses and reports that address ESG issues; and d) the management of commitments and external communications by the Bank and the Group in this area.

In the second line of defence, the responsibility for risk control, is assumed by the Risk Office and by the Compliance Office. These functions ensure the procedures for the design, implementation of the policies/methodologies/ risk management models, which are paramount in keeping the risk profile of the Group in appropriate levels.

Among other, these responsibilities, include:

- Integrate the ESG dimension in risk appetite (Risk Appetite Framework - RAF);
- Integrate the climate and environmental factors' materiality assessment in the regular risk assessment and management processes;
- Carry out stress tests focused on climate and environmental risk factors;
- Introduce the ESG dimension in capital and liquidity adequacy exercises;

Specifically in terms of compliance, we emphasise the following controls:

- Compliance with regulations relating to sustainability and risk management arising from ESG factors;
- Quality in the external reporting and disclosure of information;
- Design and labelling of the commercial and investment products;
- Incorporation of ESG related requirements and conditions in the Bank's contracts;
- Prevention of conflicts of interest in the provision of services and products related with ESG.

Within the scope of the Committees of the Board of Directors, the Committee for Corporate Governance, Ethics and Sustainability is the body responsible for recommending the adoption by the Board of Directors of policies in line with ethical principles and social responsibility and best practices in matters of corporate governance and sustainability, but also for monitoring the evolution of the Sustainability Master Plan and the Corporate Social Responsibility Plan and issuing an opinion on the annual corporate governance and sustainability reports. The Committee for Risk Assessment, among its competences and attributions, is also responsible for monitoring ESG risks, including climate risks.

The third line of defence assumes responsibility for the independent review of all ESG aspects through the annual work plans of the Internal Audit Function.

Identification of ESG risks

Climate changes and environmental degradation factors are elements that potentially affect economic activity. These alterations may include factors related with issues such as climate changes (mitigation, and adaptation), sustainable use and protection of hybrid and marine resources, transition towards a circular economy, prevention and control of pollution, protection and restoration of biodiversity.

The materialisation of these risks fundamentally stems from the exposure of Millennium BCP's banking portfolio to customers, counterparties and invested assets whose performance may be affected or contribute to the negative impacts of climate change and other environmental factors.

These factors may generate negative financial impacts which are identified and assessed by means of two main dimensions:

- Physical risk factors: arising from the physical effects of climate change and environmental degradation. They should be categorized as a) severe risks, if they arise from extreme weather events such as wildfires or floods; b) chronic risks, if they arise from progressive changes in weather and climate patterns or from a gradual loss of natural ecosystems.

- Transition risk factors: are the risks of any negative financial impact arising from the effort, in progress or to happen in the future, of transition into a low-carbon and environmentally sustainable economy. These may result, for example, from technological changes, the impact of public policies or behavioural changes in terms of demand for goods or services (including banking services).

The materialisation of social risks is also assessed, considering the issues related with rights, well-being and interests of persons and communities and include factors such as (in)equality, health, diversity, inclusion, labour relations, workplace health and safety, human capital and communities.

In addition, the governance risk factors are also identified by Millennium BCP, through issues relating to leadership, management and prevention of conflicts of interest, quality of internal control and independent reviews/auditing, transparency and good tax practices, for example.

A methodology for assessing the materiality of ESG risks was developed in order to determine the potential impact of those factors on the Bank’s risk profile.

Management and monitoring principles

ESG risks management and respective strategy follows a different logic compared to 'traditional' risks, which are based on short-term timeframes. In contrast, the materialization of ESG risks is expected to occur over extended timeframes, which is why the establishment of strategy and risk appetite follows different timeframes. For example, if the assessment of physical (severe) risks can determine an action strategy more focused on the short term (e.g., considering the establishment of additional mitigation measures, at the level of policies for granting credit and insurance policy), the transition risks justify a more structural approach, based on collecting information, evaluating customers and monitoring their performance over time.

From this perspective, Millennium BCP's management of ESG impacts follows the following principles:

- Establishment of a responsible corporate financing policy, which excludes or conditions the Group's operations in sectors and/or activities with greater environmental and social impact.
- Integration of the strategy for managing risks arising from ESG factors into the Bank's global sustainability plan, which steers the integration of the ESG dimension into business processes, establishing goals, timelines and a model for controlling proper observance.
- Transparent communication: the Bank publicly discloses its sustainability and ESG impact management goals and key practices, allowing all stakeholders to evaluate the robustness of its approach, including its exposure to ESG risks.
- Regular monitoring of exposure to risks arising from ESG factors through the management information routines already established for each of the risk categories.
- Internal standardisation of ESG references, through a corporate taxonomy that allows the identification and classification of the exposures that are proven to have characteristics that promote the transition of the Portuguese and European economy.
- Focus on credit risk management, through models that promote the integration of the ESG dimension in the risk assessment of the Bank's main companies/customers, ensuring that business decisions include an assessment of the main impacts of ESG factors.
- Information gathering and structuring, using public sources and information provided directly by customers, as a means of improving knowledge of customers' environmental performance and the possible financial impacts associated with any limitation on this performance.

The implementation of these principles, is promoted through an internal policy of management of the risks arising from ESG factors, which establishes the following main risk tools:

- Regular assessment of the materiality of the risks arising from ESG factors that allows confirming the alignment with the risk appetite and the need to implement mitigation actions;
- Risk assessment methodologies arising from ESG factors integrated in the credit risk assessment models;
- Risk classification methodologies at portfolio level, enabling the identification of sectors, companies and exposures more susceptible to transition and/or physical risks;
- Quantification models for financed GHG emissions, promoting strategic discussion regarding the management of these emissions and their alignment (in time) with the Paris Agreement targets;
- Sensitivity analyses and stress tests focusing on climate risks.

Stress testing with a focus on climate risk

The Bank uses methodologies for analysing sensitivity and conducting stress tests to the risks arising from ESG factors (with a focus on the climate risk component).

Considering the ESG risk materialisation horizons, this is an important risk management technique, which allows assessing the impacts of climate change (and respective scenarios) on the financial variables that affect the value of Millennium BCP's banking portfolio.

Based on its results, new risk exposures may be identified that require the Bank to take additional management measures to mitigate the impacts of climate risks.

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.

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.

In May 2020, the Constitutional Council of the Republic of Mozambique issued a Judgment, declaring the nullity of the acts related with the loans contracted by Proindicus, SA ("Proindicus") and Mozambique Asset Management, MAM, SA ("MAM"), and the respective sovereign guarantees granted by the Government in 2013 and 2014, respectively, and on 19 October 2020, the dissolution of the two companies was registered based on an order issued by the Judicial Court of the City of Maputo.

In the context of the liquidation of Proindicus and MAM, the Liquidator published, on 3 May 2022, an announcement in the Jornal de Notícias de Moçambique, through which the creditors of those companies are notified to submit, within thirty days counted from the said publication, the supporting documents of their credits. Following the publication of the said announcement, BIM and BCP submitted, on 1 June 2022, their credit claims on Proindicus and MAM, respectively.

An action brought on 27 February 2019 and amended on 30 April 2020, by the Republic of Mozambique (represented by the Attorney General of the Republic) against the arranger and originating lender of the loan to Proindicus and other entities, by which the Republic of Mozambique requests, inter alia, the declaration of nullity of the sovereign guarantee of the Mozambican State to the Proindicus loan. Following this lawsuit, on 27 April 2020, the Banco Internacional de Moçambique (BIM) filed a lawsuit, in the London Commercial Court, against the arranger and lender of the loan to Proindicus, claiming, inter alia, payment of BIM's exposure to the Proindicus, in the event that the said sovereign guarantee of the State of Mozambique to Proindicus is, in a court of law declared null and void. Considering the dependency of this claim in relation with the lawsuit brought by the Republic of Mozambique above mentioned, it is expected that the judgment sessions of the claim brought by BIM will only take place simultaneously or after the judgment sessions scheduled for the beginning of October 2023, relating to the lawsuit filed by the Republic of Mozambique.

Regarding MAM, as far as we are aware, no lawsuit with the same purpose was brought by the Republic of Mozambique at the London Commercial Court. However, it is expected that, in the context of ongoing legal proceedings, that several creditors of MAM (including BCP) have filed, at the London Commercial Court, against MAM and the Republic of Mozambique in order to recover their credits, the question of the validity of the sovereign guarantee of the Mozambican State to the MAM loan will be raised by the Republic of Mozambique. In July 2021, London Commercial Court decided that the various lawsuits brought by several creditors of MAM (including BCP) against the Republic of Mozambique, as guarantor, and MAM, as debtor, as well as the lawsuit brought by the Republic of Mozambique within the scope of the loan to Proindicus, must be judged through a unitary trial and scheduled the start of the respective trial sessions for 3 October 2023 and several interim sessions related to the process of collecting and disclosure of evidence (DRD - Disclosure Review Documents), which is still ongoing.

According to public information made available by the IMF, there are defaults on credits granted to non-state Mozambican companies' and guaranteed by the Mozambican State. Considering the above-mentioned developments related to these credits, although the Ministry of Economy and Finance of the Republic of Mozambique has submitted in November 2018 new proposals regarding this matter and interactions are ongoing between the Government of Mozambique, the IMF and the creditors with the objective of finding a solution to the aforementioned debt guaranteed by the State of Mozambique, which had not been previously disclosed to the IMF, a solution that changes the ex-approved a solution that would change the Group's current expectations, reflected in the financial statements as at 31 December 2022, on: (i) the ability of the Government of Mozambique and public companies to repay their debts and commitments assumed; and (ii) the development of the activity of its subsidiary Banco Internacional de Moçambique (BIM).

As at 30 June 2023, considering the 66.7% indirect investment in BIM, the Group's interest in BIM's equity amounted to Euros 322,602,000 (31 December 2022: Euros 347,559,000), with the exchange translation reserve associated with this participation, accounted in Group's consolidated equity, in a negative amount of Euros 147,064,000 (31 December 2022: negative amount of Euros 139,373,000). BIM's contribution to consolidated net income for the first half of 2023, attributable to the shareholders of the Bank, amounts to Euros 30,043,000 (30 June 2022: Euros 30,985,000).

As at 30 June 2023, the subsidiary BIM's exposure to the State of Mozambique and to the Central Bank includes public debt securities denominated in Metical classified as Financial assets measured at amortised cost - Debt instruments in the gross amount of MZN 44,881,931,000 corresponding to Euros 643,838,000 (31 December 2022: MZN 57,909,918,000 corresponding to Euros 849,306,000) and Financial assets at fair value through other comprehensive income in the gross amount of MZN 2,855,663,000 corresponding to Euros 40,965,000 (31 December 2022: MZN 7,090,486,000 corresponding to Euros 103,989,000).

Additionally, BIM has also registered as at 30 June 2023, in the balance Loans and advances to customers, a direct gross exposure to the Mozambican State in the amount of MZN 18,818,229,000 corresponding to Euros 269,950,000 (31 December 2022: MZN 19,081,523,000 corresponding to Euros 279,849,000) and in the balance Guarantees granted revocable and irrevocable commitments, an amount of MZN 1,587,407,000 corresponding to Euros 22,775,000 (31 December 2022: MZN 4,818,871,000 corresponding to Euros 70,704,000).

55. Contingent liabilities and other commitments

In accordance with accounting policy 1.U3, 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 Portuguese banks.

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, by which the Bank is accused of participating in a commercially sensitive information exchange between other fourteen banks related to retail credit products, namely housing, consumer and small and medium enterprises credit products.

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 Authority – for several months, the PCA denied the Defendant' 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 statement of objections. A non-confidential version of the Bank's defense 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 (although without the presence of BCP's legal representatives).

In May 2018, the PCA refused the BCP'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 deny the application for confidential treatment of some of the information included in the Bank's defence; subsequently, in January 2019, it requested BCP to provide summaries for the co-defendants' confidential information. The Bank filed an appeal before the Competition Court, which ruled in favour of BCP, as it considered that the elaboration by the Bank of summaries for its co-defendants' confidential information an illegitimate burden.

In April 2019, at the PCA's request, BCP declared to be in favour of the re-examination of its witnesses, requested in its defense and previously held. The witnesses were re-inquired on 16-17 April 2019 with the presence of the Bank's legal representatives.

The PCA denied the request of BCP to be allowed to conduct cross-examination of the witnesses appointed by its co-defendants. The Bank appealed to the Competition Court, which denied the appeal, through a decision which was latter upheld by the Lisbon Court of Appeal. BCP then lodged an appeal before the Portuguese Constitutional Court for breach of the constitutional right of defence. The Constitutional Court dismissed the appeal on 29 April 2021, on the grounds that the requested cross-examination was not required by the Portuguese Constitution, at that stage of the proceedings. On 12 August 2020, the Bank lodged a complaint before the European Court of Human Rights on this matter.

On 2 July 2019, the Bank submitted its observations to the PCA's report on complementary evidence measures.

On 3 June 2019, BCP was notified of the partial dismissal of the complementary evidence measures it had requested in its reply to the SO, which it judicially contested. By judgment of September 2019, the Competition Court declared the nullity of the PCA's decision, for breach of the right of the parties to be heard on the PCA's draft decision. The Bank appealed to the Lisbon Court of Appeal in what concerned the limitation by the Competition Court of the effects of the nullity declaration of the PCA's decision. Although this appeal was ultimately admitted by the panel of judges of the Lisbon Court of Appeal, it ends up being denied.

In order to give compliance to BCP's right to be heard, the PCA notified the BCP of its intention to reject the above-mentioned complementary evidence measures. Following BCP's observations in November 2019, the PCA adopted its final decision rejecting the measures, which was judicially contested by the BCP in December 2019. In March 2020, the Competition Court rejected the appeal. This judgment was upheld by the Lisbon Court of Appeal in October 2020.

