Report & Accounts

1H '19

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

1st H 2019 Report & Accounts

BANCO COMERCIAL PORTUGUÊS, S.A.

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

The 1st H 2019 Annual Report is a translation of the "Relatório e Contas do 1º Semestre de 2019" document delivered by Banco Comercial Português, S.A. to the Portuguese Securities and Market Commission (CMVM), in accordance with Portuguese law.

The sole purpose of the English version is to facilitate consultation of the document by English-speaking Shareholders, Investors and other Stakeholders, and, in case of any doubt or contradiction between the documents, the Portuguese version of the "Relatório e Contas do 1º Semestre de 2019" prevails.

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

Millennium bcp

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

In the first half of 2019, the risks of a slowdown in the world economy increased, amid intensifying trade tensions between the United States and China, which have been penalizing international trade.

Against this backdrop, the major central banks have been signaling the possibility of further monetary policy easing, while the International Monetary Fund (IMF) forecasts a deceleration in the world GDP growth rate in 2019, from 3.6% to 3.3%.

The less favorable external environment, however, has not hindered the performance of the Portuguese economy, which in the first quarter of 2019 grew by 1.8% (driven by the strong expansion of investment), well above the modest growth levels of the euro area, which stood at 1.2% in the first three months of 2019.

Poland's economy, meanwhile, also continues on a favorable path, with GDP growth rates close to 5%, supported by the expansion of consumption, which has been benefiting from a set of fiscal stimulus measures, and by the increase in investment associated with European Structural Fund flows.

With regard to Angola and Mozambique, the current scenario of inflation reduction and relative exchange rate stability has contributed to the reduction of the principal interest rate levels, contributing to the improvement of the economic situation, which presents significant challenges in both countries, with IMF forecasts pointing to GDP growth rates in 2019 of 0.4% and 1.8%, respectively.

With regard to the Bank's results, the first half of this year was marked by improved profitability, with a net profit of Euros 169.8 million, which represents a growth of 12.7% compared to Euros 150.6 million recorded the previous year, driven by the 5.3% expansion of core income and the 14 b.p. reduction in the cost of risk.

In the second quarter in particular, there was a further reduction of reference interest rates, with a significant impact on the financing of long-term pension fund liabilities. This effect, coupled with the concentration of mandatory contributory liabilities, made the performance of the banking sector difficult in this period.

In Portugal, net income was Euros 72.7 million in the first half of 2019, an increase of 23.2% compared to Euros 59 million in the same period the previous year.

The focus on improving asset quality continued, with a significant reduction in Non Performing Exposures (NPEs), which decreased in consolidated terms by Euros 1.7 billion compared to 30 June 2018, with the reduction of NPEs in Portugal amounting to Euros 1.8 billion.

The Bank maintained an adequate capital position, with a fully implemented CET1 ratio of 12.2% as at 30 June 2019, which incorporates the impact of Bank Millennium's acquisition of Eurobank in Poland and the prospect of prolonging the effects of the current negative interest rate environment. The CET1 ratio exceeds the regulatory requirement of 9.6% set for Millennium bcp in the last SREP exercise.

In terms of liquidity, the Bank remains in a comfortable position, presenting at the end of the first half of 2019 a loans-to-deposits ratio of 88% and net financing with the ECB of Euros 2 billion, retaining for this purpose an ample portfolio of eligible assets amounting to Euros 16.4 billion.

The first half of the year was also marked by business growth, with performing loans increasing 13.5% and total Customer deposits growing 9.3%, compared to June 30, 2018.

The Group's active Customer base continued to expand, with an increase of 217,000 customers (of which 121,000 in Portugal) compared to the end of the first half of the previous year, an trend that was also accompanied by the increase in the same period by 196,000 digital Customers and the increase of 370,000 Mobile Customers, confirming the Bank is on a consistent path to digital transformation.

Despite the 6.9% decrease compared to the same period of the previous year, because of circumstances described below, our international operations confirmed their relevance to the consolidated result in the first half of 2019, contributing Euros 83.7 million.

Bank Millennium in Poland posted a net profit of Euros 77.9 million and an ROE of 9.7%, notably the conclusion in May of the acquisition of Eurobank, whose integration with Bank Millennium is already reflected in the half year results. The integration impact was positive on business volumes and led to a significant increase in geographic coverage outside major cities in Poland.

Net profit in Mozambique reached Euros 48 million in the first half of 2019, with an ROE of 20.6%, a decrease of 9.3% over the same period of the previous year, reflecting the reduction in net interest income as a result of the normalization of interest rates.

The contribution of Banco Millennium Atlântico in Angola in the first half, after adjusting for the application of accounting standard IAS 29, was Euros 6.3 million.

Also noteworthy are the recent upward revisions of credit ratings assigned to Millennium bcp by the ratings agencies, reflecting the progress made by the bank since

2013. In June, DBRS upgraded the bank's senior debt rating to Investment Grade, and in July Moody's upgraded the deposits rating, also to Investment Grade.

The bank continues to deserve the trust and recognition of its customers. In 2019, for the second year running, the DATA E barometer considered Millennium bcp as the main bank for companies, the bank with the most suitable products, as well as the most innovative and most personal bank. Millennium was also once again distinguished by customers as the 2019 Consumer's Choice in the category of large banks in Portugal.

Another highlight was the General Shareholders' Meeting of Millennium bcp in May, where shareholders approved the distribution of results, including a 10% dividend payout for 2018, which demonstrated the normalization of the bank's activity.

Overall, the first half results were positive and confirm the bank's ability to increase profitability by expanding its customer and business base in the various geographies where it operates, confirming the alignment and implementation of the strategic plan as communicated to the market.

We conclude with a word of appreciation for Millennium's employees, for their professionalism and dedication, for our Shareholders for the important support they have given the bank's management team, and to our Customers, who are the reason for all our effort.

Miguel Maya

Chief Executive Officer

Vice-Chairman of the Board of Directors

Nuno Amado

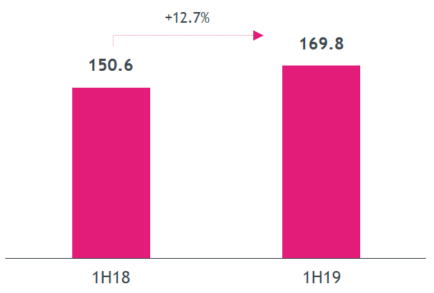
Chairman of the Board of Directors

Information on the BCP Group

BCP in the 1stH 2019

Improved profitability

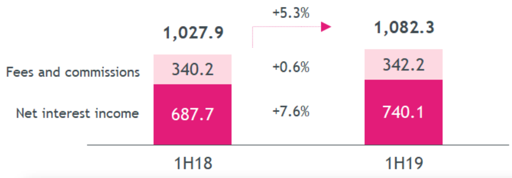
(Million euros)



Improved profitability, with net earnings of €169.8 million in the 1st half of 2019, on the back of stronger core income (+5.3%) and lower impairment and provision charges (-13.1%)

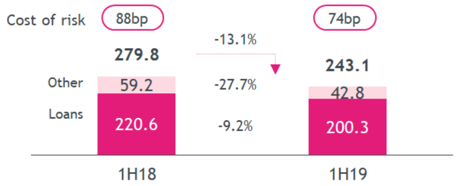
Core income (net interest income + commissions)

(Million euros)



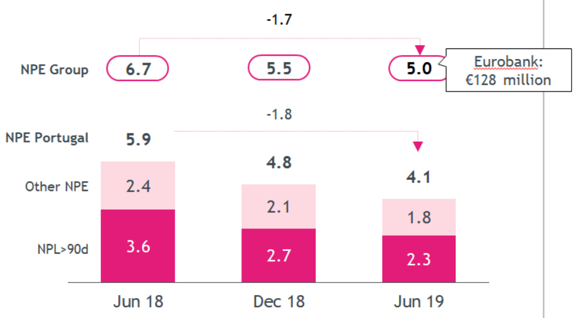
Impairment and provisions

(Million euros)



Improved asset quality

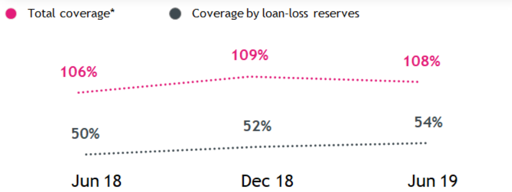
(Billion euros)



Significant decrease of NPE (-€1.7 billion from June 30, 2018) and of cost of risk (74bp in the 1st half of 2019)

*By loan-loss reserves, expected loss gap and collaterals.
NPE include loans to Customers only.

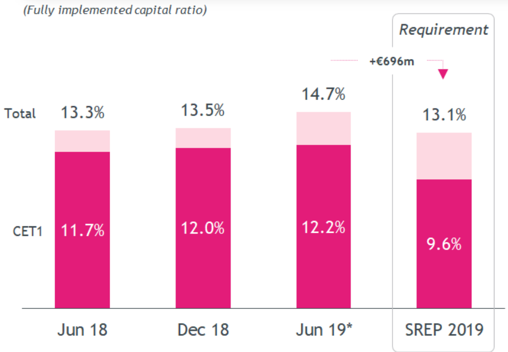
Increased NPE coverage



Lower cost of risk

Strong capital

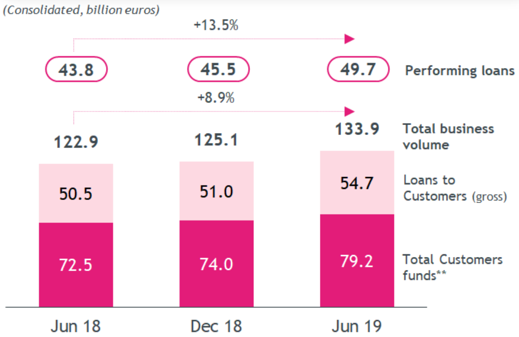
(Fully implemented capital ratio)



Capital ratio of 14.7%*, comfortably above SREP requirements. Organic capital generation and AT1 issue (Jan.19) more than compensate for impacts of Eurobank's acquisition and of the reduction of the pension fund discount rate

Increasing business volumes

(Consolidated, billion euros)



Increasing business volumes, with performing loans up by €5.9 billion and total Customers funds up €6.8 billion from June 30, 2018

*Including unaudited earnings for the 1st half of 2019. Includes impact of IFRS16. | **Deposits, debt securities, assets under management, assets placed with Customers and insurance products (savings and investments).

Main highlights (1)

Euro million

	30 Jun. 19	30 Jun. 18	Change 19/18
BALANCE SHEET			
Total assets	80,873	73,100	10.6%
Loans to customers (net)	52,035	47,141	10.4%
Total customer funds	79,224	72,458	9.3%
Balance sheet customer funds	60,698	54,674	11.0%
Deposits and other resources from customers	59,020	53,455	10.4%
Loans to customers (net) / Deposits and other resources from customers (2)	88.2%	88.2%	
Loans to customers (net) / Balance sheet customer funds	85.7%	86.2%	
RESULTS			
Net interest income	740.1	687.7	7.6%
Net operating revenues	1,124.2	1,056.8	6.4%
Operating costs	548.2	500.8	9.5%
Operating costs excluding specific items (3)	525.8	492.8	6.7%
Loan impairment charges (net of recoveries)	200.3	220.6	-9.2%
Other impairment and provisions	42.8	59.2	-27.7%
Income taxes	121.1	71.9	68.4%
Net income	169.8	150.6	12.7%
PROFITABILITY AND EFFICIENCY			
Net operating revenues / Average net assets (2)	2.9%	2.9%	
Return on average assets (ROA)	0.6%	0.6%	
Income before tax and non-controlling interests / Average net assets (2)	0.9%	0.8%	
Return on average equity (ROE)	5.7%	5.3%	
Income before tax and non-controlling interests / Average equity (2)	9.7%	8.3%	
Net interest margin	2.1%	2.2%	
Cost to income (2) (3)	46.8%	46.6%	
Cost to income (Portugal activity) (2) (3)	47.1%	48.1%	
Staff costs / Net operating revenues (2) (3)	26.8%	26.7%	
CREDIT QUALITY			
Cost of risk (net of recoveries, in b.p.)	74	88	
Non-Performing Exposures / Loans to customers	9.1%	13.2%	
Total impairment (balance sheet) / NPE	53.6%	49.9%	
Restructured loans / Loans to customers	6.3%	8.0%	
LIQUIDITY			
Liquidity Coverage Ratio (LCR)	214%	176%	
Net Stable Funding Ratio (NSFR)	135%	129%	
CAPITAL (4)			
Common equity tier I phased-in ratio	12.2%	11.7%	
Common equity tier I fully implemented ratio	12.2%	11.7%	
BRANCHES			
Portugal activity	532	573	-7.2%
Foreign activity	1,033	550	87.8%
EMPLOYEES			
Portugal activity	7,264	7,151	1.6%
Foreign activity (5)	11,406	8,689	31.3%

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

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

(3) Excludes specific items: negative impact of 22.4 million euros in the first half of 2019 related to restructuring costs and compensation for temporary salary cuts and also negative impact of 8.0 million euros in the first half of 2018, related to restructuring costs, in both periods recognized as staff costs in the activity in Portugal.

(4) As of 30 June 2019 and 30 June 2018, ratios include the positive cumulative net income of each period.

(5) Of which, in Poland: 8,700 employees as at 30 June 2019 (corresponding to 8,550 FTE - Full-time equivalent) and 5,973 employees as at 30 June 2018 (corresponding to 5,846 FTE - Full-time equivalent).

Information on BCP Group

Brief description

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

Bank History

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

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

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

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

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

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

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

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

In December 2012, the Bank prepared and presented to the Portuguese government a Restructuring Plan, required by national law and by the applicable European rules on matters of State aid. The Restructuring Plan was formally submitted by the Portuguese government to the EC and, In July 2013, the

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

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

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

BCP has announced in January 2017 a 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 dividend ban, risk of potential sale of core businesses and tail risk of conversion. This transaction was designed to strengthening the balance sheet through the improvement of CET1 FL ratio and Texas ratio, bringing them in line with new industry benchmarks and above current regulatory requirements.

Millennium bcp has successfully executed an operational turnaround, reinforcing its financial and capital position despite the adverse setting of the banking sector in the core Portuguese market. This position reflects our relentless path and the compounding of multiple achievements, such as a more than 40% cost reduction in Portugal since 2011, and a reduction of more than 60% in Group's NPEs since 2013 (from Euros 13.7 billion to Euros 5.0 billion in June 2019). Three distinctive competences were at the core of this turnaround: a customer-oriented relationship model, market-leading efficiency, and a competitive international portfolio.

Governance

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

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

At the General Shareholders' Meeting held on May 22, 2019, a non-executive Director, Fernando da Costa Lima, was co-opted to perform duties in the current term, which ends in 2021, to fill a vacancy of vowel of the Audit Committee[1], Prof. Cidália Lopes was appointed Chairman of the Audit Committee, who was elected on May 30, 2018 as a member of this Committee, and Mr. Nuno Alves was elected a member of the Board of Remuneration and Social security, filling a vacancy in this social body.

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

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

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

Under the terms of the articles of association, the Board of Directors 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, who may be re-elected.

The Board of Directors began its functions on July 23, 2018 and on July 24, 2018 appointed an Executive Committee (EC), composed of six of its members, being the Chairman of the EC elected by the General Meeting.

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

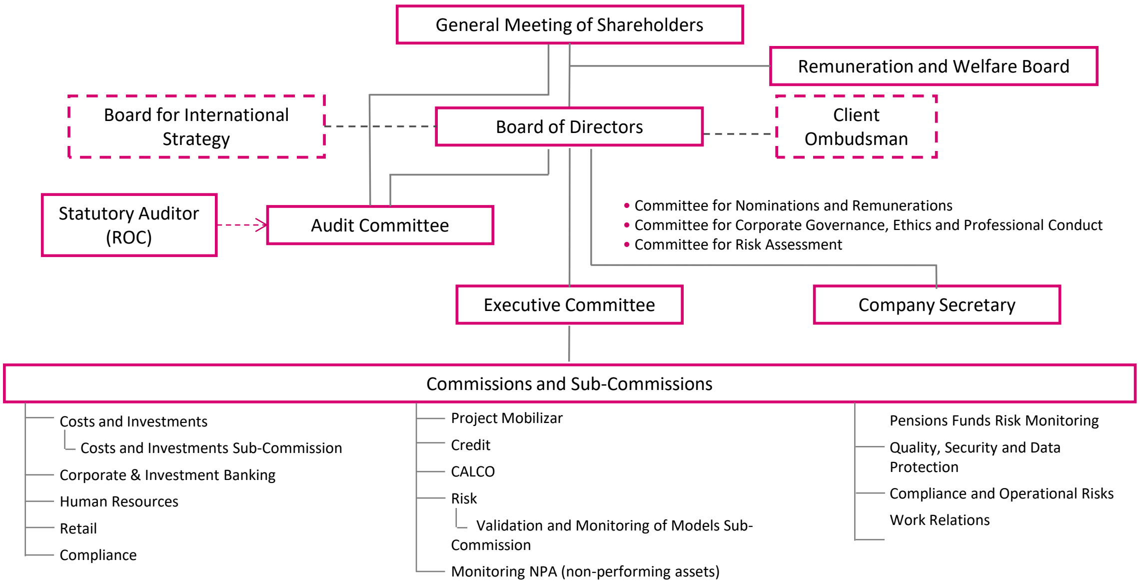
The supervision of the company is made by an Audit Committee elected by the General Meeting of Shareholders and composed of 3 to 5 members, elected together with the majority of the remaining directors. The lists proposed for the Board of Directors should indicate the members to be part of the Audit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

The Remuneration and Welfare Board is elected by the General Meeting.

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

[1] Pending authorization from BdP/ECB to exercise the respective functions

Coporate Governance Model



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

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

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

Main events in 1st H 2019

JANUARY

- Issue of perpetual subordinated notes intended to qualify as Additional Tier 1, in the amount of Euro 400 million and with no defined tenor, with a call option from the end of the fifth year and an interest rate of 9.25% per year during the first 5 years.
- Bank Millennium has received the consent of Poland's Office for Competition and Consumer Protection to take over control of Euro Bank.
- Millennium bcp and the Development Finance Institution have established an agreement for a Euro 60 million lending line to finance medium-sized companies.

MARCH

- Upgrade by one notch of the long-term deposits ratings by DBRS, reflecting the introduction in Portugal of full depositor preference in bank insolvency and resolution proceedings with the implementation of Law No. 23/2019 from 14 March 2019.
- Millennium bcp and the European Investment Fund (EIF) have signed two agreements under the European Commission's COSME and InnovFin programs, providing a Euro 500 million financing line, destined for more than 1,150 Small and Medium-sized Enterprises (SMEs) in Portugal. An extension of the InnovFin agreement, providing an additional Euro 400 million to more than 750 innovative SMEs and mid-caps in Portugal was also signed.
- Millennium bcp and Credit Insurer COSEC signed an agreement to distribute credit insurance in Millennium bcp's branches.

APRIL

- Upgrades of deposit ratings to Ba1 and senior debt rating to Ba2 made by Moody's on April 1.

MAY

- Completion of the Annual General Meeting of Shareholders, on May 22, with 64.59% of the share capital represented, the, being highlighted the following resolutions: approval of the individual and consolidated annual report, balance sheet and financial statements of 2018, including the Corporate Governance Report and the proposal for the appropriation of profits for the 2018 financial year; approval of the cooptation of Fernando Costa Lima as member of the Board of Directors and of the Audit Committee for the exercise of functions in the term-of-office ending in 2021; appointment of Cidália Maria da Mota Lopes as Chairperson of the Audit Committee to exercise functions during the term-of-office ending in 2021; election of Nuno Maria Pestana de Almeida Alves as member of the Remunerations and Welfare Board; election of Deloitte & Associados - Sociedade de Revisores Oficiais de Contas, S.A., that selected Mr. Paulo Alexandre de Sá Fernandes, ROC nr. 1456, to represent it, as the Single Auditor, and of Mr. Jorge Carlos Batalha Duarte Catulo, ROC nr. 992, as his alternate, during the two-year term-of-office 2019/2020; selection of Deloitte & Associados - Sociedade de Revisores Oficiais de Contas, SA to perform functions of External Auditor in the 2019/2020 two-year period.
- Bank Millennium S.A., a subsidiary in which BCP owns a 50.1% stake, announced on May 31 having completed the acquisition of shares representing 99.787% of the share capital of Euro Bank S.A..

JUNE

- BCP announced on June 19, that is evaluating the merger of its wholly-owned subsidiary Banco de Investimento Imobiliário, S.A. by incorporation into Banco Comercial Português, S.A., to be effected until year-end 2019.
- Upgrade of issuer rating to investment grade, made by DBRS, on June 3.

BCP Share

The first half of 2019 was very positive for the stock markets, notwithstanding the uncertainties surrounding the trade war, especially between the US and China, the slowdown in global activity or uncertainties related to Brexit. The resilience of the US economy associated with a more accommodating stance of the Central Banks, ended up supporting the markets. The Fed has left out further projected increases in interest rates and the scenario of declining interest rates is now more likely. The ECB reiterated the policy of low rates and economic stimulus. These policies were reflected in a drop in sovereign yields and favoured a change in the behaviour of investors, who opted to take more risk. The appreciation of commodities, mainly oil prices (sustained by the continuation of production cuts) was another factor driving the good performance of the markets.