On 9 September 2019, the PCA adopted its final decision in this proceeding, fining the Bank in a Euros 60 million fine for its alleged participation in an information exchange system with its competitors in the housing, consumer and SME credit segments. The BCP considers that the Decision contains serious factual and legal errors, having, on 21 October 2019, filed an appeal before the Competition Court requesting the annulation of the Decision and the suspensory effect of the appeal. On 8 May 2020, BCP's appeal was admitted. On 8 June 2020, the BCP submitted a request before the Court, claiming that the rule according to which appeals do not have, in principle, suspensory effect violates the Portuguese Constitution, submitting elements aimed at demonstrating considerable harm in the advance provisional payment of the fine, and offering a guarantee in lieu (indicating the respective percentage of the fine to be offered as a guarantee). On 14 December 2020, a hearing was held before the Competition Court, and a consensual solution was reached between the PCA and the defendant banks, including BCP, as to the dosimetry (i.e., 50% of the amount of the fine) and the forms of the guarantee to be provided, in order for the appeal of the PCA's decision to have suspensory effect. On 21 December 2020, BCP submitted a bank guarantee issued by the BCP, which was accepted by the Competition Court. On 1 March 2021, the Competition Court notified BCP that the guarantee had been presented in a timely manner and in the agreed form, and, as a result, attributed suspensory effect to the appeal. By order of 20 March 2021, the Competition Court lifted the judicial secrecy and informed the appellants that the trial would, in principle, start in September 2021.

On 9 July 2020, the BCP requested the Court to declare the nullity of the fining decision of the PCA for failure to assess the economic and legal context, as determined by the recent case-law of the Court of Justice of the European Union. The Competition Court clarified that this and other prior questions would not be assessed before the hearing phase.

On 13 January 2021, BCP was notified of an application submitted by "Associação Ius Omnibus – Nova Associação de Consumidores" to the Competition Court asking it to have access to a non-confidential version of the file, based on the need to assert the “rights to indemnification of the consumers whose rights and interests it represents, and the possible exercise and proof of those rights in the context of an action for damages”. On the same date, BCP was notified by the Competition Court of its decision authorizing the news agency "Lusa" to access the file of the administrative phase of the case. BCP appeal of this decision to the Appeal Court of Lisbon, on 25 January 2021 and opposed to the request of "Ius Omnibus" on 2 February 2021.

On 20 March 2021, the Competition Court determined: (i) the lifting of the judicial secrecy; (ii) the forwarding to the Public Prosecutor of the appeal of BCP against the decision of the Competition Court relating to "Lusa", for reply; (iii) the provisional start date of the judgement hearing on September 2021, having requested suggestions by the co-appellants for venues.

By decision of 9 April 2021 of the Competition Court, a preparatory hearing took place on 30 April 2021 for discussion of issues precedent to the begging of the judgment hearings, in which the procedures relating to the treatment of confidential information of the co-appellants in the appeals was defined, as well as the conditions relating to access to file. The Competition Court also set forth preliminary dates for the judgement hearing and scheduled a preparatory hearing for 7 July 2021.

On 28 June 2021, BCP was notified by the Competition Court to reply to the requests submitted by some of the co-appellants and confirm that all confidential information had been duly eliminated from non-confidential versions submitted by each co-appellant. The Competition Court also determined that the hearing of 7 July 2021 was cancelled and its object would be transferred to the next hearing date (6 September 2021).

On 8 July 2021, BCP presented its reply to the notification of 28 June 2021, having also requested confirmation in relation to the scheduling of the judgement hearing, namely confirmation of whether it was actually scheduled for 6 September 2021 the preparatory hearing and the start of the judgement hearing sessions.

Several representatives of the banks raised the question of the possible unconstitutionality of the seizure proceedings of e-mail messages used as evidence in the PCA's decision, which objection appeal will now take place. This issue was raised bearing in mind the recent Decision of the Constitutional Court no. 687/2021 on the administrative offence case no. 225/15.4YUSTR-W. A petition on this matter was filed with the Court on 10 October 2021, requesting the Court to take a position on the matter before the beginning of the trial. The Court issued an order rejecting the banks' request to rule on those nullities raised by them, having refused to prohibit the use during the judgment of electronic messages seized, allowing witnesses to be confronted with their content. The requesting banks lodged an appeal against this order, which was admitted by the Lisbon Court of Appeal.

On 28 April 2022, TCRS ("*Tribunal da Concorrência, Regulação e Supervisão*") handed down a decision under the scope of Proc. 225/15.4YUSTR-W, regarding the appeal to challenge the decision of the Portuguese Competition Authority of September 2019 (PRC/2012/09), which imposed fines on a number of banking institutions for alleged violation of competition rules in virtue of participating in a process of exchanging information on mortgage loans, consumer credit and credit to SMEs.

In this extensive decision, TCRS lists the facts given as proven, bearing in mind the testimonial evidence produced and the documents attached to the case file, both in the administrative phase and in the trial, however, at this stage, the TCRS does not yet conclude by the legal framework of the facts as proven, nor, consequently, by the imposition of fines, having the TCRS instead chosen to make the reference for a preliminary ruling to the Court of Justice of the European Union (CJEU) in order to answer two preliminary questions that it sets out, requesting that this reference follows further terms in the form of an accelerated procedure, taking into account the risk of prescription. It should be noted that it is not up to the CJEU to adjudicate on the case, but only to interpret the rules of community law by answering in abstract to the questions submitted to it by the referring court.

CJEU rejected TCRS's request for an accelerated procedure and for priority to be given in the assessment of this case, hence CJEU's assessment must be given within the normal deadline for these prejudicial proceedings, after which the judgment of this Court will then be concluded.

The Bank has been notified by the CJEU to, if it wishes, submit its written observations, and must do so by 2 September 2022.

The Bank forwarded its observations to the CJEU on 1 September 2022.

On 22 June 2023 the Oral Hearing was held at the CJEU, and the parties' lawyers made their presentations and answered the questions that the Judge and the Advocate-General wished to raise.

It was scheduled for 5 October 2023 for the Advocate-General to read his Conclusions.

It is estimated that about two or three months after that reading, the CJEU will deliver its judicial ruling.

If this judicial ruling so determines, the trial may be "reopened" for some additional evidence to be produced. This not being the case, the CRSC will deliver the corresponding sentence, which can also be appealed to the Lisbon Court of Appeal and the Constitutional Court.

After receiving an answer from the CJEU, it is expected that the CRSC will be able to issue a Judgment, where it may cancel, confirm, reduce or increase the fine applied by the CA (Competition Authority) to the Bank.

On the appeal submitted, and at the trial hearing, arguments of fact and law were presented, which we believe to be solid and sufficient to justify the acquittal of BCP from the conviction against it. However, given the complexity of the case, its several legal and extra-legal implications, and the position that the CRSC has already taken on the facts, it is not possible to anticipate the final decision of the case.

The Bank does not anticipate that this lawsuit may result in any responsibility that could have impact on the respective financial statements.

2. On 7 June 2022, the Bank was notified by the Court to contest a lawsuit brought by Fundação José Berardo and José Manuel Rodrigues Berardo against Banco Comercial Português, S.A., Caixa Geral de Depósitos, S.A., Novo Banco, S.A. and Banco Espírito Santo, S.A., in liquidation.

In this lawsuit, the Plaintiffs allege that they incurred in a mistake regarding the endogenous situation of the defendant banks and the financial system, without which they would have sold the pledged shares and paid their loans. If this is not the case, the plaintiffs request the defendant banks to be ordered to pay compensation to Fundação José Berardo for damages caused by breach of contract, since the moment when they should have been sold in execution of the pledge due to failure to verify coverage ratios until the moment when they were sold, that is, the difference between the price at which the pledged shares would have been sold on the dates of coverage ratios default and the price at which they were actually sold, plus interest and all other loan charges since those dates, in any case the global amount of compensation not being less than Euros 800,000,000. In any case, the plaintiffs ask the defendant banks to be jointly condemned to pay José Manuel Rodrigues Berardo compensation for moral damages, in the already calculated amount of Euros 100,000,000 and also in the amount that is settled as soon as the full extent of the damages is known.

In the meantime, through Order No. 8765/2022 of Mr. Secretary of State for the Presidency of the Council of Ministers, published in Republic Diary, Series 2, part C, of 19 July 2022, the Plaintiff of this lawsuit, Fundação José Berardo, was declared extinct. This decision was legally contested by the José Berardo Foundation, and in April 2023, the Administrative and Fiscal Court of Funchal cancel the decision that ordered its extinction. Dissatisfied, the Portuguese State appealed against this latter and is awaiting the outcome.

The lawsuit was contested on 27 September 2022 and is awaiting subsequent terms.

The Bank does not anticipate that this lawsuit may result in any responsibility that could have impact on the respective financial statements.

3. On 3 January 2018, Bank Millennium received decision of the Chairman of the Office for Protection of Competition and Consumers (OPCC), in which the OPCC Chairman found infringement by Bank Millennium of the rights of consumers. In the opinion of the OPCC Chairman the essence of the violation is that Bank Millennium informed consumers (it regards 78 agreements) in responses to their complaints, that the court verdict stating the abusiveness of the provisions of the loan agreement regarding exchange rates does not apply to them. According to the position of the OPCC Chairman the abusiveness of contract’s clauses determined by the court in the course of abstract control is constitutive and effective for every contract from the beginning. As a result of the decision, Bank Millennium was obliged to:

1) send information on the UOKiK’s decision to the said 78 clients;

2) place the information on decision and the decision itself on the website and on Twitter;

3) to pay a fine amounting to PLN 20.7 million (Euros 4.7 million).

Bank Millennium lodged an appeal within the statutory time limit.

On 7 January 2020, the first instance court dismissed Bank Millennium's appeal in its entirety. Bank Millennium appealed against the judgment within the statutory deadline. The court presented the view that the judgment issued in the course of the control of a contractual template (in the course of an abstract control), recognizing the provisions of the template as abusive, determines the abusiveness of similar provisions in previously concluded contracts. Therefore, the information provided to consumers was incorrect and misleading. As regards the penalty imposed by OPCC, the court pointed out that the policy of imposing penalties by the Office had changed in the direction of tightening penalties and that the court agrees with this direction.

In Bank Millennium's assessment, the Court should not assess Bank Millennium's behaviour in 2015 from the perspective of today's case-law views on the importance of abstract control (it was not until January 2016 that the Supreme Court's resolution supporting the view of the OPCC Chairman was published), the more penalties for these behaviours should not be imposed using current policy. The above 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 second instance court, in its judgment of 24 February 2022, completely revoked the decision of the OPCC Chairman. On 31 August 2022, the OPCC Chairman lodged a cassation appeal to the Supreme Court. Bank Millennium believes that the prognosis regarding the litigation chances of winning the case before the Supreme Court is positive.

Bank Millennium (along with other banks) is also a party to the dispute with OPCC, in which the OPCC Chairman recognized the practice of participating banks, including Bank Millennium, in an agreement aimed at jointly setting interchange fee rates charged on transactions made with Visa and Mastercard cards as restrictive of competition, and by decision of 29 December 2006 imposed a fine on Bank Millennium in the amount of PLN 12.2 million (Euros 2.8 million). Bank Millennium, along with other banks, appealed the decision.

In connection with the judgment of the Supreme Court and the judgment of the Court of Appeal in Warsaw of 23 November 2020, the case is currently pending before the court of first instance - the Court of Competition and Consumer Protection. Bank Millennium has created a provision in the amount equal to the imposed penalty.

4. On 22 September 2020, Bank Millennium received decision of the Chairman of the Office for Protection of Competition and Consumers (OPCC Chairman) recognising clauses stipulating principles of currency exchange applied in the so-called anti-spread annex as abusive and prohibited the use thereof.

Penalty was imposed upon Bank Millennium in the amount of PLN 10.5 million (Euros 2.4 million). Penalty amount takes account of two mitigating circumstances: cooperation with the Office for Protection of Competition and Consumers and discontinuation of the use of provisions in question.

Bank Millennium was also requested, after the decision becomes final and binding, to inform consumers, by registered mail, to the effect that the said clauses were deemed to be abusive and therefore not binding upon them (without need to obtain court's decision confirming this circumstance) and publish the decision of the case on Bank Millennium's website.

In the decision justification delivered in writing the OPCC Chairman stated that FX rates determined by Bank Millennium were determined at Bank Millennium's discretion (on the basis of a concept, not specified in any regulations, of average inter-bank market rate). Moreover, client had no precise knowledge on where to look for said rates since provision referred to Reuters, without precisely defining the relevant site.

Provisions relating to FX rates in Bank Millennium's tables were challenged since Bank Millennium failed to define when and how many times a day these tables were prepared and published.

In justification of the decision, the OPCC Chairman also indicated that in the course of the proceeding, Bank Millennium presented various proposed solutions, which the OPCC Chairman deemed to be insufficient.

The decision is not final and binding. Bank Millennium appealed against the said decision within statutory term.

On 31 March 2022, the first instance court revoked the entire decision of the Chairman of the OPCC. On 23 May 2022, the Chairman of the OPCC filed an appeal. On 26 October 2022, the Court of Appeals changed the judgment of the court of first instance and shared the position of the Chairman of the OPCC as to the abusiveness of the provisions regarding the determination of exchange rates in the annexes concluded with foreign currency borrowers. On 21 November 2022, the Court of Appeal, at the request of Bank Millennium, suspended the execution of the judgment until the end of the cassation proceedings. On 30 January 2023 Bank Millennium filled a cassation appeal to the Supreme Court.

5. As at 30 June 2023, the most important proceedings, in the group of the court cases where the Group's companies were defendant, were following:

- 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 one with another bank and card organizations. The total value of claims submitted in these cases is PLN 729.6 million (Euros 164.6 million). The proceedings with the highest value of the submitted claim are brought by PKN Orlen SA, in which the plaintiff demands payment of PLN 635.7 million (Euros 143.4 million). 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 in the years 2006-2014. In the other two cases, the charges are similar to those raised in the case brought by PKN Orlen SA, 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 four other proceedings regarding the interchange fee. Other banks are the defendant. Plaintiffs in these cases also accuse 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 in the years 2008-2014.