BCP SHARE INDICATORS

	Units	1H19	1H18
ADJUSTED PRICES			
Maximum price	(Euros)	0.2719	0.3339
Average price	(Euros)	0.2433	0.2856
Minimum price	(Euros)	0.2207	0.2392
Closing price	(Euros)	0.2719	0.2574
SHARES AND EQUITY			
Number of ordinary shares (outstanding)	(M)	15,114	15,114
Shareholder's Equity attributable to the group	(MEuros)	6,387	5,802
Shareholder's Equity attributable to ordinary shares (1)	(MEuros)	6,387	5,743
VALUE PER SHARE			
Adjusted net income (EPS) (2) (3)	(Euros)	0.023	0.020
Book value (4)	(Euros)	0.396	0.380
MARKET INDICATORS			
Closing price to book value	(PBV)	0.64	0.68
Market capitalisation (closing price)	(MEuros)	4,109	3,890
LIQUIDITY			
Turnover	(MEuros)	1,215	2,171
Average daily turnover	(MEuros)	9.7	17.2
Volume (3)	(M)	4,991	7,561
Average daily volume (3)	(M)	40.0	60.0
Capital rotation (5)	(%)	33.0%	50.0%

(1) Shareholder's Equity attributable to the group minus Preferred shares
(2) Considering the average number of shares outstanding
(3) Ajusted by the share capital increase completed in February 2017
(4) Considering the average number of shares minus the number of treasury shares in portfolio
(5) Total number of shares traded divided by the average number of shares issued in the period

BCP shares closed the period at its highest price since June 14, 2018, having appreciated 18.5% in the first half of 2019, surpassing the performance of the European bank index, which traded practically flat.

BCP shares underperformed the European banks index until the release of 1Q results, and from that moment on, it incorporated more optimistic expectations of results generation and reduction of NPEs stock.

The positive news about the Portuguese economy and the specific factors related to BCP contributed to overcome the negative impact of the international environment.

International environment was negative due to:

- Continued uncertainty over the outcome of the US / China trade war and Brexit;
- The cut in ECB and IMF projections for the Eurozone and Portuguese GDP growth;
- Statements made by the ECB President, reinforcing the scenario of further reductions in interest rates.

These factors were offset by positive news regarding the Portuguese economy:

- Disclosure of the GDP growth rate in Q1 (1.8%), which exceeded expectations;
- Disclosure of the budget surplus, which should have been around 0.4% of the GDP in Q1;
- Upgrade of the Portuguese Republic rating by S&P.

At BCP's specific level, stands out:

- Disclosure of Q1 2019 results, well received by the market.;
- Upgrade of BCP's ratings by Moody's on April 1 and by DBRS on June 3;
- Average price target of Euros0.32, which represents a significant appreciation potential compared to the share's current price.

PERFORMANCE

Index	Change 1H19
BCP share	+18.5%
Eurostoxx 600 Banks	+0.9%
PSI20	+8.6%
IBEX 35	+7.7%
CAC 40	+17.1%
DAX XETRA	+17.4%
FTSE 100	+10.4%
MIB FTSE	+15.9%
Dow Jones Indu Average	+14.1%
Nasdaq	+23.6%
S&P500	+17.3%

Source: Euronext, Reuters, Bloomberg

Liquidity

During the first half of 2019, Euros 1,215 million in BCP shares were traded, corresponding to an average daily turnover of Euros 9.7 million. Around 4,991 million shares were traded during this period of time, corresponding to a daily average volume of 40 million shares. The capital turnover index stood at 33% of the average annual number of shares issued.

Indexes listing BCP shares

The BCP share is part of more than 50 domestic and international stock exchange indexes among which we point out the Euro Stoxx 600 Banks, the Euro Stoxx Banks, the Euronext 150, the PSI 20 and the PSI Geral.

Index	Weight
Euro Stoxx 600 Banks	0.03%
Euro Stoxx Banks	0.27%
Euronext 150	1.38%
PSI 20	14.48%
PSI Geral	6.93%

Source: Euronext, 30 june 2019

At the end of the first half of 2019, the Bank continued in the indexes/rankings "Ethibel Excellence Europe" and "Ethibel EXCELLENCE Investment Register" (VigeoEiris analyst), "Carbon Rankings (Engaged Tracking)" and "European Banks Index (Standard Ethics) ".

Sustainability Indexes

member of the INVESTMENT REGISTER ETHIBEL EXCELLENCE

included in ETHIBEL SUSTAINABILITY INDEX EXCELLENCE Europe

standard ethics

Relevant facts announced to the market and impact on the share price

The following table summarizes the relevant facts directly related with Banco Comercial Português that occurred during the first half of 2019, as well as the price variations occurred on the following day and on the 5 subsequent days and the relative evolution versus the main reference domestic and European indexes during the mentioned periods of time.

Nr.	Date	Material Events	Chg. +1D	Chg. vs. PSI20 (1D)	Chg. vs. STOXX® Europe 600 Banks (1D)	Chg. +5D	Chg. vs PSI20 (5D)	Chg. vs STOXX® Europe 600 Banks (5D)
1	22/Jan	Banco Comercial Português, S.A. informs about potential issue of perpetual subordinated notes	0,8%	0,5%	0,5%	1,7%	0,8%	1,3%
2	24/Jan	Banco Comercial Português, S.A. informs about issue of perpetual subordinated notes	1,0%	0,0%	-0,6%	-0,2%	-0,7%	1,4%
3	25/Jan	Banco Comercial Português, S.A. informs about notices of acquisition of perpetual subordinated notes	-0,3%	0,9%	1,3%	-4,5%	-3,8%	-0,9%
4	5/Feb	Banco Comercial Português, S.A. informs about Bank Millennium (Poland) results in 2018	2.5%	1.7%	1.5%	-0.6%	0.1%	-0.6%
5	21/Feb	Millennium bcp earnings release as at 31 December 2018	-1.4%	-1.2%	-1.5%	18.8%	12.0%	14.6%

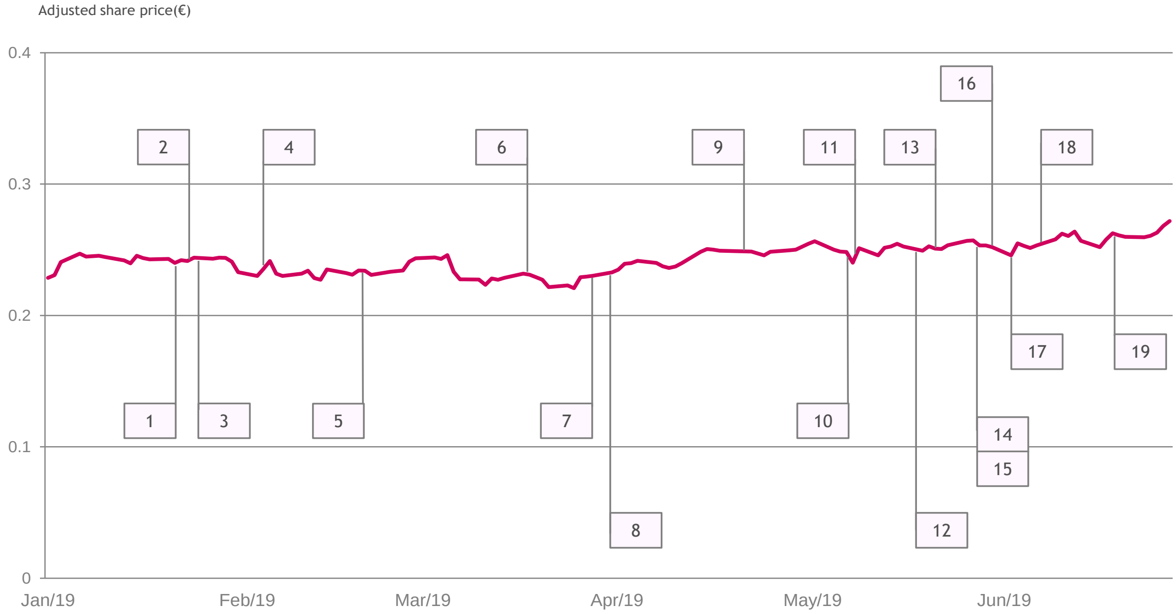
(Continues)

(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)
6	18/Mar	Banco Comercial Português, S.A. informs about Deposit ratings upgrade by DBRS to investment grade	-0.3%	-0.7%	-0.5%	-3.8%	-1.2%	1.1%
7	29/Mar	Banco Comercial Português, S.A. informs about new market relations representative	1.1%	0.1%	-1.6%	4.9%	2.9%	0.1%
8	01/Apr	Banco Comercial Português, S.A. informs about upgrades of deposit ratings to Ba1 and senior debt rating to Ba2 made by Moody's	0.9%	0.4%	0.2%	3.1%	2.1%	1.4%
9	23/Apr	Banco Comercial Português, S.A. informs about outcome of Board of Directors' meeting	-0.6%	-0.3%	0.5%	0.6%	0.3%	1.6%
10	8/May	Banco Comercial Português, S.A. informs about Bank Millennium (Poland) results in 1Q 2019	-0.6%	-0.3%	0,5%	0.6%	0.3%	1.6%
11	9/May	Millennium bcp earnings release as at 31 March 2019	-3.3%	-1.5%	-1,0%	1.7%	3.0%	4.5%
12	20/May	Banco Comercial Português, S.A. informs about notice of acquisition of bonds by an entity closely related to its officers	4.6%	3.5%	4,4%	6.0%	5.6%	5.6%
13	22/May	Banco Comercial Português, S.A. informs about resolutions of the Annual General Meeting	1.4%	0.9%	0.7%	3.0%	2.2%	4.6%
14	28/May	Banco Comercial Português, S.A. informs about non-objection by the Polish Financial Supervision Authority to the acquisition of Euro Bank S.A. by Bank Millennium S.A.	-0.1%	0.9%	1.1%	1.0%	2.2%	3.4%
15	28/May	Banco Comercial Português, S.A. informs about dividend payment for 2018	-1.5%	-0.3%	-0.4%	-0.9%	-0.2%	-0.3%
16	31/May	Banco Comercial Português, S.A. informs about acquisition of Euro Bank S.A. by Bank Millennium S.A.	-1.5%	-0.3%	-0.4%	-0.9%	-0.2%	-0.3%
17	3/Jun	Banco Comercial Português, S.A. informs about upgrade of issuer rating to investment grade, made by DBRS	-2.5%	-1.3%	-2.0%	0.5%	-1.4%	0.2%
18	7/Jun	Banco Comercial Português, S.A. informs about approval of merger plan of Bank Millennium S.A. with Euro Bank S.A.	3.7%	1.9%	1.7%	4.9%	1.2%	3.1%
19	19/Jun	Banco Comercial Português, S.A. informs about evaluation of merger with Banco de Investimento Imobiliário, S.A.	1.8%	1.2%	0.7%	1.4%	1.6%	1.9%

The performance of the BCP share during the period under reference is shown in the following chart:

BCP SHARE PERFORMANCE IN THE FIRST SEMESTER OF 2019



Dividend policy

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

Due to the strategic objectives presented and the corresponding evolution in terms of capital needs, there is an aspirational objective of having a payout ratio of 40%, from 2021 onwards, but the final decision is always the result of the aforementioned policy.

Regarding the 2018 earnings, the Executive Committee proposed the Board of Directors to approve a proposal for a dividend distribution corresponding to a 10% pay-out, to be submitted to the Annual General Meeting.

Follow-up with Investors

The Bank participated in various events during the first half of 2019, having attended 9 conferences and 5 road shows in Europe and in the USA, where it gave institutional presentations and held one-on-one meetings and group meetings with investors. More than 220 meetings were held with analysts and institutional investors, which demonstrates significant interest in relation to the Bank.

Own shares

As at 30 June 2019, Banco Comercial Português, S.A. does not hold treasury shares and did not purchase or sold own shares during the period. However, this balance includes 323,738 shares (31 December 2018: 323,738 shares) owned by Customers. Since for some of these Customers there is evidence of impairment, the shares of the Bank owned by these Customers were considered as treasury shares, and, in accordance with accounting policies, deducted to equity.

The own shares held by the companies included in the consolidation perimeter are within the limits established by the Bank's by-laws and by "Código das Sociedades Comerciais".

Regarding treasury shares owned by associated companies of the BCP Group, as at 30 June 2019, the Millenniumbcp Ageas Group owned 142,601,002 BCP shares (31 December 2018: 142,601,002 shares) in the amount of Euros 38,745,000 (31 December 2018: Euros 32,727,000), as referred in note 51.

Shareholders structure

According to Interbolsa, on 30 June 2019, the number of Shareholders of Banco Comercial Português was of 154,677.

At the end of June 2019 there were four Shareholders with a qualifying shareholding, two of which with a stake above 5% of the Bank's share capital.

Shareholder structure	Number of Shareholders	% of share capital
INDIVIDUAL SHAREHOLDERS		
Group Employees	2 722	0.23%
Other	147 310	21.48%
COMPANIES		
Institutional	320	21.44%
Qualified Shareholders	4	52.21%
Other companies	4 321	4.64%
TOTAL	154 677	100%

Shareholders with more than 5 million shares represented 76.93% of the share capital.

Number of shares per Shareholder	Number of Shareholders	% of share capital
> 5,000,000	115	76.93%
500,000 to 4,999,999	982	7.40%
50,000 to 499,999	12 191	10.40%
5,000 to 49,999	40 162	4.68%
< 5,000	101 227	0.60%
TOTAL	154 677	100%

During the first half of 2019, the Bank's shareholding structure remained stable in terms of geographical distribution. On 30 June 2018, Shareholders in Portugal held 29.0x% of the total number of shares of the Bank.

	Nr. of Shares (%)
Portugal	29.0%
China	27.3%
Africa	19.7%
UK / USA	15.6%
Other	8.4%
Total	100%

Qualified Holdings

On 30 June 2019, the following Shareholders held more than 2% of the share capital of Banco Comercial Português, S.A.:

			30 June 2019
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	4 118 502 618	27.25%	27.25%
TOTAL FOR FOSUN GROUP	**4 118 502 618**	**27.25%**	**27.25%**
Sonangol - Sociedade Nacional de Combustíveis de Angola, EP, directly	2 946 353 914	19.49%	19.49%
TOTAL FOR SONANGOL GROUP	**2 946 353 914**	**19.49%**	**19.49%**
BlackRock*	**512 328 512**	3.39%	3.39%
TOTAL FOR BLACKROCK	**512 328 512**	**3.39%**	**3.39%**
EDP Group Pensions Fund **	314 018 677	2.08%	2.08%
TOTAL EDP GROUP	**314 018 677**	**2.08%**	**2.08%**
TOTAL OF QUALIFIED SHAREHOLDERS	**7 891 203 721**	**52.21%**	**52.21%**

* In accordance with the announcement on March 5, 2018 (last information available).

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

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

Business Model

Regulatory, economic and financial system environment

Regulatory environment

The regulatory agenda in the first half of 2019 was characterized by the publication of Regulation (EU) 2019/876, amending Regulation (EU) No 575/2013, as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012, which reinforces the recovery and resolution framework for banks in financial difficulty; the extension by about 6 months of the Brexit's deadline; the process of implementing compatible procedures with the Payment Services Directive (PSD2) requirements, namely related to the strong authentication of the client; developments in the definition of compatible indexes with the Regulation on indices used as indices and benchmarks in the framework of financial instruments and financial contracts, including interest rate benchmarks, and the new interbank market rate benchmark, defined by the ECB, for overnight operations ("EurosSTR"), with disclosure to begin in October.

At a national level, it is wort mentioning the publication of Law 15/2019 on the information duties regarding the entities that have received State support; and the publication of Law 23/2019 on the position of the unsecured debt instruments in the insolvency hierarchy by the establishment of a new senior non-preferred debt instrument eligible for MREL but not for own funds, granting a credit privilege to the majority of deposits, reinforcing the protection of bank deposits in insolvency or resolution scenarios.

Work has continued towards further integration of capital markets at an European level (Capital Markets Union); for the implementation of the third pillar of the Banking Union (European Deposit Guarantee Scheme and financial support for the Single Resolution Fund), and for the development of the regulatory framework and sustainable finance related initiatives associated to the 'Sustainable finance' package, aimed at creating incentives and raising awareness towards an environmentally sustainable financial offer.

Under the action plan and policies towards the reduction of non-performing loans (NPL) the amendment to the regulation of capital requirements that establishes the minimum coverage for impairments for losses on unproductive assets entered into force in April 2019. In early June, the European Council formally adopted the directive on preventive restructuring schemes, the granting of a second chance and measures to increase the efficiency of the restructuring, insolvency and debt settlement processes, marking the end of the legislative process.

The finalization of the proposals for amendments to the Basel III regime, by the Basel Committee in December 2017, which limit the scope of internal models, should lead to an intensification of the work of integrating these reforms into the European regulatory framework under which EBA has carried out several impact assessment studies. The proposed amendments have the purpose of enhancing the quality of banks' capital and reducing the variability of risk-weighted assets.

Other relevant issues on the regulatory agenda relating to the Portuguese financial system that took place in the first half of 2019:

- Instruction no. 5/2019, defining the information requirements to be periodically reported to Banco de Portugal by entities subject to its supervision in relation to the prevention of the use of the financial system for the purposes of money laundering or terrorist financing;
- The proposed Law no. 190/XIII (20 March 2019) on the change of the financial supervision regime in Portugal, including the creation of the National System of Financial Supervision, to strengthen the coordination between the Portuguese supervisory authorities;
- At the macro prudential level, the percentage of countercyclical reserve applicable to credit exposures to the domestic non-financial private sector remained unchanged at 0% of the total amount of the positions at risk
- The General Data Protection Regulation (EU Regulation no. 679/2016) has been transposed;
- Simplified regime for the assignment of credit portfolios and associated registry operations (Decree-Law no. 42/2019) will enter into force in the second half of the year.

Regarding supervision, priority is being given not only to the monitoring of credit quality - NPL reduction - but also to its new production origination criteria; fighting money laundering and terrorist financing; strengthening of the IT frameworks against IT and cyber risks; and the process of implementing of the conclusions of the internal models for credit, market and counterparty credit risk exercise (TRIM) by EBA.

These changes represent a demanding framework in terms of (i) binding requirements, (ii) implementing and revising procedures, (iii) risk management (existing and new), (iv) supervisory and stakeholder reporting and disclosure, (v) security of operations and (vi) adequacy of products and services regarding potential impacts on the business. Therefore, the Bank has implemented, or has in place, several strategic projects aiming at complying with the regulations and equipping the Bank with the necessary capacities and agility to face the challenges posed by the constant evolution of the regulatory framework.

Economic environment

The International Monetary Fund (IMF) foresees a slower growth rate for the world's GDP in 2019, from 3.6% to 3.3%, given the signs of economic slowdown seen in the major world economies.

In the euro area there persist important risks of deceleration of activity. After the strong drop in growth witnessed in 2018 largely due to temporary factors related to the German auto sector, in the first quarter of 2019, the pace of GDP expansion remained modest (1.2% year-on-year), penalised by the growing deterioration of global demand. The uncertainty about the movement of the economy and the trajectory of the reduction of the inflation rate compelled the ECB to announce in July's monetary policy meeting that the beginning of the process of normalisation of interest rates will not start before the end of next year's first six month-period.

At the end of the H1 2019 the expansionist phase of the US's economy completed 121 months, the longest since the Second World War. The longevity of the growth cycle was one of the reasons that led the US Federal Reserve (Fed) to intensify the normalising process of interest rates throughout 2018. This circumstance translated into a loss of dynamism of activity, which did not have a larger impact on the economy's effective growth solely due to the expansionary fiscal program introduced in the beginning of last year. However, the fading of that stimulus' effects and the slowdown of the global economy originated a loss of vigour of the American economy in the course of the first half-year of 2019. Faced with such developments, the Fed hinted at a reversion of the monetary policy's stance, which implies a high probability of a reduction of interest rates in the second half of the current year.

The evolution of the international financial markets during the first six months of 2019 was marked by the appreciation of most asset classes, regardless of their risk profile. Indeed, the most cyclical markets, like stocks or corporate bonds, saw strong appreciations, while the yields on the safest debt securities, such as German and US sovereign bonds, recorded significant drops. This evolution was influenced by the intensification of the expectations of a higher accommodation of monetary policy worldwide, in a context of a pronounced weakening of the major world economies. The relative economic frailty of Europe led to a continuous depreciation of the Euro against the Dollar throughout the first half of 2019 and also to the maintenance of the interest rates on the Euro's money markets in negative territory for all maturities.

In Portugal, growth improved modestly in the first quarter of 2019, putting an end to the slowdown trajectory of activity observed in the second half of 2018. The year-on-year growth rate of 1.8% in the first three months of the year was boosted by the explosion of investment, which grew at a pace not seen since 1998 (14.5%), mitigating the negative contribution of net exports and the slight deceleration of private consumption. The expansion of investment stemmed, on one hand, from the dynamism of the construction sector, fostered by the strong demand for residential real-estate, and on the other hand, from the increase in business investment in machines and equipment. In this context, the need for capital goods' imports contributed to the worsening of the trade balance, whose deficit in the first four months of 2019 reached a magnitude not observed since 2012.

In Poland, the economic environment remains dynamic. In the first quarter of 2019 GDP growth was 4.7% year-on-year, which corresponds to a small acceleration compared to the previous three months, which was explained by a strong increase of investment and by the improvement of the contribution of net exports, together with the persistence of robust levels of expansion of private consumption. In this context of strong economic activity, the inflation rate, which had previously been at low levels, in April and May of 2019 surpassed the 2% threshold for the first time since the end of 2012. On the currency front, the Zloty appreciated against the euro in the first half of the year.