- A lawsuit brought up by Europejska Fundacja Współpracy Polsko-Belgijskiej/European Foundation for Polish-Belgian Cooperation (EFWP-B) against Bank Millennium S.A., worth of the dispute PLN 521.9 million (Euros 117.7 million) with statutory interest from 5 April 2016 until the day of payment. The plaintiff filed the suit dated 23 October 2015 to the Regional Court in Warsaw; the suit was served to Bank Millennium on 4 April 2016. According to the plaintiff, the basis for the claim is damage to their assets, due to the actions taken by Bank Millennium and consisting in the wrong interpretation of the Agreement for working capital loan concluded between Bank Millennium and PCZ S.A., which resulted in placing the loan on demand. In the case brought by EFWP-B, the plaintiff moved for securing the claim in the amount of PLN 250 million (Euros 56.4 million). The petition was dismissed on 5 September 2016 with legal validity by the Appellate Court. Bank Millennium is requesting complete dismissal of the suit, stating disagreement with the charges raised in the claim. Supporting the position of Bank Millennium, Bank Millennium's attorney submitted a binding copy of final verdict of Appeal Court in Wrocław favourable to Bank Millennium, issued in the same legal state in the action brought by PCZ SA against Bank Millennium. On 10 May 2023, the Court of first instance announced a judgment dismissing the claim in its entirety. The verdict is not final and the plaintiff's appeal is expected.

As at 30 June 2023, the total value of the subjects of the other litigations in which the Group's companies appeared as defendant, stood at PLN 4,677.9 million (Euros 1,055.2 million) (excluding the class actions described below and in note 56). In this group the most important category are cases related with FX loans mortgage portfolio and cases related to forward transactions (option cases).

6. On 3 December 2015 a class action was served on Bank Millennium. A group of Bank Millennium's debtors (454 borrowers party to 275 loan agreements) is represented by the Municipal Consumer Ombudsman in Olsztyn. The plaintiffs demanded payment of the amount of PLN 3.5 million (Euros 0.8 million), claiming that the clauses of the agreements, pertaining to the low down payment insurance, are unfair and thus not binding. Plaintiff extended the group in the court letter filed on 4 April 2018, therefore the claims increased from PLN 3.5 million (Euros 0.8 million) to over PLN 5 million (Euros 1.1 million).

Actual status:

On 1 October 2018, the group's representative corrected the total amount of claims pursued 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 1,662,705.9).

By the resolution of 1 April 2020 the court established the composition of the group as per request of the plaintiff and decided to take witness evidence in writing and called on the parties to submit questions to the witnesses. Bank Millennium submitted a pleading with questions to witnesses in July 2020. Currently, the court is collecting written testimony from witnesses. The hearing date was set for 24 October 2023.

As at 30 June 2023, there were also 158 individual court cases regarding LTV (loans-to-value) insurance (cases in which only a claim for the reimbursement of the commission or LTV insurance fee is presented).

7. On 13 August 2020, Bank Millennium received lawsuit from the Financial Ombudsman. The Financial Ombudsman, in the lawsuit, demands that Bank Millennium and the Insurer (TU Europa) be ordered to discontinue performing unfair market practices involving, as follows:

- presenting the offered loan repayment insurance as protecting interests of the insured in case when insurance structure indicates that it protects Bank Millennium's interests;

- use of clauses linking the value of insurance benefit with the amount of borrower's debt;

- use of clauses determining the amount of insurance premium without prior risk assessment (underwriting);

- use of clauses excluding insurer's liability for insurance accidents resulting from earlier causes.

Furthermore, the Ombudsman requires Bank Millennium to be ordered to publish, on its website, information on use of unfair market practices.

The lawsuit does not include any demand for payment, by Bank Millennium, of any specified amounts. Nonetheless, if the practice is deemed to be abusive it may constitute grounds for future claims to be filed by individual clients.

The case is being examined by the court of first instance.

8. On 1 October 2015, a set of entities connected to a group with debts in default to BCP amounting to Euros 170 million, resulting from a loan agreement signed in 2009 - debts already fully provisioned in the Bank's accounts -, filed against BCP, after receiving the Bank's notice for mandatory payment, a lawsuit requesting 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 that are proven and that must be proven.

The expertise was carried out and the expert report was submitted. There is a deadline for completing and concluding the expert report, in its final version, since the Bank presented a complaint about various aspects of the expert's report, in its first version.

9. By 30 June 2023, Bank Millennium recorded the receipt of 26 lawsuits by borrowers of mortgage loans in PLN for reimbursement of benefits provided under the loan agreement. The borrowers' allegations focus on the WIBOR ratio as an incomprehensible, unverifiable element affecting the consumer's liability, as well as the issue of insufficient information on the effects of variable interest rates provided to the consumer by the bank before the conclusion of the contract.

Based on publicly available information, it can be assumed that there will be an increase in the number of lawsuits concerning mortgage loans in PLN, with the potential to affect the entire sector of banking services. In this sense, it is not excluded that a new wave of litigation may be attended, consisting in questioning mortgage contracts containing a variable interest rate clause based on the WIBOR reference index.

The Polish Financial Supervision Authority (KNF) announced that it had assessed the ability of the WIBOR interest rate reference index to measure the market and economic realities. The KNF stated that the WIBOR interest rate reference index is capable of measuring the market and economic realities for which it was established. According to the Commission's assessment, the WIBOR ratio responds appropriately to changes in liquidity conditions, changes in central bank rates and economic realities.

10. 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, Banco de Portugal applied a resolution measure to Banco Espírito Santo, S.A. (BES) in accordance with the Article 145-C (1.b) of the Decree-law no. 298/92, of 31 December 1992, as amended (the "Banking Law"), which entailed, *inter alia*, 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 Banco de 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. Further, in accordance with information published on the Resolution Fund's website, the Resolution Fund borrowed Euros 4,600 million, of which Euros 3,900 million were granted by the Portuguese State and Euros 700 million by a group of credit institutions, including the Bank.

As announced on 29 December 2015, Banco de 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. These lists detail that the total acknowledged 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, and no guaranteed or privileged claims exist. Both the total number of acknowledged creditors and the total value of the acknowledged credits and their ranking will only be ultimately determined upon the definitive judicial judgment of the verification and ranking of credits to be given in the liquidation proceedings.

According to the Resolution Fund's 2022 Annual Report, the Resolution Fund filed an appeal against the list of creditors with the Judicial Court of the District of Lisbon, requesting the recognition of its claims. The appeal was upheld, and the Liquidation Committee of BES filed an appeal. In 2023, the Lisbon Court of Appeal rejected the appeal filed by the Liquidation Committee of BES and, in favour of the position defended by the Resolution Fund, confirmed the decision of the Court of First Instance and the recognition, in the amount of Euros 1,242,568.9 thousand of the credits claimed by the Resolution Fund as privileged credits. In February 2023, the Liquidation Committee of BES filed a review appeal with the Supreme Court of Justice, which decision is expected during 2023.

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 2022, "*Legal actions related to the application of resolution measures have no definitive legal precedents, which makes it impossible to use case law in its evaluation, as well as to obtain a reliable estimate of the associated contingent financial impact. (…) The Resolution Fund, supported by legal advice of the attorneys for these actions, and in 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*".

According to note 22 of the Resolution Fund's annual report of 2022, *"In addition to the Portuguese courts, it is important to take into account the litigation of Novo Banco, S.A., in other jurisdictions, being noteworthy, for its materiality and respective procedural stage, the litigation in the Spanish jurisdiction. Regarding litigation in the Spanish jurisdiction, during the years 2018 to 2022, 12 (decisions) have become final and unappealable condemning Novo Banco, Spanish branch, as well as four sentences in relation to which due compensation has been requested from the Resolution Fund*".

On 31 March 2017, Banco de Portugal communicated the sale of Novo Banco, where it states the following: *"Banco de 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 included a Contingent Capital Agreement (CCA), under which the Resolution Fund, as a shareholder, undertakes to make capital injections if certain cumulative conditions are 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, Banco de 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 BES.

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 Portuguese State that are part of the sale agreement associated with a total gross book value of around Euros [10-20] billion(1) that revealed significant uncertainties regarding adequacy in provisioning(2):

(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(1)(2)(3);

(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 CCA is subject to the cap of Euros 3.89 billion(2);

(iii) in case the Supervisory Review and Evaluation Process ("SREP") total capital ratio of Novo Banco falls below the SREP total capital requirement, the Portuguese State will provide additional capital in certain conditions and through different instruments(2). According to the audit report on the management of Novo Banco conducted by the Court of Auditors and released on 12 July 2022, *"the risk of triggering the additional capital mechanism (capital backstop), up to Euros 1.6 billion, provided for in the commitments made by the Portuguese State to ensure the viability of NB, exists".*

According to an investor's presentation from Novo Banco's of June 2023, Novo Banco still has Euros 485 million under the MCC in addition to the Euros 209 million included in the capital call for 2021. The mechanism is in place until December 2025, date that can be extended, under certain conditions, by one additional year.

(1) Exact value not disclosed by the European Commission for confidentiality reasons

(2) As referred to in the respective European Commission Decision

(3) 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%

According to a statement issued by the Resolution Fund on 13 February 2023, *"the Ministry of Finance has disclosed that the European Commission intends to consider the restructuring process of Novo Banco as completed. The information disclosed today confirms the successful restructuring of Novo Banco, resulting from the combined execution of the restructuring plan agreed in 2017, under the sale transaction conducted by Banco de Portugal, and the sale agreements, namely the CCA, under which the Resolution Fund transferred to Novo Banco Euros 485 million, less than the maximum amount set in the contract (Euros 3,890 million). The completion of the restructuring of Novo Banco (…) is also another indicator that Novo Banco should not need to request any further payment to the Resolution Fund under the CCA, without prejudice to the ongoing litigation or that still may occur regarding the amounts already requested by Novo Banco in relation to past years and that the Resolution Fund considers that are not due".* On the same day, Banco de Portugal issued the following statement *"The conclusion of the Novo Banco restructuring process also results in the end of the backstop mechanism, which provided for the possibility, which was always considered remote, of the Portuguese State providing extraordinary support to Novo Banco in extreme scenarios. This mechanism protected Novo Banco and the national financial system from more adverse scenarios, which did not materialize. With the end of the backstop, the financial risk for the Portuguese State is eliminated".*

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 for clarifying any differences that may exist between Novo Banco and the Resolution Fund regarding the set of calculations inherent to the CCA 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 2022 Resolution Fund's annual report, the Resolution Fund follows the work carried out by the Verification Agent, while specific analyses are being requested.

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 CCA 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 at 31 December 2022, amounted to Euros 1.1 billion (book value, net of impairments), according to Novo Banco's annual 2022 report.

According to a notice issued by the Resolution Fund on 4 June 2020, the *"Resolution Fund and Novo Banco have initiated an arbitration procedure to clarify the treatment that should be given, under the CCA, of the effects of Novo Banco's decision to waive 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 CCA, 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 CCA. The above arbitral proceedings therefore do not represent an additional risk compared to the ceiling of Euros 3,890 million".*

According to Resolution Fund's annual report of 2022, *"the award of the Arbitration Court, constituted under the aegis of the International Chamber of Commerce, was known at the end of October 2021, and was favourable to the Resolution Fund. The Arbitration Court considered that (...) the financial impact on Novo Banco's own funds could not be covered by the CCM. The value of the dispute at the date of the award amounted to Euros 169 million, an amount that the Resolution Fund would have had to pay to Novo Banco if the Arbitration Court's award had not been favourable".*

Additionally, regarding the intervention of the Resolution Fund concerning the transitional regime of the implementation of the dynamic component of IFRS 9, Novo Banco estimates a positive impact on its own funds in the amount of Euros 171 million (which implies a reduction in the capital requirements that Novo Banco intended to pass on to the CCM in the amount of Euros 161.6 million). Accordingly, the Resolution Fund initiated a second arbitration proceeding, also under the aegis of the International Chamber of Commerce, with a view to settling the difference between the parties. This process is in progress, and it is estimated that an award will be rendered YE 2023 or first half of 2024.

According to a statement by the Resolution Fund on 3 September 2020, following the payment made in May 2019 by the Resolution Fund to Novo Banco in compliance with the CCA, a special audit determined by the Government was carried out. The information was presented by the independent entity that carried out the special audit, showed that Novo Banco has been operating with a strong influence of the vast legacy of non-productive assets, originated in BES, which resulted in impairment charges and provisions, but have also contributed to rendering Novo Banco's internal procedures more robust. Regarding the exercise of the powers of the Resolution Fund under the CCA, the audit results reflect the adequacy of the principles and the adopted criteria.

According to Resolution Fund's annual report of 2022, the procedure relating to the payment to Novo Banco regarding 2020 accounts has been concluded, concluding that a payment of Euros 112 million was due to Novo Banco from the Resolution Fund which had remained pending further verification. Therefore, that amount was paid to Novo Banco, in December 2021.

According to Resolution Fund's annual report of 2022, Novo Banco submitted to the International Chamber of Commerce a request for arbitration to have recognized the right to receive an aggregate amount of Euros 165,441.9 thousand (divestment of Novo Banco's activity in Spain in the amount of Euros 147,441.9 thousand and valuation differences regarding a set of assets held by Novo Banco in the amount of Euros 18,000 thousand) which the Resolution Fund considered, and considers, not to merit the coverage of the CCM.

On 3 May 2021, following the request of the Portuguese parliament in October 2020 to review the operations and management of Novo Banco that led to the need to transfer funds from the Resolution Fund to Novo Banco, the Resolution Fund announced that the audit report conducted by Tribunal de Contas ("Court of Auditors") was released. The Court of Auditors concluded that the public financing of Novo Banco through the CCA contributed to the stability of the financial system, particularly as it avoided the bank's liquidation and reduced systemic risk. According to the Resolution Fund, the audit does not identify any impediment to the fulfilment of commitments and contracts arising from BES's resolution process, initiated in August 2014.

On 9 September 2020, BCP informed that it has decided not to continue with 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 CCA of Novo Banco.

According to Novo Banco's 2022 annual report (note 30), Novo Banco adhered to the Special Regime applicable to Deferred Tax Assets under Law No. 61/2014, of 26 August, according to which, the deferred tax assets recorded until 31 December 2015 can be converted into tax credits when the taxable entity reports an annual net loss, in accordance to the proportion of the amount of the said net loss to total equity at the individual company level, A special reserve was established with an amount identical to the tax credit approved, increased by 10%. The conversion rights are securities that entitle the State to require Novo Banco to increase its share capital by incorporating the amount of the special reserve and consequently issuing and delivering free of charge ordinary shares. The shareholders have the right to acquire the conversion rights attributed to the Portuguese State.

According to the Resolution Fund's 2022 annual report, under the terms of the sale of Novo Banco, the 75% of the share capital of Novo Banco held by Nani Holdings is not affected by the dilution associated with the Special Regime applicable to deferred tax assets (REIAD).

On 17 December 2021, Novo Banco, carried out a capital increase in the amount of Euros 154,907.3 thousand, through the conversion of the rights that had been attributed to the State due to the conversion of the deferred tax assets of Novo Banco, into tax credits, with reference to the 2015 tax period, under the REIAD. As of that date, the State became a shareholder of Novo Banco, having been attributed a participation corresponding to 1.56% of the share capital. Later, on 4 November 2022, Novo Banco made a further capital increase of Euros 249,753 thousand by converting the rights that had been attributed to the State by virtue of the conversion of Novo Banco's DTA into tax credits, with reference to the 2016 and 2017 tax periods.

Following the two capital increases mentioned above, the Resolution Fund's stake in Novo Banco was diluted from 25% to 19.31%.

According to Novo Banco's statement on 22 March 2023, the final amount of conversion rights under the REIAD for the 2018 and 2019's exercises, attributed to the State, represents an additional 6.27% stake in the share capital of Novo Banco, which would hold 11.96% of Novo Banco's share capital.

According to the Resolution Fund's 2022 annual report, it is estimated that the process of the DTA conversion into tax credits, for the period of 2020 may correspond to 3.88 p.p. in addition to the aggregated reduction of 11.96 p.p.

According to a presentation of Novo Banco to investors disclosed in June 2023, Lone Star owns 75% of Novo Banco, the Resolution Fund 13%, and the Portuguese State 12%.

Thus, it is estimated that the aggregate effect of the application of the REAID, taking into account the losses recorded by Novo Banco, from 2015 to 2020, will result in a State stake of 15.84% and the reduction of the Resolution Fund's participation to 9.16%.

Resolution measure of Banif – Banco Internacional do Funchal, S.A.

On 19 December 2015, the Board of Directors of Banco de Portugal announced that Banif *"was failing or likely to fail"* 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 loan granted by the State.

On 4 July 2022, Oitante - 100% owned by the Resolution Fund - completed the process of repayment of the bonds issued in connection with the resolution of BANIF. Oitante's debt, which initially amounted to Euros 746 million, was thus fully repaid. With the repayment of the debt, the Resolution Fund's responsibility as guarantor also ceases, as well as the Portuguese State's responsibility as provider of a counter-guarantee.

On 16 January 2023, the Liquidation Committee of Banif announced a list of all the acknowledged and a list of the non-acknowledged creditors. According to the Resolution Fund's 2022 annual report, the Resolution Fund holds a claim on Banif of Euros 489 million, which has a higher claim ranking provided for in article 166-A of the RGICSF. Under the judicial liquidation process of Banif, which was initiated following the resolution, the independent evaluator estimates that the level of recovery of the financial support made available by the Resolution Fund, as having a higher ranking at the end of the liquidation, is expected to be 7.6%.

On 12 January 2021, Banco de Portugal was informed that the Administrative and Fiscal Court of Funchal dismissed a lawsuit involving several disputes associated to Banif's resolution measures applied by Banco de Portugal. In its decision, the Court determined the legality and maintenance of Banco de Portugal's measures.

Liabilities and financing of the Resolution Fund

Pursuant to the resolution measures applied to BES and Banif, the Resolution Fund incurred on loans and assumed other responsibilities and contingent liabilities resulting from:

- The State loans, on 31 December 2021, 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 CCA (Euros 430 million plus Euros 850 million of additional funding requested in 2019 and Euros 850 million made available in 2020);

- Other funding granted:

  - in 2014 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;

  - in 2021 by seven domestic credit institutions, including BCP, to finance payments due under the CCA up to a maximum of Euros 429 million;

- The underwriting by the Resolution Fund of a Tier 2 instrument to be issued by Novo Banco up to the amount of Euros 400 million 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, which must be neutralized by the Resolution Fund;

- Legal proceedings filed against the Resolution Fund;

- Guarantee granted to secure the bonds issued by Oitante, totally reimbursed, as described above.

- CCA allows Lone Star to claim, 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 Novo Banco's 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 Resolution Fund's annual report of 2022, contingent liabilities from the CCA are limited to a maximum aggregate amount of Euros 3,890 million and that the aggregate amount of this contingent liability, which corresponds to the difference between that maximum amount and the amounts already paid by the Resolution Fund, amounts to Euros 485 million.

The expectation of the Resolution Fund is that, except for what may eventually result from the pending arbitration disputes with Novo Banco, no further payments will occur under the CCA. On the other hand, the value of payments already made may be compensated, under the terms of the contracts, by the eventual recovery of credits that may occur, to which the value of the shareholding of the Resolution Fund in Novo Banco must be added.

According to note 22 of the Resolution Fund's 2022 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 August 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, required from to maintain the contributory effort required from the banking sector at prevailing levels at that time.

According to the statement 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 early repayment based on the use of the Resolution Fund's revenues. The revision of the loan's terms aimed to ensure the sustainability and financial balance of the Resolution Fund. The terms allow 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"*.

According to the audit report on the management of Novo Banco conducted by the Court of Auditors and released on 12 July 2022, *"the repayment of the Euros 2,130 million loans granted by the Portuguese State to the Resolution Fund will not end in 2046, as expected, rather in 2056 (without payments under the CCA after 2021) or in 2059 (with the use of the CCA cap). (...) In other, more pessimistic scenarios, these loans will still be being repaid in 2062"*.

On 2 October 2017, by Resolution no. 151-A/2017, of the Council of Ministers of 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 the State deemed necessary, to satisfy any contractual obligations that may arise from the sale of the 75% stake in Novo Banco. The above-mentioned resolution further set out that the framework agreement should be subject to a time period that is consistent with the undertakings of the Resolution Fund and should preserve the Resolution Fund's capacity to satisfy said obligations in due time.

On 31 December 2022, the Resolution Fund's own resources had a negative equity of Euros 6,974.7 million, as opposed to Euros 7,207.6 million at the end of 2021, according to the latest 2022 annual report of the Resolution Fund.

To repay 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 (created under 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 satisfy its 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 Banking Law, the Bank has been paying, since 2013, its mandatory contributions set out in the aforementioned decree-law.

On 3 November 2015, the Banco de Portugal issued Circular Letter no. 085/2015/DES, 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 no. 24/2013, of 19 February, thus the Bank is recognising as an expense the contribution to the Resolution Fund in the year in which it becomes due.

Decree-Law no. 24/2013 of 19 February further sets out that Banco de Portugal has the authority to determine, by way of instruction ("instrução"), the applicable yearly rate based on objective incidence of periodic contributions. The instruction of Banco de Portugal no. 19/2022, published on 15 December 2022, set the base rate for 2023 for the determination of periodic contributions to the Resolution Fund at 0.029% (0.057% in 2022).

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 BES. Therefore, the potential collection of a special contribution appears to be unlikely"*.

In 2015, following the establishment of the Single Resolution Fund (SRF), the Group made 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 Single Resolution Fund does not cover undergoing situations with the National Resolution Fund as at 31 December 2015. The total amount of the contribution attributable to the Group in the first half of 2023 was Euros 22,861 thousand, of which the Group delivered Euros 17,729 thousand and the remaining was constituted as irrevocable payment commitment.

In the first half of 2023, the Group made regular contributions to the Portuguese Resolution Fund in the amount of Euros 9,491 thousand. The amount related to the contribution on the banking sector in Portugal, registered in the first half of 2023, was Euros 44,807 thousand. These contributions were recognized as a cost in the first half of 2023, in accordance with IFRIC no. 21 – Levies.

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 which need to be neutralized by the Resolution Fund; and, (iv) legal proceedings against the Resolution Fund.

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 member of the Government responsible for finance a proposal with respect to the determination of amounts, time limits, payment methods, and any other terms related to the special contributions to be made by the institutions participating in 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 2022 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 Banking Act, although no such contributions are expected. The Resolution Fund may also, exceptionally, obtain financial support from the State, namely through loans or guarantees, as set out in article 153-J of the same regime"*.

To meet a payment from the Resolution Fund to Novo Banco, as per to Resolution no. 63-A/2021 of 27 May 2021 of the Council of Ministers and Order from the Minister of State and Finance, of 31 May 2021 - intended to provide the Resolution Fund with the financial resources necessary to meet any obligations arising from the Contingent Capitalization Agreement in the years 2021 and 2022 – rendering a new loan from the State to the Resolution Fund, a number of national financial institutions offered to finance the Resolution Fund, increasing up to Euros 475 million the direct financing of banks to the Resolution Fund and waiving a Portuguese State loan to the Resolution Fund.

According to the Resolution Fund's 2022 annual report from the maximum amount of Euros 475 million. The Resolution Fund used Euros 429 million, which corresponds to the payment made to Novo Banco in 2021. The loan matures in 2046 and bears interest at a rate corresponding to the sovereign cost of funding for the period between the contract date (31 May 2021) and 31 December 2026, plus a margin of 15 b.p. The interest rate will be reviewed on 31 December 2026 and, after that, every five-years. The payment obligations arising from this loan benefit from a pari passu treatment with the payment obligations of the loans entered into with the Portuguese State on 7 August 2014 and 31 December 2015 and with the Portuguese credit institutions on 28 August 2014. The funding costs of the Resolution Fund (from the State and from banks) will continue to be exclusively borne by periodic revenues, corresponding to the contributions paid by the banking sector.

11. 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 Bank of 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 Bank of Portugal dated 31 March 2017, of which the claimants were not notified. The proceedings were filed in court on 4 September 2017. Bank of 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.

In addition to opposing to it, the defendants invoke three objections (i) the illegitimacy of the claimants, (ii) the argument that the act performed by Bank of Portugal cannot be challenged and (iii) the material incompetence of the court. The opponent party 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, Bank of 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 obtain adequate knowledge thereof. That issue was already raised in the proceedings (requesting the court to order Bank of 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 the 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 in order to request the claimants to identify it. Afterwards, that Bank will be notified to present its opposition arguments.

The case was sent to the judge on 23 September 2019 and the Bank is awaiting a decision. BCP added legal opinions to the records (Professors Mário Aroso de Almeida and Manuel Fontaine de Campos).

12. Following the restructuring process agreed with the Directorate-General for Competition (DGComp) and the Portuguese State, Group Banco Comercial Português implemented a process of salary adjustment for a temporary period. Additionally, it was agreed between the Bank and the Unions that, in the years after the State intervention and if there are distributable profits, the Board of Directors and the Executive Committee would 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, effective between 2014 and 2017.

At the General Meeting held on 24 May 2023, the proposal submitted by the Board of Directors, the application of profits relating to the financial year of 2022 was approved, which included an extraordinary distribution to the employees to Euros 9,972,000, with the concrete determination of the amount to be attributed to each employee to be fixed by the Executive Committee to employees who, having not already been fully compensated with the results distributed in 2019 and 2020 and 2022, remain in office on the date of payment of the remuneration of June 2023. This extraordinary distribution of results, together with those of 2019, 2020 and 2022 allowed the distribution to the employees in office in June 2023 of an accumulated amount equal to the total amount not received during the period of temporary salary adjustment indicated in the previous paragraph.

13. The Bank was subject to tax inspections for the years up to 2019. 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, including 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 and at the Stamp Duty level. Most of additional liquidations/corrections made by the tax administration were the object of contestation by administrative and/or judicial means.

The Bank recorded provisions, current tax liabilities or deferred tax liabilities at the amount considered sufficient 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.

56. Provisions for legal risk related to foreign currency-indexed mortgage loans in Bank Millennium (Poland)

1. Court claims and current provisions for legal risk

On 30 June 2023, Bank Millennium had 18,441 loan agreements and additionally 1,482 loan agreements from former Euro Bank under individual ongoing litigations (excluding claims submitted by Bank Millennium against clients i.e. debt collection cases) concerning indexation clauses of FX mortgage loans submitted to the courts (70% loans agreements before the courts of first instance and 30% loans agreements before the courts of second instance) with the total value of claims filed by the plaintiffs amounting to PLN 3,415.6 million (Euros 770.5 million) and CHF 237.5 million (Euros 243.3 million) [(Bank Millennium portfolio: PLN 3,138 million (Euros 707.8 million) and CHF 231.5 million (Euros 237.1 million) and former Euro Bank portfolio: PLN 277.6 million (Euros 62.6 million) and CHF 6 million (Euros 6.1 million)]. Out of 18,441 BM loan agreements in ongoing individual cases 163 are also part of class action. From the total number of individual litigations against the Bank approximately 1,700 or 9.4% were submitted by borrowers that had already naturally or early fully repaid the loan or were converted to polish zloty at the moment of submission and had not a settlement agreement and another 600 correspond to loans that were fully repaid since then (as court proceedings are lengthy).

The claims formulated by the clients in individual proceedings primarily concern the declaration of invalidity of the contract and payment for reimbursement of paid principal and interest instalments as undue performance, due to the abusive nature of indexation clauses, or maintenance of the agreement in PLN with interest rate indexed to CHF Libor.

In addition, Bank Millennium is a party to the group proceedings (class action) subject matter of which is to determine Bank Millennium's liability towards the group members based on unjust enrichment (undue benefit) ground in connection with the foreign currency mortgage loans concluded. It is not a payment dispute. The judgment in these proceedings will not directly grant any amounts to the group members. The number of credit agreements covered by these proceedings is 3,273. Out of 3,273 loan agreements in class action 163 are also part of ongoing individual cases, 579 concluded settlements and 4 received final verdicts (invalidation of loan agreement). On 24 May 2022 the court issued a judgment on the merits, dismissing the claim in full. On 13 December 2022 the claimant filed an appeal against the judgment of 24 May 2022.

The pushy advertising campaign observed in the public domain affects the number of court disputes. Until the end of 2019, 1,985 individual claims were filed against Bank Millennium (in addition, 236 against former Euro Bank), in 2020 the number increased by 3,006 (265), in 2021 the number increased by 6,156 (423), in 2022 the number increased by 5,750 (407), while in the first half of 2023 the number increased by 3,237 (272).