In Mozambique, the trajectory of reduction of the inflation rate and the favourable evolution of the exchange rate allowed the central bank to reduce the key interest rates by 100 basis points (b.p.) in June. In Angola, the central bank also announced a reduction of the reference interest rates, albeit by a lower magnitude (25 b.p.), benefiting from the improvement of inflation, in an environment where economic activity still presents some frailty, after three consecutive years of contraction. For 2019, the IMF predicts that the Angolan economy will return to growth, even if barely (0.4%).

Financial system environment

The profitability of the banking sector continued the recovery trend evidenced in recent years, based on improved operating efficiency and lower provisioning, marked by the reduction of non-performing exposures (NPEs) in banks' balance sheets, mainly through the sale of credit and real estate portfolios, allowing to accomplish and in some cases outperform the NPEs reduction plans disclosed by some banks. Following the substantial strengthening of capital buffers in 2017, the capital ratios of the main banks are now at a more comfortable level, above regulatory minima and generally aligned or slightly above the average of other European peers. As in previous years, the evolution and performance of the banking system continues to be affected by the extraordinary low levels of the interest rates in Eurozone, by the implementation and revision of regulation and legislation, and by the practice of more demanding and costlier supervision, including the more demanding regulatory contributions (e.g. contributions to the Banking Sector and to the National and European Resolution Funds).

The liquidity position of the Portuguese banking system remained at comfortable levels, with most banks registering loan-to-deposits ratios below or close to 100%. Capital ratios continued to be reinforced on the back of organic capital generation and the issuance of equity-eligible debt instruments, in order to comply with MREL requirements in the short/medium term. The improvement in profitability and productivity in the banking sector has allowed a higher remuneration of the business factors in most banks, namely at the level of capital via dividend distributions. The exception is one bank that still relies on the National Resolution Fund, through the Contingent Capital Agreement, to top up its capital ratios in order to comply with the minimum regulatory requirements of the Supervisor. The ongoing restructuring plan of that bank, associated with the activation and potential reactivation of the Contingent Capital Agreement, established in the sale agreements of the controlling shareholder position, together with eventual further financial needs arising from Banco Espírito Santo and BANIF resolutions, continue to pose risks to the Portuguese banking system.

The traditional banking business model will have to change to face the challenges and opportunities arising from the 'Digital Economy' and financial system digitalization, as well as the need to adapt to both the new regulatory and the new competition environment (through the new Payment Services Directive 2 - "PSD2"), leading banks to reassess business models and to the entry of new players, including non-banks (fintech and bigtech), with new and different forms of structuring, processing and distributing financial products and services. Mitigation of compliance risks, such as money laundering and the financing of illicit activities (e.g. terrorism), and cybersecurity, require enhanced investment in a more demanding operating risk assessment and control policies, as well as in security and IT, in order to allow the Portuguese banking system to safely take advantage of the improvements accomplished in recent years, both in terms of profitability and risk indicators, as well as liquidity and capital.

Business Model

Nature of the operations and main activities

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

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

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

Distintice factors of the business model

Largest private sector banking institution

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

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

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

International presence as a platform for growth

At the end of March 2019, Millennium bcp was the largest Portuguese privately-owned bank on business volumes with a relevant position in the countries where it operates.

On 30 June 2019, operations in Portugal accounted for 69% of total assets, 68% of total loans to Customers (gross) and 70% of total customer funds. The Bank had over 2.3 million active Customers in Portugal and market shares of 17.6% and 17.7% of loans to Customers and customer deposits, respectively in April 2019.

At the end of June 2019, Millennium bcp is also present throughout the world through its banking operations, representation offices and/or commercial protocols, serving over 4.9 million Customers.

Concerning the operations in Africa, Millennium bcp operates through Millennium bim, a universal bank that has been operating since 1995 in Mozambique, where it has over 1.3 million Customers and is the leading bank in this country, with 21.1% of loans and advances to Customers and 24.7% of deposits, on 31 May 2019. Millennium bim is a highly reputed brand in the Mozambican market, associated with innovation, major penetration in terms of electronic banking and exceptional capacity to attract new Customers, as well as being a reference in terms of profitability.

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

In Poland, Bank Millennium has a well distributed network of branches, supported on a modern multi-channel infrastructure, on a reference service quality, high recognition of the brand, a robust capital base, comfortable liquidity and on a sound risk management and control. On 31 May 2019, Bank Millennium had a market share of 5.6% in loans to Customers and of 6.0% in deposits.

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

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

The Bank also has 9 representation offices (1 in the United Kingdom, 3 in Switzerland, 2 in Brazil, 1 in Venezuela, 1 in China, in Guangzhou, and 1 in South Africa), 5 commercial protocols (Canada, USA, Spain, France and Luxembourg).

Growth based on digital/mobile banking

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

Internet & Mobile

During the first half of 2019, the increase of digital users stood at 5%, much of which was driven by the growth of App Millennium.

Materialising the strategic orientation of Mobile First was made available in April of this year a new retail App, with a much simpler and intuitive navigation, more adapted to recent trends. Since that date the main operations have grown more than 10% on a monthly basis.

It is also worth mentioning the simplification of the application, approval and contracting of Factoring and Confirming operations. Through the Companies website, without recourse to paper, it is possible to apply for financing, to monitor and confirm the credit decision, to sign the contract using a qualified digital signature, to anticipate invoices to be received from Customers, to issue orders of payment to suppliers and contract management.

At the level of the Particular website, the possibility of opening a 100% digital account is highlighted and at the Companies website, M Contabilidade is an integration service of the Companies website with TOConline, a platform to support the Professional Association of Certified Accountants.

In the first half of 2019, the trend of growth in digital sales was confirmed, with a positive year-on-year change in all the products marketed in the digital market, with investments in the sale of term deposits (42% of the total) of certificates (44% of the total) and in credit, online personal credit (20% of the total).

In the online trading business, the launch of the MTrader App complements the MTrader station available on the website. This new App allows customers to access real-time prices from the main world markets and the certificates issued by Millennium bcp, to place stock market or-ders, as well as watch the daily video of the markets. All this in a single interface with all the information.

The Bank continues to strengthen digital sales growth, supported by much simpler and more intuitive processes, designed to respond to customer needs and a more comprehensive customer relationship model CRM.

Client-oriented relationship model

The year 2019 marks a turning point in the Bank's communication, consolidated by the launch of an institutional campaign that assumes a new positioning and commitment from Millennium to the community. It is the moment of the "Millennium Generation".

Making use of an attribute that only Millennium has – making use of a generational qualifier - Millennium has developed a positioning campaign that presents not only the generation of its Customers, with behaviors, beliefs and wills transversal to all of them, but also the new technology solution that will give them daily financial support - the new Millennium App.

This is the basis of the course that the Bank intends to undertake in all that it does and communicates - to assume a new vision of banking, with products and solutions focused on the Customers.

The communication strategy of the first half of 2019 is the clear reflection of this intention. Throughout this period, the focus is on messages focused on digital and innovation, never forgetting the relational aspect and complicity with the (new) profiles, needs and expectations of the various segments and reinforcing the strategy of the Bank in acquiring new Customers.

Worth mentioning is the account opening campaigns associated with both the Consumer Choice Award and the Summer Festivals sponsored by the Bank, as well as the reinforcement of communication with the business segment, based on the leadership of the Portugal 2020 program and PME Líder and PME Excellence statutes.

It is also worth mentioning, within the scope of the defined relational strategy, the consolidation of sponsorships and partnerships of relevance, such as the Millennium Estoril Open and the music festival "Festival ao Largo", or the organization of internal initiatives such as executives meetings.

Sustainability of the business model

The resilience of the business model is primarily based on the Bank's concentration on retail banking, more stable and less volatile by nature. Millennium bcp implemented successfully an operational recovery in its core market, reinforcing its financial and capital position, despite of the challenging environment in the banking sector in the Portuguese market. The Bank implemented a restructuring program based on a reduction of operating costs by more than 40% in Portugal since 2011 and a more than 60% reduction in the Group's NPE since 2013 (from Euros 13.7 billion to Euros 5.0 billion in June 2019).

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

The purpose of the Bank is to ensure sustainable profitability in the medium and long term, seeking to become the best in class in terms of operational efficiency, improving operating profit in a sustainable manner and maintaining a high level of control on credit risk, thus preserving its strategic position in the Portuguese retail banking services market. One of the Bank's top priorities continues to be to improve the quality of its credit portfolio, reduce the stock of NPE to circa of Euros 3 billion by 2021 and, simultaneously, decrease the cost of risk.

Main awards received

- Millennium bcp was named "Consumer's Choice" 2019 in the Large Banks category, standing out in features such as "Security", "Customer Service", "Transparency of Information" and "Quick service", amongst others.
- Millennium bcp was distinguished at the Euronext Viabolsa Awards 2019 with the "Most Active Trading House in Warrants and Certificates" award.
- ActivoBank was named "Consumer's Choice" 2019 in the Digital Bank category and it is part of the Top25 ranking of companies chosen by consumers.
- ActivoBank was elected by DECO as Accepted Choice in three categories: Personal Loans, Internet accounts with wage paid through an account with ActivoBank and Internet on-demand accounts without wage paid through an account with ActivoBank.
- Bank Millennium was acclaimed as the Customer Experience leader in the financial sector on the list of TOP 100 Brands published in the latest KPMG Poland report. The Bank is one of the top ten of the brands in the top 100 of Poland.
- Bank Millennium was hailed as the Best Bank in Poland in the annual Best Bank Awards competition organized by Global Finance Magazine.
- Bank Millennium, for the fifth time in a row, has received the CSR Silver Leaf, award that is given to companies which implement the most stringent standards of corporate social responsibility in their day-to-day activity.Millennium bim was named "Best Bank in Mozambique for Trade Finance" by Global Finance.
- Millennium bim was named "Best Bank in Mozambique for Trade Finance" by Global Finance.
- Election of Millennium bim as Best Bank in the 'Payments' category in 2019 by Global Finance, recognizing the bank for the innovative solution Millennium IZI in the scope of interoperability.
-

Millennium network

Canada
Commercial protocols

USA
Commercial protocols

Venezuela
1 Representative office

Brazil
2 Representative offices

BRANCHES

BRANCHES OPENED ON SATURDAY

BRANCHES WITH DIFFERENTIATED SCHEDULE

BRANCHES WITH ACCESS CONDITIONS TO PEOPLE WITH REDUCED MOBILITY

REPRESENTATIVE OFFICES

COMMERCIAL PROTOCOLS

PARTNERSHIP

* Includes branches of different networks that share the same physical space.
* Including eurobank branches.
** Not including eurobank branches.