Based on ZBP (the Polish Banking Association) data gathered from all banks having FX mortgage loans, vast majority of disputes were finally resolved against the banks. As far as Bank Millennium (incl. former Euro Bank portfolio) is concerned, from 2015 until the end of the first half of 2023, 2,082 cases were finally resolved (2,011 in claims submitted by clients against Bank Millennium and 71 in claims submitted by Bank Millennium against clients i.e. debt collection cases) out of which 573 were settlements, 42 were remissions, 56 rulings were favourable for Bank Millennium and 1,411 were unfavourable including both invalidation of loan agreements as well as conversions into PLN+LIBOR. Bank Millennium files appeals against negative judgements of the courts of 1st instance. Simultaneously Bank Millennium undertakes proper legal actions in order to secure repayment of initially disbursed capital of the loan.

The outstanding gross balance of the loan agreements under individual court cases and class action against Bank Millennium (incl. former Euro Bank portfolio) on 30 June 2023 was PLN 5,730 million (Euros 1,292.5 million) [of which the outstanding amount of the loan agreements under the class action proceeding was PLN 826 million (Euros 186.3 million)].

If all Bank Millennium’s originated loan agreements currently under individual and class action court proceedings would be declared invalid without any compensation for the use of capital, the pre-tax cost could reach PLN 5,851 million (Euros 1,319.8 million). Overall losses would be higher or lower depending on the final court jurisprudence in this regard.

During first half of 2023 Bank Millennium created PLN 1,535.5 million (Euros 331.6 million) provisions for Bank Millennium originated portfolio and PLN 85.1 million (Euros 18.4 million) for former Euro Bank originated portfolio. The balance sheet value of provisions for Bank Millennium's portfolio at the end of June 2023 was at the level of PLN 6,088 million (Euros 1,373.3 million), and PLN 474 million (Euros 106,9 million) for former Euro Bank originated portfolio.

The methodology developed by Bank Millennium of calculating provisions for legal risk involved with indexed loans is based on the following main parameters:

(1) the number of ongoing cases (including class actions agreements) and potential future lawsuits that will arise within a specified (three-year) time horizon. As regards the increase in the number of future court cases, Bank Millennium monitors customer behaviours, follows market trends and expert comments, which resulted in the adjustment of previous assumptions. As a result, in the methodology of calculating provisions for legal risk in the case of active loans (loans with an outstanding balance as at the date of filing the lawsuit), Bank Millennium increased the estimated percentage of customers with active contracts who already filed or will decide to file a lawsuit against Bank Millennium to 70% of active loan agreements (compared to 55% at the end of 2022). As of end of June, Bank Millennium had 35 417 active CHF loan agreements. Another 19,485 agreements have been subject of a settlement agreement with the borrowers and about 45,000 loans have been naturally or early fully repaid or converted to polish zloty and not subject of a settlement agreement. Regarding loans already fully repaid or converted to polish zloty, Bank Millennium attributes a much lower probability of becoming the subject of a court case based on statistical analysis. In particular:
a) Bank Millennium assesses the risk connected with the settlements reached with the clients in the past as negligible
b) from the group of loans that have been repaid (naturally or early or converted into polish zloty loan) and were not subject of a settlement agreement, Bank Millennium assumes that about 1,3 thousand will decide to sue Bank Millennium in the future.

(2) the currently estimated amount of Bank Millennium's potential loss in the event of a specific court judgment;

(3) the probability of obtaining a specific court judgment calculated on the basis of statistics of judgments in cases where Bank Millennium is a party and legal opinions obtained;

(4) after the decision of the CJEU in case C-520/21, with particular emphasis on the extent to which provisions for legal risk may increase as a result of a negative judgment understood as no remuneration for Bank Millennium for the use of capital, Bank Millennium changed the methodology of calculating provisions and eliminated an element related to remuneration for Bank Millennium for the use of capital;

(5) in accordance with legal opinions, Bank Millennium does not include in the methodology for calculating provisions the element related to the potential claim for remuneration for the client in connection with the repayments made by him;

(6) estimates involved with amicable settlements with clients, concluded in court or out of court:

a. Bank Millennium assumes 15% probability of success of reaching a settlement within negotiations made with clients during court proceedings;

b. negotiations in court or out of court are conducted on a case-by-case basis and can be stopped at any time by Bank Millennium;

c. due to significant negotiation efforts already made in the past, the probability of success in these negotiations in the future is decreasing, and at the same time most customers have already contacted the Bank regarding the possible conversion of loans into PLN, so at the moment the Bank adopts a conservative approach when taking into account the potential impact of this factor.

Bank Millennium is open to negotiate case by case favourable conditions for early repayment or conversion of loans to PLN. As a result of these negotiations, the number of active FX mortgage loans originated by Bank Millennium decreased by 19,485: 1,362 in 2020; 8,450 in 2021; 7,943 in 2022 and 1,730 in the first half of 2023. As of the end of the first half of 2023, the Bank had 35,417 active FX mortgage loans. Cost incurred in conjunctions with these negotiations totalled PLN 1,104.6 million (Euros 238.5 million): PLN 44.4 million (Euros 9.6 million) in 2020; PLN 364.6 million (Euros 78.7 million) in 2021; PLN 515.2 million (Euros 111.3 million) in 2022 and PLN 180.7 million (Euros 39 million) in the first half of 2023 is presented mainly in ‘Result on exchange differences’ and also in ‘Result on modification’ in the profit and loss statement.

Legal risk from former Euro Bank portfolio is fully covered by Indemnity Agreement with Societe Generale.

Bank Millennium analysed the sensitivity of the methodology for calculating provisions, for which a change in the parameters would affect the value of the estimated loss to the legal risk of litigation:

Parameter	Scenario	Impact on loss
Change in the number of litigations	In addition, 1,000 new customers file a lawsuit against the Bank	PLN 163 million (Euros 36.77 million)
Change of estimated losses for each variant of judgment	Change of losses for each judgment variant by 1 p.p	PLN 60 million (Euros 13.53 million)
Change in probability of success in negotiations with court client	Change of probability by 1 p.p	PLN 25 million (Euros 85.64 million)

On 8 December 2020, Mr. Jacek Jastrzębski, the Chairman of the Polish Financial Supervision Authority ('PFSA') proposed a 'sector' solution to address the sector risks related to FX mortgages. The solution would consist in offering banks' clients a voluntary possibility of concluding arrangements based on which a client would settle a CHF Mortgage Loan as if it was a PLN loan bearing interest at an appropriate WIBOR rate increased by the margin historically employed for such loans. As of the date of this Base Prospectus, Bank Millennium has not taken any decision regarding the implementation of this solution but cannot exclude implementing it in the future. The decision to generally implement this solution could imply the need of creating upfront provisions for the losses resulting from the conversion of CHF Mortgage Loans. Bank Millennium in practice has been using elements of such solution on many individual negotiations with FX mortgage borrowers, including in the course of court proceedings.

Due to the circumstances stemming from the CJEU verdict in case C-520/21 (below described), the possibility of successful implementation of a general offer of KNF solution is low.

Finally, it should also be mentioned, that Bank Millennium, as at 30 June 2023, had to maintain additional own funds for the coverage of additional capital requirements related to FX mortgage portfolio risks (Pillar II FX buffer) in the amount of 1.95 p.p. (1.94 p.p. at the Group level), part of which is allocated to operational/legal risk.

CJEU and Supreme Court rulings relevant to risk assessment

Jurisprudence of Court of Justice of the European Union

On 3 October 2019, the Court of Justice of the European Union ('the CJEU') issued the judgment in Case C-260/18 in connection with the preliminary questions formulated by the District Court of Warsaw in the case against Raiffeisen Bank International AG. The judgment of the CJEU, as regards the interpretation of European Union law made therein, is binding on domestic courts. The judgment in question interpreted Article 6 of Directive 93/13. In the light of the subject matter judgment the said provision must be interpreted in such a way that:

(i) the national court may invalidate a credit agreement if the removal of unfair terms detected in this agreement would alter the nature of the main subject-matter of the contract;

(ii) the effects for the consumer's situation resulting from the cancellation of the contract must be assessed in the light of the circumstances existing or foreseeable at the time when the dispute arose and the will of the consumer is decisive as to whether he wishes to maintain the contract;

(iii) Article 6 of the Directive precludes the filling-in of gaps in the contract caused by the removal of unfair terms from the contract solely on the basis of national legislation of a general nature or established customs;

(iv) Article 6 of the Directive precludes the maintenance of unfair terms in the contract if the consumer has not consented to the maintenance of such terms. It can be noticed the CJEU found doubtful the possibility of a credit agreement being performed further in PLN while keeping interest calculated according to LIBOR.

The CJEU judgment concerns only the situation where the national court has previously found the contract term 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 regarded as abusive in the circumstances of the case.

On 29 April 2021, the CJEU issued the judgement in the case C-19/20 in connection with the preliminary questions formulated by the District Court in Gdańsk in the case against of ex-BPH S.A., CJEU said that:

(i) it is for the national court to find that a term in a contract is unfair, even if it has been contractually amended by those parties. Such a finding leads to the restoration of the situation that the consumer would have been in in the absence of the term found to be unfair, except where the consumer, by means of amendment of the unfair term, has waived such restoration by free and informed consent. However, it does not follow from Council Directive 93/13 that a finding that the original term is unfair would, in principle, lead to annulment of the contract, since the amendment of that term made it possible to restore the balance between the obligations and rights of those parties arising under the contract and to remove the defect which vitiated it;

(ii) the national court may remove only the unfair element of a term in a contract concluded between a seller or supplier and a consumer where the deterrent objective pursued by Council Directive 93/13 is ensured by national legislative provisions governing the use of that term, provided that that element consists of a separate contractual obligation, capable of being subject to an individual examination of its unfair nature. At the same time, provisions of the Directive preclude the referring court from removing only the unfair element of a term in a contract concluded between a seller or supplier and a consumer where such removal would amount to revising the content of that term by altering its substance;

(iii) the consequences of a judicial finding that a term if a contract concluded between a seller or supplier and a consumer is unfair are covered by national law and the question of continuity of the contract should be assessed by the national court of its own motion in accordance with an objective approach on the basis of those provisions;

(iv) the national court, finding that a term in a contract concluded between a seller or supplier and a consumer is unfair, shall inform the consumer, in the context of the national procedural rules after both parties have been heard, of the legal consequences entailed by annulment of the contract, irrespective of whether the consumer is represented by a professional representative.

On 18 November 2021, the Court of Justice of the European Union (CJEU) issued a judgment in case C-212/20 in connection with questions submitted by the District Court for Warsaw Wola in Warsaw in the case against Raiffeisen Bank International AG. The CJEU stated that:

(i) The content of the clause of the loan agreement concluded between the entrepreneur and the consumer fixing the purchase and sale price of the foreign currency to which the loan is indexed should, on the basis of clear and comprehensible criteria, enable the consumer who is reasonably well informed and sufficiently observant and rational to understand how the exchange rate of the foreign currency used to calculate the amount of the loan instalments is determined, so that the consumer is able to determine himself at any time the exchange rate used by the entrepreneur;

(ii) A national court which has found that a term of the agreement concluded between an entrepreneur and a consumer is unfair cannot interpret that term in order to mitigate its unfairness, even if such an interpretation would correspond to the common will of the parties.

On 10 June 2021, the Court of Justice of the European Union (CJEU) issued an order in case C-198/20 in connection with questions submitted by the District Court for Warsaw Wola in Warsaw in the case against Santander Bank Polska SA. The CJEU stated that the protection provided for in Council Directive 93/13/EEC is granted to all consumers, not just those who can be considered to be 'duly informed and reasonably observant and circumspect average consumers'.

On 8 September 2022, the Court of Justice of the European Union (CJEU) issued a judgment in joined cases C-80/21, C-81/21, C-82/21 in connection with questions submitted by the District Court for Warsaw Śródmieście in Warsaw in cases against Deutsche Bank SA and mBank SA. The CJEU stated that:

(i) A national court may find that the parts of a contractual term of the agreement concluded between a consumer and an entrepreneur which render it unfair are unfair, if such a deletion would not amount to a change in the content of that term that affects its substance, which is for the referring court to verify;

(ii) A national court cannot, after annulling an unfair term contained in an agreement concluded between a consumer and an entrepreneur which does not render the agreement invalid in its entirety, replace that term with a supplementary provision of the national law;

(iii) A national court may not, after having declared invalid an unfair term contained in an agreement concluded between a consumer and an entrepreneur which entails the invalidity of that agreement in its entirety, replace the contractual term which has been declared invalid either by interpretation of the parties' declaration of intent in order to avoid the cancellation of that agreement or by a provision of national law of a supplementary nature, even if the consumer has been informed of the effects of the invalidity of that agreement, and accepted them;

(iv) The ten-year limitation period for a consumer's claim seeking reimbursement of sums unduly paid to the entrepreneur in performance of an unfair term of a loan agreement does not start to run on the date of each performance made by the consumer if the consumer was not able on that date to assess on his own the unfairness of the contractual term or if he had not become aware of the unfair nature of that term and without taking into account the circumstances that the agreement provided for a repayment period – in this case thirty years – well in excess of the ten-year statutory limitation period.

On 16 March 2023, the Court of Justice of the European Union issued a judgment in a case registered under case number C-6/22, following preliminary questions submitted by the District Court for Warsaw-Wola in a case against the former Getin Bank S.A. In the judgment, the CJEU ruled that:

i) in the event that a contract concluded between a consumer and a seller or supplier is declared invalid because one of its terms is unfair, it is for the Member States, by means of their national law, to make provision for the effects of that invalidation, in compliance with the protection granted to the consumer by that directive, in particular, by ensuring the restoration of the legal and factual situation that he or she would have been in if that unfair term had not existed.

ii) a national court is not allowed, first, to examine of its own motion, without any prerogative conferred on it by national law in that regard, the financial situation of a consumer who has sought the invalidation of the contract between him or her and a seller or supplier on account of the presence of an unfair term without which the contract cannot legally continue to exist, even if that invalidation is liable to expose the consumer to particularly unfavourable consequences and, second, to refuse to declare that invalidation where the consumer has expressly sought it, after being objectively and exhaustively informed of the legal consequences and the particularly unfavourable financial consequences which it may have for him or her.

iii) a national court is not allowed, after it has found that a term in a contract concluded between a seller or supplier and a consumer is unfair, to fill gaps resulting from the removal of the unfair term contained therein by the application of a provision of national law which cannot be characterised as a supplementary provision. However, it is for the national court, taking account of its domestic law as a whole, to take all the measures necessary to protect the consumer from the particularly unfavourable consequences which annulment of the contract might entail for him or her.

On 8 June 2023, the Court of Justice of the European Union issued a judgment in a case registered under case number C-570/21, following preliminary questions submitted by the District Court in Warsaw in a case against the former Getin Bank S.A. In the judgment, the CJEU ruled that:

i) provisions of Council Directive 93/13 must be interpreted as meaning that the concept of ‘consumer’, within the meaning of that provision, covers a person who has concluded a loan contract intended for a purpose in part within and in part outside his or her trade, business or profession, together with a joint-borrower who did not act within his or her trade, business or profession, where the trade, business or professional purpose is so limited as not to be predominant in the overall context of that contract.

ii) provisions of Directive 93/13 must be interpreted as meaning that in order to determine whether a person falls within the concept of ‘consumer’, within the meaning of that provision, and, specifically, whether the trade, business or professional purpose of a loan contract concluded by that person is so limited as not to be predominant in the overall context of that contract, the referring court is required to take into consideration all the relevant circumstances surrounding that contract, both quantitative and qualitative, such as, in particular, the distribution of the borrowed capital between, on the one hand, a trade, business or profession and, on the other hand, a non-professional activity and, where there are several borrowers, the fact that only one of them is pursuing a professional purpose or that the lender made the grant of credit intended for consumer purposes conditional on a partial allocation of the amount borrowed to the repayment of debts connected with a trade, business or profession.

On 15 June 2023, the Court of Justice of the European Union issued a judgment in a case registered under case number C-287/22, following preliminary questions submitted by the District Court in Warsaw in a case against the former Getin Bank S.A. In the judgment, the CJEU ruled that provisions of the Directive 93/13 must be interpreted as precluding national case-law according to which a national court may dismiss an application for the grant of interim measures lodged by a consumer seeking the suspension, pending a final decision on the invalidity of the loan agreement concluded by that consumer on the ground that that loan agreement contains unfair terms, of the payment of the monthly instalments due under that loan agreement, where the grant of those interim measures is necessary to ensure the full effectiveness of that decision.

On 15 June 2023, the CJEU issued a judgment in a case registered under case number C-520/21, following preliminary questions submitted by the District Court in Warsaw in a case against Bank Millennium, in which indicated that Directive 93/13 does not expressly regulate the consequences of invalidity of a contract concluded between a credit institution and a consumer after the removal of unfair terms contained therein. The CJEU stated that:

i) the provisions of the Directive do not preclude a judicial interpretation of national law, according to which the consumer has the right to demand compensation from the credit institution beyond the reimbursement of monthly instalments and costs paid for the performance of this contract and the payment of statutory default interest from the date of the request for payment provided that the objectives of Directive 93/13 and the principle of proportionality are respected.

ii) the provisions of Directive 93/13 preclude the judicial interpretation of national law, according to which a credit institution has the right to demand compensation from the consumer that goes beyond the return of the capital paid for the performance of this contract and beyond the payment of statutory default interest from the date of the request for payment.

Jurisprudence of the Supreme Court

On 7 May 2021, the Supreme Court composed of 7 judges of the Supreme Court, issued a resolution for which the meaning of legal principle has been granted, stating that:

1. An abusive contractual clause (art. 385(1) § 1 of the Polish Civil Code), by force of the law itself, is ineffective to the benefit of the consumer who may consequently give conscious and free consent to this clause and thus restore its effectiveness retroactively.

2. If without the ineffective clause the loan agreement cannot bind, the consumer and the lender shall be eligible for separate claims for return of monetary performances made in exercising this agreement (art. 410 § 1 in relation to art. 405 of the Polish Civil Code). The lender may demand return of the performance from the moment the loan agreement becomes permanently ineffective.

On 28 April 2022 the Supreme Court issued a resolution (III CZP 40/22) in which it indicated that in disputes with consumers, the provision of Article 358(1) of the Polish Civil Code is a special provision to Article 353(1) of the Polish Civil Code, which means that if the prerequisites for the application of both provisions exist, the court should apply the special provision and declare the contractual provision permanently ineffective, rather than invalid. This decision of the Supreme Court should be perceived as significantly limiting the risk of Bank Millennium's claims for return of capital being time-barred.

The effect of the Supreme Court's resolution of 7 May 2021 is that Bank Millennium is entitled to a refund of the cash benefit provided by Bank Millennium in performance of a permanently ineffective contract. Taking into account the uncertainty as to the starting point of the limitation period for the bank's claims, Bank Millennium, in order to protect its interests, files lawsuits for payment against borrowers in a court dispute with the bank. Bank Millennium's demand consists of a claim for return of the capital made available to the borrower under the contract. After the CJEU verdict of 15 June 2023, in case C-520/21, it seems that the issue that requires further analysis is whether the return of the originally disbursed capital should be made at nominal value or with the loss of purchasing power of money taken into account. By 30 June 2023 the Bank filed 4.8 thousand lawsuits against the borrowers.

In this context, taking into consideration the recent negative evolution in the court verdicts regarding FX mortgage loans, and if such trend continues, Bank Millennium will have to regularly review and may need to continue to increase the balance of provisions allocated to court litigations.

2. Events that may impact foreign currency-indexed mortgage loans legal risk and related provision

It can reasonably be assumed that the legal issues relating to foreign currency mortgage loans will be further examined by the national courts within the framework of disputes considered which would possibly result in the emergence of further interpretations, which are relevant for the assessment of the risks associated with subject matter proceedings. This circumstance indicates the need for constant analysis of these matters. Further request for clarification and ruling addressed to the European Court of Justice and Polish Supreme Court have already been filed and may still be filed with potential impact on the outcome of the court cases.

On 29 January 2021 a set of questions addressed by the First President of the Supreme Court to the full Civil Chamber of the Polish Supreme Court was published. This may have important consequences in terms of clarifications of relevant aspects of the court rulings and their consequences. The Civil Chamber of the Supreme Court has been requested for answering the questions concerning key matters related to FX mortgage agreements: (i) is it permissible to replace - with the law provisions or with a custom - the abusive provisions of an agreement which refer to FX exchange rate determination; moreover, (ii) in case of impossibility of determining the exchange rate of a foreign currency in the indexed/denominated credit agreement - is it permissible to keep the agreement still valid in its remaining scope; as well as (iii) if in case of invalidity of the CHF credit there would be applicable the theory of balance (i.e. does arise a single claim which is equal to the difference between value of claims of bank and the customer) or the theory of two conditions (separate claims for the bank and for the client that should be dealt with separately). The Supreme Court has also been requested for answering the question on (iv) from which point in time there shall be starting the limitation period in case of bank's claim for repayment of amounts paid as a loan and (v) whether banks and consumers may receive remuneration for using their pecuniary means by another party.

On 11 May 2021, the Civil Chamber of the Supreme Court requested opinions on Swiss franc mortgage loans from five institutions including the National Bank of Poland (NBP), the Polish Financial Supervision Authority (UKNF), the Commissioner for Human Rights, the Children's Rights Ombudsman and the Financial Ombudsman.

The positions of the Commissioner for Human Rights, the Children's Rights Ombudsman and the Financial Ombudsman are in general favourable to consumers, while the National Bank of Poland and the Polish Financial Supervision Authority present a more balanced position, including fair principles of treatment of FX mortgage borrowers *vis-à-vis* PLN mortgage borrowers, as well as balanced economic aspects regarding solutions for the problem that could be considered by the Polish Supreme Court.

In the next meeting of the Supreme Court that took place on 2 September 2021, the Court did not address the answers to the submitted questions and no new meeting date is known.

On 9 December 2022, in the case brought by Bank Millennium against the borrower for payment – return of the capital made available to the borrower on the basis of an invalid capital contract and the equivalent value of the benefit related to the borrower's use of capital, the court referred a question to the CJEU for a preliminary ruling whether, if it is found that the loan contract concluded by the bank and the consumer is invalid from the beginning due to the conclusion of unfair contractual terms, in addition to the return of money paid in the performance of this contract (loan principal) and statutory late payment interest from the moment of the request for payment, the bank may also demand any other benefits, including receivables, in particular remuneration, compensation, reimbursement of costs or valorisation of the benefit. The case was suspended for the duration of Case C-520/21. As a result of the judgment in Case C-520/21, the case became a pending case, but there are doubts whether it will be continued due to the judgment in said Case C-520/21.

The subject of the CJEU's analysis, as a result of the Warsaw District Court's questions remains the issues related to the limitation period of the Bank's and the customer's restitution claims following the collapse of the loan agreement (Cases: C-28/22 ; C-140/22). Legal interpretations in these cases may be particularly significant for the Bank's claims as to the commencement of the running of the limitation period of its claims, by eliminating or confirming the risk of its claims being deemed time-barred in a given case.

With the scope of settlements between Bank Millennium and borrower following the fall of the loan agreement is also connected the legal issue directed to the seven-person composition of the Supreme Court (case sign: III CZP 54/21). The date of case review has not been specified yet.

The Supreme Court was also presented with the issue of whether the loan agreement is a mutual agreement in the light of the regulations concerning retention right (III CZP 89/22).

Due to the complexity and uncertainty regarding the outcome of court cases, including counter-claims, as well as other negotiation solutions or from potential Supreme Court decisions or European Court of Justice decisions, it is difficult to reliably estimate final impacts from different potential outcomes as at the date of publication of the financial statements.

The issue that remains unresolved in the jurisprudence of common courts and the Supreme Court is also the issue of the admissibility of borrowers' claims in the event of the invalidity of a loan agreement for payment of amounts beyond the reimbursement of monthly instalments and costs paid for the execution of that agreement and beyond the payment of statutory default interest from the date of the demand for payment, which, in light of the CJEU's judgment of 15 June 2023 in case C-520/21, remains not excluded. Due to the uncertainty of the direction of case law in this area, as of the date of publication of the Bank Millennium's report, it is difficult to reliably assess the impact of potential rulings.

57. Adoption of IFRS 17 - Insurance Contracts and IFRS 9 - Financial Instruments by Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.

The Group owns 49% of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A., being accounted for under the equity method, as Investments in associated companies.

Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. is dedicated to the management of life insurance and pension funds. On 1 January 2023 Millenniumbcp Ageas made the simultaneous adoption of IFRS9 - Financial Instruments and IFRS17 - Insurance Contracts. It opted for the possibility given to Insurance Companies to defer the application of IFRS9, since the combined implementation with IFRS17 would minimize the distortion of results.

IFRS 17 replaces IFRS 4 - "Insurance Contracts" and is applicable to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation features if they are also issuers of insurance contracts.

In accordance with IFRS 17, at initial recognition, Millenniumbcp Ageas Grupo Segurador has identified the contracts that are subject to similar risks and that are managed together, being aggregated in portfolios. For measurement purposes, further divides portfolios of insurance contracts into groups of insurance contracts. A group of insurance contracts is determined by first dividing the portfolio of insurance contracts into annual cohorts. Each annual cohort is then further divided in the following groups: i) group of contracts that are onerous at initial recognition; ii) group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and iii) a group of the remaining contracts in the portfolio.

Insurance contracts are now measured using estimates and updated assumptions that reflect the timing of cash flows discounted and any uncertainty related to insurance contracts. Income is now recognized as it provides insurance services (rather than when it receives premiums) provide information on the insurance contract earnings that it expects to recognize in the future.

In the measurement of insurance contracts, Millenniumbcp Ageas Grupo Segurador has opted for two measurement methods: i) Premium allocation approach ("PAA") for contracts with duration equal to or less than one year and ii) General measurement model measurement model ("GMM") for the remaining contracts.

Initial application of IFRS 17 and IFRS 9 requires comparative information. Therefore, Millenniumbcp Ageas Grupo Segurador made the transition exercise on 1 January 2022. The estimated impacts of the transition to IFRS 17 represent a reduction in the Equity of Millenniumbcp Ageas Grupo Segurador, partially offset by the positive impact resulting from the adoption of IFRS9.

IFRS 17 is retrospective with exemptions provided for the transition date. These exemptions are related to the impracticability and complexity involved e.g. in calculating the liability, the current service margin ("CSM"), loss component, or other comprehensive income ("OCI option") at transition date. When impracticable, the standard provides for the use of the Modified Retrospective Approach or the Fair Value Approach. Millenniumbcp Ageas Grupo Segurador, for contracts prior to 2018 adopted the fair value and for contracts after 2018 the full retrospective approach.

Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A., ('Millenniumbcp Ageas' or 'Group'), is owned by Ageas Insurance International, N.V. (51%), through Ageas Portugal Holdings S.G.P.S., S.A. (51%), and by Banco Comercial Português, S.A. (49%).