Portugal
531 Branches
113* 452

United Kingdom
1 Representative office

Poland
839* Branches
55** 58** 256**

Macao
1 Branch

Spain
Commercial protocols

Luxembourg
Commercial protocols

South Africa
1 Representative office

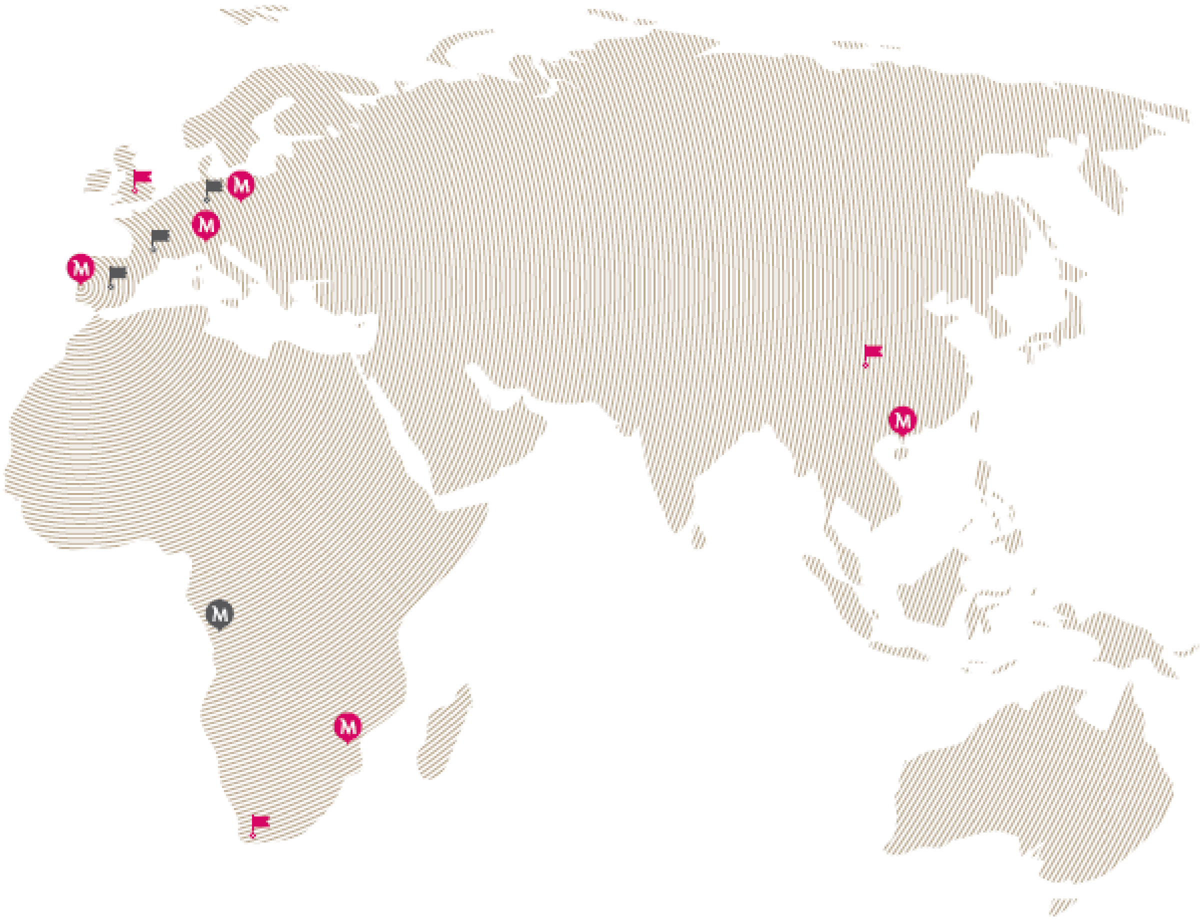
China
1 Representative office

France
Commercial protocols

Switzerland
1 Branch
1
3 Representative offices

Mozambique
193 Branches
30 64 188

Angola
Partnership in which BCP helds 22.7%



	Customers (Thousands)	Internet	Call Centre	Mobile Banking	ATM (1)	POS (2)
Portugal	2,299	690,675	176,139	537,674	1,943	65,844
Poland	1,794	1,539,381	183,355	1,149,773	499	–
Switzerland	2	634	–	–	–	–
Mozambique	846	15,727	52,162	423,945	517	8,035
Macao	3	–	–	–	–	–

Note: Active users are those who used Internet, Call Centre or Mobile Banking at least once in the last 90 days.
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 5/2005, in the version in force), following the transposition into Portuguese law of Directive 2003/51/EC, of 18 June, of the European Parliament and Council in the versions currently in force.

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

In the first half of 2019, the results of discontinued operations include mainly the gains generated by the sale of Planfipsa Group, which was considered as a discontinued operation with reference to the third quarter of 2018. The amounts related to the sale of Millennium bcp Gestão de Activos, were also recognized in this item as a result of adjustments made to the sale price agreed for the sale of that company.

The amounts recorded by the subsidiary in Poland under the items "Credit and guarantees", "Bancassurance", "Other commissions" and "Asset management" were reclassified, in 2018, in order to improve the integration of the information reported on a consolidated basis. The amounts of the items that were mentioned, in what refers to the first half of 2018, are presented considering this reclassifications, with the purpose of ensuring their comparability. The total amount of net commissions published as at June 2018 did not change.

In the first half of 2019 no changes were made to the information regarding the first half of 2018. Therefore, the figures re-expressed for the purpose of ensuring the comparability of the information result exclusively from the situations previously mentioned.

In May 2019, Bank Millennium, SA, a subsidiary owned 50.1% by Banco Comercial Português, SA, has completed the acquisition of 99.787% stake in Euro Bank S.A. from SG Financial Services Holdings, a subsidiary fully held by Société Générale, S.A.. On the settlement date of the transaction, the acquisition method set out in IFRS 3 - Business Combinations establishes that the assets acquired and the liabilities assumed shall be recognized based on their fair value at the acquisition date. It should be noted that, at this stage, the settlement process is not yet concluded, as the audit process on financial statements of Euro Bank S.A. prepared specifically for this purpose is ongoing and may result in additional adjustments to the purchase price. In accordance with IFRS 3, the effective settlement will be completed no later than one year from the control acquisition date which occurred on 31 May 2019. From this date, financial statements of the Group reflect the consolidation of Euro Bank S.A.

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

On 1 January 2019, IFRS 16 - Leases entered into force, replacing IAS 17 - Leases and establishing the new requirements regarding the scope, classification, recognition and measurement of leases. The Group applied the principles set out in this standard retrospectively with the impacts of the transition being recognized on 1 January 2019. In what concerns the income statement, the adoption of IFRS 16 led to changes in amortizations and depreciations, other administrative costs and net interest income, but on a net basis, the amounts recorded are not material.

PROFITABILITY ANALYSIS

NET INCOME

The consolidated net income of Millennium bcp achieved Euros 170 million in the first half of 2019, showing an increase of 12.7% compared to the Euros 151 million posted in the same period of the previous year. This evolution was determined by the good performance of the activity in Portugal, with a lower contribution of the international activity compared to the same period of the previous year. Net income of the first half of 2019 includes a Euros 13.5 million gain, resulting from the sale of Planfipsa Group in February 2019, reflected as discontinued operations.

In the activity in Portugal, net income showed a growth of 23.2% compared to the Euros 59 million reached in the first half of 2018, totalling Euros 73 million[2] in the first six months of 2019. This growth was mainly due to the favourable performance of impairments, since both the costs recognized as loans impairment and as other impairment and provisions showed a significant reduction compared to the first half of 2018. The performance of net operating revenues also contributed to the good performance of the activity in Portugal, with the increase of net interest income, other net operating income and net trading income. Inversely, the increase of the result in Portugal was softened by the evolution of operating costs and by the reduction of equity accounted earnings, compared to the same period of the previous year.

In the international activity, net income totalled Euros 84 million in the first half of 2019, comparing to Euros 90 million obtained in the same period of previous year. Nevertheless, core income increased from Euros 222 million in the first half of 2018 to Euros 234 million in the first half of 2019.

Bank Millennium in Poland reported a net income of Euros 78 million in the first six months of 2019, showing a decrease of Euros 4 million from Euros 82 million recorded in the same period of 2018, influenced by the initial impact of the acquisition of Euro Bank S.A., particularly in loan impairment charges and operating costs, despite higher net interest income, mostly associated with the growth of business volumes.

NET INCOME

Euro million

Millennium bim in Mozambique posted a net income of Euros 48 million, 6.1% lower than the Euros 51 million obtained in the first half of 2018, reflecting both the negative impact of lower reference interest rates in the performance of net interest income as well as the increase on operating costs and other impairments and provisions, partially mitigated by the improvement in net trading income and loans impairment.

Regarding Angola, the contribution to international activity net income in the first half of 2019 totalled Euros 6 million, which represents an increase of 2.3% over the amount obtained in the same period of previous year, benefiting from the impact of the end of the application of IAS 29 and the higher result of Banco Millennium Atlântico in local currency, despite the adverse effect of the Kwanza depreciation.

[2] Not considering income arising from operations accounted as discontinued operations.

INCOME STATEMENT

Euro million

	1H19	1H18	Change 19/18
NET INTEREST INCOME	740	688	7.6%
OTHER NET INCOME			
Dividends from equity instruments	1	1	9.0%
Net commissions	342	340	0.6%
Net trading income	96	77	24.0%
Other net operating income	(75)	(90)	16.3%
Equity accounted earnings	21	41	-48.8%
TOTAL OTHER NET INCOME	384	369	4.1%
NET OPERATING REVENUES	1,124	1,057	6.4%
OPERATING COSTS			
Staff costs	324	290	11.9%
Other administrative costs	167	183	-8.6%
Depreciation	57	28	100.9%
TOTAL OPERATING COSTS	548	501	9.5%
RESULTS BEFORE IMPAIRMENT AND PROVISIONS	576	556	3.6%
IMPAIRMENT			
Loans impairment (net of recoveries)	200	221	-9.2%
Other impairment and provisions	43	59	-27.7%
INCOME BEFORE INCOME TAX	333	276	20.5%
INCOME TAX			
Current	47	50	-4.9%
Deferred	74	22	>200%
INCOME AFTER INCOME TAX FROM CONTINUING OPERATIONS	212	204	3.7%
Income arising from discontinued operations	13	2	>200%
INCOME AFTER INCOME TAX	225	206	9.3%
Non-controlling interests	55	55	0.1%
NET INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	170	151	12.7%

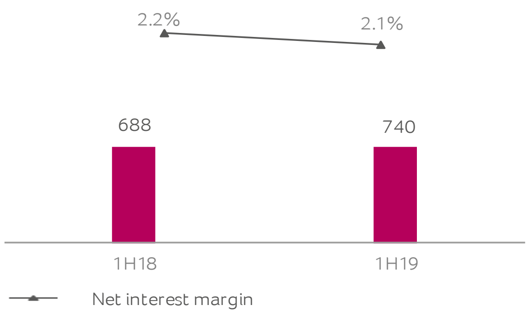
NET INTEREST INCOME

Net interest income reached Euros 740 million in the first half of 2019, an increase of 7.6% compared to the Euros 688 million recorded in the first half of 2018, mainly due to the favourable performance of the international activity, but also to the positive evolution of the activity in Portugal.