The impacts of the adoption of IFRS 17 and IFRS 9 by Millenniumbcp Ageas Group Segurador, SGPS, SA on the consolidated balance sheet with reference to 1 January 2022 (transition date), are detailed as follows:

(Thousands of euros)

	31 December 2021 (reported)	Transition adjustment of IFRS 17 and IFRS 9	1 January 2022
ASSETS			
Cash and deposits at Central Banks	7,796,299	—	7,796,299
Loans and advances to credit institutions repayable on demand	361,786	—	361,786
Financial assets at amortised cost			
Loans and advances to credit institutions	453,213	—	453,213
Loans and advances to customers	54,972,401	—	54,972,401
Debt securities	8,205,196	—	8,205,196
Financial assets at fair value through profit or loss			
Financial assets held for trading	931,485	—	931,485
Financial assets not held for trading mandatorily at fair value through profit or loss	990,938	—	990,938
Financial assets at fair value through other comprehensive income	12,890,988	—	12,890,988
Hedging derivatives	109,059	—	109,059
Investments in associated companies	462,338	(89,858)	372,480
Non-current assets held for sale	780,514	—	780,514
Investment property	2,870	—	2,870
Other tangible assets	600,721	—	600,721
Goodwill and intangible assets	256,213	—	256,213
Current tax assets	17,283	—	17,283
Deferred tax assets	2,688,216	—	2,688,216
Other assets	1,385,292	—	1,385,292
TOTAL ASSETS	92,904,812	(89,858)	92,814,954
LIABILITIES			
Financial liabilities at amortised cost			
Resources from credit institutions	8,896,074	—	8,896,074
Resources from customers	69,560,227	—	69,560,227
Non subordinated debt securities issued	2,188,363	—	2,188,363
Subordinated debt	1,394,780	—	1,394,780
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	231,241	—	231,241
Financial liabilities at fair value through profit or loss	1,581,778	—	1,581,778
Hedging derivatives	377,206	—	377,206
Provisions	458,744	—	458,744
Current tax liabilities	20,427	—	20,427
Deferred tax liabilities	16,932	—	16,932
Other liabilities	1,116,983	—	1,116,983
TOTAL LIABILITIES	85,842,755	—	85,842,755
EQUITY			
Share capital	4,725,000	—	4,725,000
Share premium	16,471	—	16,471
Other equity instruments	400,000	—	400,000
Legal and statutory reserves	259,528	—	259,528
Reserves and retained earnings	580,304	(89,858)	490,446
Net income for the period attributable to Bank's Shareholders	138,082	—	138,082
TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS	6,119,385	(89,858)	6,029,527
Non-controlling interests	942,672	—	942,672
TOTAL EQUITY	7,062,057	(89,858)	6,972,199
TOTAL LIABILITIES AND EQUITY	92,904,812	(89,858)	92,814,954

The total of the impacts of the adoption of IFRS 17 and IFRS 9 on the balance sheet of Millenniumbcp Ageas Group Segurador, SGPS, SA with reference to 1 January 2022 (transition date), are detailed as follows:

(Thousands of euros)

	31 December 2021 (IFRS 4 and IAS 39)	Impacts of adopting IFRS 17 and IFRS 9 (*)	1 January 2022 (IFRS 17 and IFRS 9)
ASSETS			
Cash and equivalents	72,033	—	72,033
Investments to be consolidated and equity associates	106,225	—	106,225
Financial assets at fair value	9,754,498	97,999	9,852,497
Financial assets held to maturity	46,314	(46,314)	—
Loans and receivables	221,282	10,833	232,115
Investment property	91,015	—	91,015
Other tangible assets	1,696	—	1,696
Assets Right of Use	115	—	115
Goodwill	247,487	—	247,487
Other intangible assets	35,586	(32,840)	2,746
Reinsurance reserves	6,858	(6,858)	—
Income tax assets	31,005	76,727	107,732
Other assets	79,670	(2,672)	76,998
TOTAL ASSETS	10,693,784	96,875	10,790,659
LIABILITIES			
Technical reserves	4,953,638	321,540	5,275,178
Investment contracts liabilities	4,725,617	—	4,725,617
Other financial liabilities	130,926	(6,932)	123,994
Lease liabilities	684	—	684
Other provisions	648	—	648
Income tax liabilities	23,147	(9,697)	13,450
Other liabilities	38,203	(1,500)	36,703
TOTAL LIABILITIES	9,872,863	303,411	10,176,274
EQUITY			
Capital	50,002	—	50,002
Other capital instruments	525,000	—	525,000
Fair value reserves (net)	61,975	(111,862)	(49,887)
Other reserves	102,325	(94,674)	7,651
Net income	69,900	—	69,900
Minority interests	11,719	—	11,719
TOTAL EQUITY	820,921	(206,536)	614,385
TOTAL LIABILITIES AND EQUITY	10,693,784	96,875	10,790,659

(*) The impacts of adopting IFRS 17 and IFRS 9 are detailed in the next table.

The impacts of the adoption of IFRS 17 and IFRS 9 with reference to 1 January 2022 (transition date), are detailed as follows:

(Thousands of euros)

	IFRS 9 impacts (reclassifications)	IFRS 9 impacts (fair value changes)	IFRS 17 impacts related to IFRS 4	IFRS 17 impacts related to IFRS 17	Total impacts of adopting IFRS 17 and IFRS 9
ASSETS					
Financial assets at fair value	46,314	51,685	–	–	97,999
Financial assets held to maturity	(46,314)	–	–	–	(46,314)
Loans and receivables	–	10,833	–	–	10,833
Other intangible assets	–	–	(32,840)	–	(32,840)
Reinsurance reserves	–	–	–	(6,858)	(6,858)
Income tax assets	–	(18,443)	9,688	85,482	76,727
Other assets	–	–	–	(2,672)	(2,672)
TOTAL ASSETS	–	44,075	(23,152)	75,952	96,875
LIABILITIES					
Technical reserves	–	–	–	321,540	321,540
Other financial liabilities	–	–	–	(6,932)	(6,932)
Income tax liabilities	–	–	–	(9,697)	(9,697)
Other liabilities	–	–	–	(1,500)	(1,500)
TOTAL LIABILITIES	–	–	–	303,411	303,411
EQUITY					
Fair value reserves (net of taxes)	–	(39,380)	–	(72,482)	(111,862)
Other reserves	–	83,455	(23,152)	(154,977)	(94,674)
Minority interests	–	–	–	–	–
TOTAL EQUITY	–	44,075	(23,152)	(227,459)	(206,536)
TOTAL LIABILITIES AND EQUITY	–	44,075	(23,152)	75,952	96,875

The impacts of adopting IFRS 17 and IFRS 9 on equity of Millenniumbcp Ageas Grupo Segurador, S.G.P.S, S.A. and of BCP Group, on the transition date, 1 January 2022, are as follows:

(Thousands of euros)

Impact of transition on equity (Ageas)	(206,536)
VOBA (*Value of business acquired*)*	23,152
Impact of transition on equity (Ageas - BCP Gaap) **	(183,384)
Impact of the transition on the equity of the BCP Group (49%) **	(89,858)

(*) According to IFRS 4, as at 31 December 2021, the gross value of VOBA was reflected in the caption Other tangible assets.

(**) BCP Gapp includes VOBA effect which corresponds to the estimated current value of the future cash flows of the contracts in force at the date of acquisition under IFRS 4. With the implementation of IFRS 17, this concept was annulled from the consolidated accounts of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.

The consolidated balance sheet with reference to 31 December 2022 was restated as a result of the adoption of IFRS 17 and IFRS 9 by Millenniumbcp Ageas Group Segurador, SGPS, SA, with the impacts detailed as follows:

(Thousands of euros)

	31 December 2022 (reported)	Impact of the adoption of IFRS 17 and IFRS 9	31 December 2022 (restated)
ASSETS			
Cash and deposits at Central Banks	6,022,001	—	6,022,001
Loans and advances to credit institutions repayable on demand	213,460	—	213,460
Financial assets at amortised cost			
Loans and advances to credit institutions	963,434	—	963,434
Loans and advances to customers	54,675,793	—	54,675,793
Debt securities	13,035,582	—	13,035,582
Financial assets at fair value through profit or loss			
Financial assets held for trading	766,597	—	766,597
Financial assets not held for trading mandatorily at fair value through profit or loss	552,679	—	552,679
Financial assets at fair value through other comprehensive income	7,461,553	—	7,461,553
Hedging derivatives	59,703	—	59,703
Investments in associated companies	298,717	16,202	314,919
Non-current assets held for sale	499,035	—	499,035
Investment property	15,217	—	15,217
Other tangible assets	574,697	—	574,697
Goodwill and intangible assets	182,687	—	182,687
Current tax assets	17,945	—	17,945
Deferred tax assets	2,938,986	—	2,938,986
Other assets	1,582,455	—	1,582,455
TOTAL ASSETS	89,860,541	16,202	89,876,743
LIABILITIES			
Financial liabilities at amortised cost			
Resources from credit institutions	1,468,360	—	1,468,360
Resources from customers	75,430,143	—	75,430,143
Non subordinated debt securities issued	1,482,086	—	1,482,086
Subordinated debt	1,333,056	—	1,333,056
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	241,506	—	241,506
Financial liabilities at fair value through profit or loss	1,817,678	—	1,817,678
Hedging derivatives	178,000	—	178,000
Provisions	561,786	—	561,786
Current tax liabilities	23,680	—	23,680
Deferred tax liabilities	11,708	—	11,708
Other liabilities	1,391,973	—	1,391,973
TOTAL LIABILITIES	83,939,976	—	83,939,976
EQUITY			
Share capital	3,000,000	—	3,000,000
Share premium	16,471	—	16,471
Other equity instruments	400,000	—	400,000
Legal and statutory reserves	268,534	—	268,534
Reserves and retained earnings	1,245,949	26,313	1,272,262
Net income for the period attributable to Bank's Shareholders	207,497	(10,111)	197,386
TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS	5,138,451	16,202	5,154,653
Non-controlling interests	782,114	—	782,114
TOTAL EQUITY	5,920,565	16,202	5,936,767
TOTAL LIABILITIES AND EQUITY	89,860,541	16,202	89,876,743

The Consolidated Income Statement with reference to 30 June 2022 was restated resulting from the adoption of IFRS 17 and IFRS 9 by Millenniumbcp Ageas Group Segurador, SGPS, SA, which impacts are detailed as follows:

(Thousands of euros)

	30 June 2022 (reported)	Impact of the adoption of IFRS 17 and IFRS 9	30 June 2022 (restated)
Interest and similar income	1,141,684	—	1,141,684
Interest expense and similar charges	(156,526)	—	(156,526)
NET INTEREST INCOME	985,158	—	985,158
Dividends from equity instruments	12,873	—	12,873
Net fees and commissions income	387,583	—	387,583
Gains/(losses) on financial operations at fair value through profit or loss	6,810	—	6,810
Foreign exchange gains/(losses)	14,811	—	14,811
Gains/(losses) on hedge accounting	(3,673)	—	(3,673)
Gains/(losses) arising from derecognition of financial assets and liabilities not measured at fair value through profit or loss	24,276	—	24,276
Other operating income/(losses)	(189,326)	—	(189,326)
TOTAL OPERATING INCOME	1,238,512	—	1,238,512
Staff costs	284,152	—	284,152
Other administrative costs	162,569	—	162,569
Amortisations and depreciations	69,475	—	69,475
TOTAL OPERATING EXPENSES	516,196	—	516,196
NET OPERATING INCOME BEFORE PROVISIONS AND IMPAIRMENTS	722,316	—	722,316
Impairment of financial assets at amortised cost	(183,203)	—	(183,203)
Impairment of financial assets at fair value through other comprehensive income	1,366	—	1,366
Impairment of other assets	(125,129)	—	(125,129)
Other provisions	(244,410)	—	(244,410)
NET OPERATING INCOME	170,940	—	170,940
Share of profit of associates accounted for using the equity method	32,789	(12,325)	20,464
Gains/(losses) on disposal of subsidiaries and other assets	12,100	—	12,100
NET INCOME BEFORE INCOME TAXES	215,829	(12,325)	203,504
Income taxes			
Current	(44,930)	—	(44,930)
Deferred	(110,836)	—	(110,836)
NET INCOME AFTER INCOME TAXES FROM CONTINUING OPERATIONS	60,063	(12,325)	47,738
Net income from discontinued or discontinuing operations	1,479	—	1,479
NET INCOME AFTER INCOME TAXES	61,542	(12,325)	49,217
Net income for the period attributable to:			
Bank's Shareholders	74,509	(12,325)	62,184
Non-controlling interests	(12,967)	—	(12,967)
NET INCOME FOR THE PERIOD	61,542	(12,325)	49,217

The impacts of the adoption of IFRS 17 and IFRS 9 on the balance Investments in associates (note 26) of Group, are as follows:

(Thousands of euros)

	1 January 2022 (restated)	30 June 2022 (restated)	31 December 2022 (restated)
Investment held in Millennium Ageas (IAS 39 and IFRS 4)	261,446	201,644	59,766
Transition to IFRS 9 and IFRS 17	(89,858)	(89,858)	(89,858)
Other comprehensive income	—	50,748	116,152
Other reserves	—	—	19
Net income	—	(12,325)	(10,111)
Investment held in Millennium Ageas (IFRS 9 and IFRS 17)	171,588	150,209	75,968

58. List of subsidiary and associated companies of Banco Comercial Português Group

As at 30 June 2023, the Group's subsidiary companies included in the consolidated accounts using the full consolidation method were as follows:

					Group		Bank
Subsidiary companies	**Head office**	**Share capital**	**Currency**	**Sector of activity**	**% economic interests**	**% effective held**	**% direct held**
Banco ActivoBank, S.A.	Lisbon	127,600,000	EUR	Banking	100 %	100 %	100 %
Bank Millennium, S.A.	Warsaw	1,213,116,777	PLN	Banking	50.1 %	50.1 %	50.1 %
Millennium Bank Hipoteczny S.A.	Warsaw	90,000,000	PLN	Banking	100 %	50.1 %	—
BCP África, S.G.P.S., Lda.	Funchal	682,965,800	EUR	Holding company	100 %	100 %	100 %
BIM - Banco Internacional de Moçambique, S.A.	Maputo	4,500,000,000	MZN	Banking	66.7 %	66.7 %	—
BCP Finance Bank, Ltd.	George Town	246,000,000	USD	Banking	100 %	100 %	—
BCP International B.V.	Amsterdam	18,000	EUR	Holding company	100 %	100 %	100 %
M Representações Ltda	São Paulo	75,754,360	BRL	Financial Services	100 %	100 %	100 %
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Funchal	25,000	EUR	Holding company	100 %	100 %	100 %
Interfundos - Sociedade Gestora de Organismos de Investimento Coletivo, S.A.	Oeiras	1,500,000	EUR	Investment fund management	100 %	100 %	100 %
Monumental Residence - Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A.	Oeiras	32,859,181	EUR	Real-estate management	100 %	100 %	100 %
Millennium bcp - Prestação de Serviços, A.C.E.	Lisbon	331,750	EUR	Services	98.64 %	97.73 %	93.2
Millennium bcp Teleserviços - Serviços de Comércio Electrónico, S.A.	Lisbon	50,004	EUR	E-commerce	100 %	100 %	100
Flitptrel Tires, S.A.	Lisbon	50,000	EUR	Real-estate company	100 %	100 %	100
Bichorro – Empreendimentos Turísticos e Imobiliários S.A.	Oeiras	2,150,000	EUR	Real-estate management	100 %	100 %	—