In the activity in Portugal, net interest income amounted to Euros 399 million in the first half of 2019, showing an increase of 3.8% compared to Euros 385 million recorded in the same period of the previous year, mostly based on the reduction in the cost of funding. The favourable evolution of the cost of funding stems from the reduction of the cost of debt issued, together with the reduction in costs incurred with term deposits, in this case due not only to the lower rates practiced, but also to the reduction in the weight of these deposits compared to demand deposits compared to the first half of 2018. This evolution of cost of funding was partially offset by the decrease of gains associated to targeted longer-term refinancing operations (TLTRO). Despite the reduction in the total amount of loan portfolio associated with the reduction in non-performing exposures, outstanding loans contributed positively to the evolution of net interest income in the first half of 2019 compared to the same period of the previous year. Inversely, the securities portfolio contributed less, as a consequence of the persistence of a market scenario characterized by low interest rates.

NET INTEREST INCOME

Euro million



In the international activity, net interest income presented an increase of 12.5% compared to the Euros 303 million recorded in the first half of the previous year, reaching Euros 341 million in the first six months of 2019, determined by the good performance of the Polish subsidiary, mainly regarding the income from loans portfolio.

The net interest margin of the Group, in the first half of 2019, stood at 2.1% slightly below the 2.2% booked in the same period of 2018.

OTHER NET INCOME

Other net income includes dividends from equity instruments, net commissions, net trading income, other net operating income and equity accounted earnings. In the first half of 2019, other net income reached Euros 384 million showing an increase of 4.1% compared to Euros 369 million recorded in the same period of previous year. This increase reflects essentially the positive evolution of net trading income and of other net operating income, partially offset by the reduction in equity accounted earnings.

OTHER NET INCOME

Euro million

	1H19	1H18	Change 19/18
Dividends from equity instruments	1	1	9.0%
Net commissions	342	340	0.6%
Net trading income	96	77	24.0%
Other net operating income	(75)	(90)	16.3%
Equity accounted earnings	21	41	-48.8%
TOTAL	384	369	4.1%
of which:			
Activity in Portugal	264	250	5.8%
International activity	120	119	0.4%

DIVIDENDS FROM EQUITY INSTRUMENTS

Dividends from equity instruments, which incorporates dividends received from investments classified as financial assets at fair value through other comprehensive income and from financial assets held for trading, stood at 1 million euros in the first half of 2019, very similar to the amount accounted in the same period of the previous year, reflecting the evolution of the income associated with investments that are part of the Group's share portfolio.

NET COMMISSIONS

In 2018, some of the amounts recorded by the subsidiary in Poland under the items "Credit and guarantees", "Bancassurance", "Other commissions" and "Asset management" were reclassified in order to improve the integration of the information reported on a consolidated basis. The amounts of such items, included in this analysis for the first half of 2018, are presented considering these reclassifications with the purpose of ensuring their comparability. The total amount of net commissions published as at 30 Junho 2018 remains unchanged.

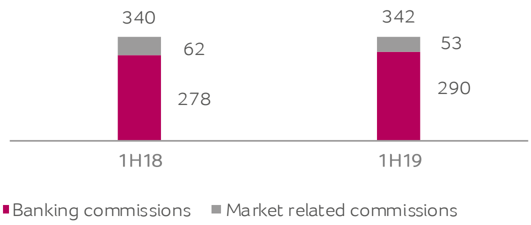
In the first half of 2019, net commissions totalled Euros 342 million, slightly above the 340 million euros posted at the same period of the last year. The evolution of net commissions on a consolidated basis, reflects the performance of both the activity in Portugal and the international activity, where net commissions increased from the first half of 2018 by 0.7% and 0.4%, respectively.

Consolidated net commissions encompass different performances in what concerns commissions related to the banking business and commissions related to financial markets.

While banking commissions continued to grow favourably, showing a 4.1% increase over the first half of 2018, the market related commissions decreased by 15.0%, absorbing almost totally the positive impact of banking commissions.

NET COMMISSIONS

Euro million



The favourable performance of banking commissions was both in the activity in Portugal and in the international activity, where the increase was 4.3% and 3.5%, respectively.

On the other hand, the negative evolution of commissions related to the financial markets were due to both the 21.4% reduction in the activity in Portugal and the performance of the international activity which fell by 7.8% from the amount posted in the previous year. This evolution reflects, above all, the lower appetite of customers for investment products in the current market context.

NET COMMISSIONS

Euro million

	1H19	1H18	Change 19/18
BANKING COMMISSIONS			
Cards and transfers	81	80	1.8%
Credit and guarantees	83	80	3.7%
Bancassurance	58	53	8.5%
Current accounts related	57	52	8.5%
Other commissions	11	13	-16.1%
SUBTOTAL	290	278	4.1%
MARKET RELATED COMMISSIONS			
Securities	33	40	-16.0%
Asset management	19	22	-13.3%
SUBTOTAL	53	62	-15.0%
TOTAL NET COMMISSIONS	342	340	0.6%
of which:			
Activity in Portugal	236	234	0.7%
International activity	107	106	0.4%

NET TRADING INCOME

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

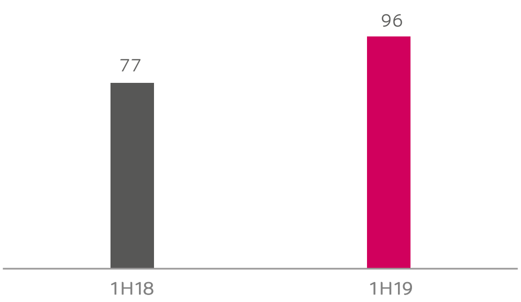
In the first six months of 2019, net trading income stood at Euros 96 million, comparing favourably to the Euros 77 million registered in the same time of the previous year, reflecting the good performances of both the activity in Portugal and the international activity which increased 16.8% and 34.6%, respectively, from the first half of 2018.

In the activity in Portugal, emphasis should be made to the gains of 55 million euros, recognized with the sale of Portuguese public debt securities, substantially higher than those obtained in the first half of 2018, which amounted to Euros 13 million. In addition, net trading income in Portugal also benefited from the lower costs of loan sales, which amounted to Euro 11 million euros in the first half of 2019, representing about half of the costs incurred in the previous year.

The growth in international activity includes, on the one hand, higher gains from the sale of securities recorded by the Polish subsidiary and, on the other, higher results from foreign exchange operations arising from the operation in Mozambique.

NET TRADING INCOME

Euro million



NET TRADING INCOME

Euro million

	1H19	1H18	Change 19/18
Net gains / (losses) from financial operations at fair value through profit or loss	(1)	17	-108.3%
Net gains / (losses) from foreign exchange	30	37	-17.6%
Net gains / (losses) from hedge accounting operations	(4)	1	<-200%
Net gains / (losses) from derecognition of assets and financial liabilities measured at amortised cost	(10)	(23)	57.0%
Net gains / (losses) from derecognition of financial assets measured at fair value through other comprehensive income	81	45	78.4%
TOTAL	96	77	24.0%
of which:			
Activity in Portugal	53	46	16.8%
International activity	42	31	34.6%

OTHER NET OPERATING INCOME

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

In the first half of 2019, other net operating income totalled a negative amount of 75 million euros, showing an improvement compared to the also negative Euros 90 million recorded in the first half of the previous year, boosted mainly by the performance of the activity in Portugal, partially offset by the negative evolution of the international activity.

In the activity in Portugal, other net operating income showed an improvement from the negative Euros 59 million recognized in the first half of 2018 to a also negative amount of Euros 40 million in the first six months of 2019. The good performance of the activity in Portugal essentially reflects the increase in income generated by the sale of non-current assets held for sale. Costs incurred with the mandatory contributions remained in line with the figure recorded in the first half of 2018, standing at Euros 67 million in the first half of 2019, incorporating the cost of the contribution to the Single Resolution Fund (SRF) in the amount of Euros 19 million, the contribution of Euros 16 million required for the national resolution fund, the contribution on the banking sector of Euros 32 million and the contribution to the deposit guarantee fund, whose value was less than Euros 1 million.

In international activity, other net operating income were of a negative Euros 36 million in the first six months of the year, which compares with a negative Euros 31 million in the same period of the previous year. This evolution was mostly justified by the increase in mandatory contributions in the Polish operation, from Euros 40 million in the first half of 2018 to Euros 48 million in the same period of 2019. In the first six months of 2019 the special tax on the Polish banking sector amounted to Euros 26 million, with the contribution to the resolution fund amounting to Euros 17 million and the contribution to the deposit guarantee fund reaching Euros 5 million.

EQUITY ACCOUNTED EARNINGS

Equity accounted earnings from associates include the results appropriated by the Group related to the consolidation of entities where, despite having a significant influence, the Group does not control the financial and operational policies. In the first half of 2019, equity accounted earnings totalled 21 million euros, compared to Euros 41 million posted in the first half of 2018, penalized by the lower contribution from both the activity in Portugal and the international activity.

In the activity in Portugal, the results generated by the participation in Millennium Ageas were reduced by Euros 8 million, compared to the first half of 2018, influenced by the impact recognized from the scenario of lower interest rates. The results generated by stake held in SIBS and Unicre together showed a reduction of Euros 5 million in the same period.

In the international activity, the decrease is justified by the fact that the appropriation of the results generated by Banco Millennium Atlântico was 6 million euros less than the amount recorded in the first half of 2018, which was largely justified by the end of the application of IAS 29, with effect from 1 January 2019. In the first half of 2018, equity accounted earnings from Banco Millennium Atlântico, in addition to the appropriation of the result corresponding to the stake held, included the effect of the application of IAS 29 , in particular the revaluation of non-monetary net assets and the revaluation of goodwill. In the first half of 2019, equity accounted earnings of Banco Millennium Angola began to reflect only the amortization of the revaluation of assets until the end of its useful life. Excluding the impact of IAS 29 in both periods, the appropriation of the results generated by Banco Millennium Atlântico recorded a reduction of only Euros 2 million.

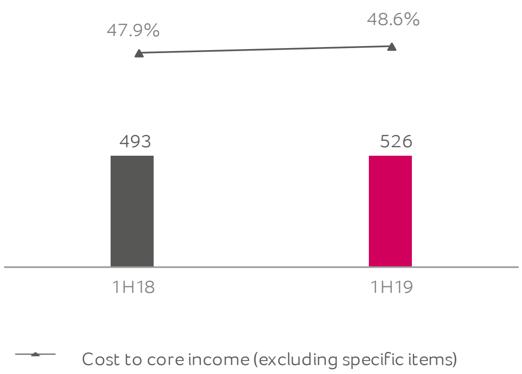
OPERATING COSTS

Operating costs, which include staff costs, other administrative costs and depreciation, excluding the effect of specific items[3], stood at Euros 526 million in the first half of 2019, comparing to Euros 493 million recorded in the first six months of 2018. This evolution mainly reflects the increase in the international activity, although in a smaller scale, the activity in Portugal also showed an increase in costs compared to the same period of the previous year.