Subsidiary companies	Head office	Share capital	Currency	Sector of activity	Group % economic interests	Group % effective held	Bank % direct held
Finalgarve - Sociedade de Promoção Imobiliária Turística, S.A.	Oeiras	250,000	EUR	Real-estate management	100 %	100 %	—
Fiparso - Sociedade Imobiliária S.A	Oeiras	50,000	EUR	Real-estate company	100 %	100 %	—
Millennium Consulting S.A.	Warsaw	4,339,500	PLN	Consulting services	100 %	50.1 %	—
Millennium Goodie Sp.z.o.o.	Warsaw	500,000	PLN	Web portals	100 %	50.1 %	—
Millennium Leasing, Sp.z o.o.	Warsaw	48,195,000	PLN	Leasing	100 %	50.1 %	—
Millennium Service, Sp.z o.o.	Warsaw	1,000,000	PLN	Services	100 %	50.1 %	—
Piast Expert Sp. z o.o (em liquidação)	Tychy	100,000	PLN	Marketing services	100 %	50.1 %	—
Millennium Telecommunication Services Sp. z o.o.	Warsaw	100,000	PLN	Brokerage services	100 %	50.1 %	—
Millennium TFI - Towarzystwo Funduszy Inwestycyjnych, S.A.	Warsaw	10,300,000	PLN	Investment fund management	100 %	50.1 %	—
BCPBT CI Liquidation Company I	George Town	1	USD	Services	100 %	100 %	—
BCPBT CI Liquidation Company II	George Town	1	USD	Services	100 %	100 %	—

As at 30 June 2023, 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	63,550,218	EUR	Real-estate investment fund	100 %	100 %	100 %
Fundo de Investimento Imobiliário Imorenda	Oeiras	81,129,598	EUR	Real-estate investment fund	100 %	100 %	100 %
Fundo Especial de Investimento Imobiliário Oceânico II	Oeiras	310,307,200	EUR	Real-estate investment fund	100 %	100 %	100 %
Fundo Especial de Investimento Imobiliário Fechado Sand Capital	Oeiras	17,678,733,800	EUR	Real-estate investment fund	100 %	100 %	100 %
Funsita - Fundo Especial de Investimento Imobiliário Fechado	Oeiras	2,879,000	EUR	Real-estate investment fund	100 %	100 %	100 %
Fundial - Fundo Especial de Investimento Imobiliário Fechado	Oeiras	19,164,700	EUR	Real-estate investment fund	100 %	100 %	100 %
Fundipar - Fundo Especial de Investimento Imobiliário Fechado	Oeiras	6,875,000	EUR	Real-estate investment fund	100 %	100 %	100 %
Domus Capital- Fundo Especial de Investimento Imobiliário Fechado	Oeiras	3,799,969	EUR	Real-estate investment fund	95.8 %	95.8 %	95.8 %
Predicapital - Fundo Especial de Investimento Imobiliário Fechado (*)	Oeiras	85,053,991	EUR	Real-estate investment fund	60 %	60 %	60 %

(*) - Company classified as non-current assets held for sale.

The Group holds a securitization transaction regarding mortgage loans which was 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 is fully consolidated, following the application of IFRS 10.

As at 30 June 2023, the Special Purpose Entity included in the consolidated accounts under the full consolidation method is as follows:

Special Purpose Entities	Head office	Share capital	Currency	Activity	Group		Bank
					% economic interests	% effective held	% direct held
Magellan Mortgages No.3 Limited	Dublin	40,000	EUR	Special Purpose Entities	82.4 %	82.4 %	82.4 %
Magellan Mortgages No.1 Limited	Dublin	40,000	EUR	Special Purpose Entities	100.0 %	100.0 %	100 %

As at 30 June 2023, 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		Bank
					% economic interests	% effective held	% direct held
Banco Millennium Atlântico, S.A.	Luanda	53,821,603,000	AOA	Banking	22.7 %	22.5 %	—
Banque BCP, S.A.S.	Paris	215,335,898	EUR	Banking	19 %	19 %	19 %
Lubuskie Fabryki Mebli, S.A. (in liquidation)	Swiebodzin	13,400,050	PLN	Furniture manufacturer	50 %	25.1 %	—
Millennium Financial Services, Sp.z o.o.	Warsaw	100,000	PLN	Services	20 %	10 %	—
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 %	32 %	0.5 %
Webspectator Corporation	Delaware	950	USD	Digital advertising services	25.1 %	25.1 %	25.1 %

As described in note 47,the Group sold 80% of shares of Millennium Financial Services sp. z o.o. so now holds a minority stake of 20%.

As at 30 June 2023, the Group's associated insurance companies included in the consolidated accounts under the equity method were as follows:

Associated companies	Head office	Share capital	Currency	Activity	Group		Bank
					% economic interests	% effective held	% direct held
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Lisbon	50,002,375	EUR	Holding company	49 %	49 %	49 %
Ocidental - Companhia Portuguesa de Seguros de Vida, S.A.	Lisbon	22,375,000	EUR	Life insurance	49 %	49 %	—
Ageas - Sociedade Gestora de Fundos de Pensões, S.A.	Lisbon	1,200,000	EUR	Pension fund management	49 %	49 %	—
Fidelidade Moçambique - Companhia de Seguros S.A.	Maputo	295,000,000	MZN	Insurance	22 %	14.7 %	—

Some indicators of the main subsidiaries and associated companies are analysed as follows:

	30 June 2023			30 June 2022 (restated)		
Subsidiaries and associated companies	Total Assets	Total Equity	Net income for the period	Total Assets	Total Equity	Net income for the period
Banco Comercial Português, S.A.	61,624,570	5,652,615	353,485	71,914,572	5,508,978	284,434
Banco ActivoBank, S.A.	3,196,021	236,889	17,329	3,150,883	204,941	7,426
Bank Millennium, S.A. (1)	25,900,844	1,433,999	77,297	23,174,142	1,230,199	(56,627)
BIM - Banco Internacional de Moçambique, S.A. (1)	2,623,573	483,767	48,499	2,786,096	471,438	46,465
BCP International B.V.	524,392	524,303	(323)	1,005,602	1,004,214	28,021
BCP Finance Bank, Ltd.	519,946	519,639	(338)	524,268	523,961	4,278
BCP África, S.G.P.S., Lda.	494,665	493,002	(9,341)	559,486	556,522	57,228
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	175,625	174,483	7,592	173,957	173,945	7,054
Interfundos - Sociedade Gestora de Organismos de Investimento Coletivo, S.A.	8,439	6,902	727	11,631	7,062	1,084
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. (1)	8,642,805	444,239	40,189	9,716,882	571,114	11,655
Banco Millennium Atlântico, S.A. (2)	1,988,654	181,840	3,927	3,354,199	347,933	4,277
Banque BCP, S.A.S.	5,346,180	278,663	10,515	4,873,172	253,651	11,895

1) Consolidated accounts.

2) These indicators correspond to the statutory financial statements that do not include the effects of applying IAS 29.

59. Subsequent events

In addition to the aspects disclosed in the other notes and according to the accounting policy 1 Z, the events that occurred after the date of the financial statements and until the date of its approval, were as follows:

MREL requirements

Banco Comercial Português, S.A. ("BCP" or the "Bank") informs that it has been notified by Banco de Portugal, as the national resolution authority, about the update of its minimum requirement for own funds and eligible liabilities ("MREL" or "Minimum Requirement for own funds and Eligible Liabilities") as decided by the Single Resolution Board.

The resolution strategy applied continues to be that of a multiple point of entry ("MPE"). The MREL requirements to be met by BCP Group of Resolution (consisting of BCP, S.A., Banco ActivoBank, S.A. and all the subsidiary companies of BCP apart from Bank Millennium S.A. and Banco Internacional de Moçambique and their respective subsidiaries), from 1 January 2024 is of:

- 24.65% of the total risk exposure amount ("TREA") (to which adds further a combined buffer requirement ("CBR") of 3.5%, thus corresponding to total requirements of 28.15%); and
- 6.71% of the leverage ratio exposure measure ("LRE").

The Bank is not subject to any subordination requirements.

In accordance with the regulations in force, MREL requirements could be annually updated by the competent authorities, and therefore these targets replace those previously set.

BCP complies to the currently applicable MREL requirement, both as a percentage of the TREA (also including the applicable CBR) and as a percentage of the LRE.

The MREL requirements, now communicated to the BCP resolution group described above, are in line with the 2021-24 Strategic Plan and are accommodated by the ongoing funding plan.

Banco Comercial Português, S.A. informs about 2023 EU-Wide Stress Test Results

Banco Comercial Português, S.A. was subject to the 2023 EU-wide stress test conducted by the European Banking Authority (EBA), in cooperation with the Banco de Portugal (BdP), the European Central Bank (ECB), and the European Systemic Risk Board (ESRB).

The adverse stress test scenario was set by the ECB/ESRB and covers a three-year time horizon (2023-2025). The stress test has been carried out applying a static balance sheet assumption as of December 2022, and therefore does not take into account future business strategies and management actions. It is not a forecast of Banco Comercial Português, S.A. profits.

Considering the results of Banco Comercial Português, S.A, in the stress test, it should be highlighted the following:

- the application of the adverse scenario resulted in a reduction of 448 b.p. in the fully loaded CET1 capital ratio at the end of 2025 compared to December 2022, which compares with an average reduction of 459 b.p. in the universe of the 70 banks submitted to this exercise.

- the application of the baseline scenario resulted in an increase of 256 b.p. in the fully loaded CET1 capital ratio at the end of 2025 compared to December 2022, which compares with an average increase of 136 b.p.

Declaration of Compliance

Millennium bcp

Administração

DECLARATION OF COMPLIANCE

It is hereby declared that, to the best of the knowledge of the undersigned, the individual and consolidated financial statements of Banco Comercial Português, S.A. ("BCP" or "Bank"), which include (i) the individual and consolidated balance sheets as at 30 June 2023, (ii) the individual and consolidated income statements for the financial year ended on 30 June 2023, (iii) the maps of changes in equity and individual and consolidated cash flows for the financial year ended on 30 June 2023, (iv) a summary of the significant accounting policies, and (v) of 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 2023, of the individual and consolidated earnings of their operations and changes in equity and in individual and consolidated cash flows for the year ended on that date, in accordance to the International Accounting Standards, as adopted by the European Union.

The Bank's individual and consolidated financial statements relative to 30 June 2023 and the management report were approved by the Board of Directors on 11 August, 2023.

Furthermore, it is also declared that the management report of BCP for the first-half of 2023 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 main risks and uncertainties faced by them, have been approved by the Board of Directors on 11 August, 2023.

Porto Salvo, 11 August 2023

Nuno Manuel da Silva Amado
(Chairperson)

Jorge Manuel Baptista Magalhães Correia
(Vice-Chairman)

Valter Rui Dias de Barros
(Vice-Chairman)

Miguel Maya Dias Pinheiro
(Vice-Chairman)

Altina de Fátima Sebastian Gonzalez Villamarin
(Member)

Ana Paula Alcobia Gray
(Member)

Cidália Maria Mota Lopes
(Member)

Fernando da Costa Lima
(Member)

Novo capital social: 3.000.000.000 Euros

BANCO COMERCIAL PORTUGUÊS, S.A. Sociedade Aberta, com sede na Praça D. João I, 28, Porto, com o Capital Social de 6.064.999.986 Euros, matriculada na Conservatória do Registo Comercial do Porto, com o número único de matrícula e de identificação fiscal 501 525 882

Praça D. João, I, 28 - 4000-295 PORTO
Av. Prof. Dr. Cavaco Silva, Edifício 1, Piso 0, Ala B
2744-002 PORTO SALVO

Millennium bcp

Administração

João Nuno de Oliveira Jorge Palma
(Member)

José Miguel Bensliman Schorcht da Silva Pessanha
(Member)

Lingjiang Xu
(Member)

Lingzi Yuan (Smilla Yuan)
(Member)

Maria José Henriques Barreto Matos de Campos
(Member)

Miguel de Campos Pereira de Bragança
(Member)

José Pedro Rivera Ferreira Malaquias
(Member)

Rui Manuel da Silva Teixeira
(Member)

Xiaoxu Gu (Julia Gu)
(Member)

Novo capital social: 3.000.000.000 Euros

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 30 June 2023 which comprise the interim condensed consolidated balance sheet as of 30 June 2023 that presents a total of 90,950,094 t.euros and total shareholders' equity of 6,576,971 t.euros, including a consolidated net profit attributable to the shareholders of the Bank of 423,249 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 the accompanying 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 30 June 2023 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 of matter

In note 56 of the interim condensed consolidated financial statements, the Board of Directors of the Bank discloses the main aspects and uncertainties associated with the legal contingencies related to the Swiss Franc-indexed loans granted by the subsidiary Bank Millennium, S.A., whose developments may influence the future evolution of these contingencies and the consequent impact for the BCP Group. Our conclusion is not modified in respect of this matter.

Lisbon, 11 August 2023

Deloitte & Associados, SROC S.A.
Represented by João Carlos Henriques Gomes Ferreira, ROC
Registration in OROC n.º 1129
Registration in CMVM n.º 20160741

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.)

H1 2023 Report & Accounts

www.millenniumbcp.pt

Banco Comercial Português, S.A.

Registered Office:
Praça D. João I, 28
4000-295 Porto

Share Capital:
Euros 3.000.000.000.00

Registered at the
Commercial Registry Office of Oporto
under the Single Registration and
Tax Identification Number 501 525 882

Investor Relations Division
Av. Professor Doutor Cavaco Silva
Edifício 1 Piso 0 Ala B
2744-002 Porto Salvo
Phone: (+351) 211 131 084
investors@millenniumbcp.pt

Communication Division
Av. Professor Doutor Cavaco Silva
Edifício 3 Piso 1 Ala C
2744-002 Porto Salvo
Phone: (+351) 211 131 243
comunicar@millenniumbcp.pt

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