In the activity in Portugal, operating costs, not considering the effect of the specific items amounted to Euros 313 million in the first half of 2019, increasing 2.5% from the Euros 305 million accounted in the same period of the previous year. This increase in costs was due to the evolution in staff costs and in depreciations, in the latter case justified mostly by the entry into force, on 1 January 2019, of IFRS 16 – Leases, that inversely, caused a decrease in other administrative costs.

OPERATING COSTS

Euro million



In the international activity, operating costs stood at Euros 213 million in the first six months of 2019, recording an increase of 13.5% compared to the Euros 188 million recorded in the same period of 2018, determined by the performance of the Polish subsidiary partially influenced by the impact from the acquisition of Euro Bank S.A.. The subsidiary in Mozambique also recorded an increase in operating costs in the period under review, albeit in a smaller amount.

[3] Negative impact of Euros 22 million in the first half of 2019 related to restructuring costs and compensation for temporary salary cuts, and also negative impact of Euros 8 million in the first half of 2018, related to restructuring costs, in both periods recognized as staff costs in the activity in Portugal.

OPERATING COSTS

Euro million

	1H19	1H18	Change 19/18
Staff costs	302	282	7.1%
Other administrative costs	167	183	-8.6%
Depreciation	57	28	100.9%
OPERATING COSTS EXCLUDING SPECIFIC ITEMS	526	493	6.7%
OPERATING COSTS	548	501	9.5%
Of which:			
Portugal activity (1)	313	305	2.5%
Foreign activity	213	188	13.5%

(1) Excludes the impact of specific items.

STAFF COSTS

Staff costs, not considering the effect of the specific items, fully recognized in the domestic activity, amounted to Euros 302 million in the first half of 2019, showing an increase of 7.1% compared to the Euros 282 million accounted in the same period of the previous year. This evolution reflects, mainly, the increase of costs that was observed in the international activity, but also, although to a lesser extent, in the activity in Portugal.

In the activity in Portugal, staff costs, excluding the negative impact of the specific items related to restructuring costs and compensation for temporary salary cuts in the amount of Euros 22 million, totalled Euros 185 million in the first half of 2019, showing an increase of 3.1% compared to the 179 million euros recorded in the same period of the previous year. One of the drivers for this evolution was the increase in the number of employees from 7,151 in 30 June 2018 to 7,264 in the same date of 2019, evidencing the reinforcement of digital transformation skills and internalization of outsourcers.

In the international activity, staff costs recorded an increase of 14.2% from Euros 102 million recognized in the first half of 2018, totalling Euros 117 million in the same period of 2019, mostly motivated by the performance of the Polish subsidiary, but also, although to a lesser extent, by the increase in Mozambique. The increase in satff costs in the Polish subsidiary was driven by the number of employees, which increased from 5,973 (5,846 FTE – full time equivalent) at the end of June 2018 to 8,700 (8,550 FTE- full time equivalent) on 30 June 2019. This increase was mainly justified by the inclusion of 2,425 employees as a result of the acquisition of Euro Bank S.A. in May 2019, although the employees from the Skok Piast Credit Union, an entity acquired by Bank Millennium in November 2018 also contribute to the increase.

STAFF COSTS

Euro million

	1H19	1H18	Change 19/18
Salaries and remunerations (1)	242	226	7.3%
Social security charges and other staff costs (1)	60	56	6.6%
TOTAL EXCLUDING SPECIFIC ITEMS	302	282	7.1%
SPECIFIC ITEMS	22	8	
TOTAL	324	290	11.9%

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

OTHER ADMINISTRATIVE COSTS

Other administrative costs stood at Euros 167 million in the first half of 2019, showing a reduction of 8.6% from Euros 183 million accounted in the same period of the previous year, determined by the impact of the entry into force, on 1 January 2019, of IFRS 16 – Leases.

The entry into force of IFRS 16 determined the evolution of other administrative costs both in the activity in Portugal and in the international activity, which decreased by 12.9% and 2.3%, respectively, compared to the amounts recorded in the first half of 2018.

In the activity in Portugal, other administrative costs decreased from Euros 108 million as at 30 June 2018 to Euros 94 million at the end of the first half of 2019. Excluding the impact of IFRS 16, other administrative costs at the end of the first half of 2019 showed a marginal growth compared to the same period of the previous year, mainly justified by the increase in costs incurred with advisory services associated with the ongoing digital transformation process. If these costs were disregarded, other administrative costs would show a overall reduction when compared to the amounts recognized in the first half of 2018. This decrease, although more subdued than in the past, reflects a disciplined recurring costs evolution, partly as a consequence of the ongoing effort in resizing the distribution network, which decreased from 573 branches on 30 June 2018 to 532 branches on 30 June 2019.

At the same time, the evolution of other administrative costs in the international activity from Euros 75 million at the end of the first half of 2018 to Euros 73 million in the same period of 2019 reflects above all, besides the favourable impact of the implementation of IFRS 16, the performance of the subsidiary in Poland, not only due to the impact of the acquisition of Euro Bank S.A., but also to the increase arising from the current activity of Bank Millennium, namely regarding integration, migration and equipment maintenance costs and computer systems and advisory services, reflecting the growth dynamics of the Polish economy.

The effect of the acquisition of Euro Bank S.A. also influenced the number of branches of international activity, as they increased from 550 at the end of the first half of 2018 to 1,033 as at 30 June 2019. Excluding the effect of the consolidation of this new entity, the number of branches would have increased to 568 at the end of the first six months of 2019, mainly due to the activity of the subsidiary in Poland and also by the integration of Skok Piast at the end of 2018.

OTHER ADMINISTRATIVE COSTS

Euro million

	1H19	1H18	Change 19/18
Water, electricity and fuel	9	8	10.7%
Consumables	2	2	8.4%
Rents	11	37	-69.1%
Communications	12	12	2.9%
Travel, hotel and representation costs	5	5	6.1%
Advertising	12	13	-11.0%
Maintenance and related services	9	8	14.2%
Credit cards and mortgage	1	3	-65.8%
Advisory services	15	9	59.0%
Information technology services	22	18	24.2%
Outsourcing and independent labour	36	38	-3.6%
Other specialised services	11	10	10.1%
Training costs	1	2	-17.7%
Insurance	2	2	-9.8%
Legal expenses	3	3	-17.4%
Transportation	5	5	-0.9%
Other supplies and services	11	9	21.5%
TOTAL	167	183	-8.6%

DEPRECIATION

Depreciations totalled Euros 57 million in the first half of 2019, influenced by the impact of the entry into force of IFRS 16, which justified, almost entirely, the increase of 29 million euros compared to the amount accounted in the same period of the previous year.

Excluding the impact of the entry into force of IFRS 16, depreciation costs were mostly due to the increase in investment related to software and IT equipment , both in the activity in Portugal and in the international activity, reflecting the investment in technological innovation and the ongoing digital transformation.

LOANS IMPAIRMENT

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

In the first half of 2019, loans impairment charges (net) stood at Euros 200 million, showing a reduction of 9.2% from the Euros 221 million accounted in the first half of the previous year. Given the decreasing dynamics of loan impairments in Portugal, the reduction would have been more pronounced, but for the initial effect of the acquisition of Euro Bank S.A., in the international activity.

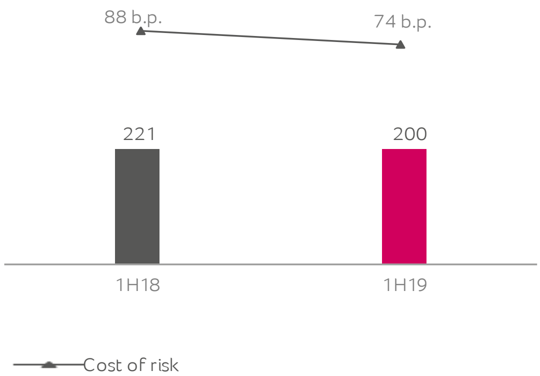
In the activity in Portugal, loans impairment continued to show a downward trend as they still show a significant decrease of 26.6%, from 192 million euros as at 30 June 2018 to Euros 141 million in the first half of 2019.

In the international activity, there was a substantial increase in loans impairment, which more than doubled compared to the same period of the previous year, from Euros 29 million to Euros 60 million between 30 June 2018 and 30 June 2019. The increase in the international activity was mostly due to the effect in the moment of the acquisition of Euro Bank S.A. with impairment charges to the risks implicit in the loans portfolio.

The cost of risk (net of recoveries) of the Group showed a favourable trend from 88 basis points in the first half of 2018 to 74 basis points in the first half of 2019. It should be noted that, as in the case of loans impairment, the cost of risk also encompass diverging changes when analyzing individually the performance of activities in Portugal and abroad.

IMPAIRMENT CHARGES (NET)

Euro million



At the end of the first half of 2019, the cost of risk of the activity in Portugal reached 76 basis points, 27 basis points lower than the cost of risk incurred in the first half of 2018, a period in which it still exceeded 100 basis points, concluding that this indicator continues to normalize.

On the contrary, the cost of risk from international activity increased from 45 basis points at the end of the first six months of the previous year to 69 basis points on 30 June 2019 and was influenced by the acquisition, in May 2019, of Euro Bank S.A., whose impacts on the cost of risk reflect, on the one hand, the increase in the loan portfolio and, on the other hand, the impact of the impairments charges to cover these exposures.

LOAN IMPAIRMENT CHARGES (NET OF RECOVERIES)

Euro million

	1H19	1H18	Change 19/18
Loan impairment charges	213	227	-6.5%
Credit recoveries	12	7	83.9%
	200	221	-9.2%
COST OF RISK:			
Impairment charges (net of recoveries) as a % of total loans	74 b.p.	88 b.p.	-14 b.p.

OTHER IMPAIRMENTS AND PROVISIONS

Other impairments and provisions include impairment of financial assets (classified at fair value through other comprehensive income and at amortized cost not associated with credit operations) and the impairment charges of other assets, in particular assets received as payment in kind resulting from the termination of loan contracts with customers, investments in associated companies and goodwill of subsidiaries and other provisions.

Other impairments and provisions stood at Euros 43 million in the first six months of 2019, compared to Euros 59 million accounted in the same period of 2018. This decrease was determined by both the evolution of the activity in Portugal and the international activity.

In the activity in Portugal, other impairment and provisions showed a decrease of 17.6%, from Euros 50 million as at 30 June 2018, to Euros 41 million in the first half of 2019, influenced, mainly, by the reversal of provisions for guarantees and other commitments and for the lower need for provisioning for other risks and charges. This favourable evolution of other impairments and provisions was partially absorbed by the higher level of provisioning required by the financial assets included in the securities portfolio, real estate portfolio and other assets.

In the international activity, other impairments and provisions showed a very significant reduction, from 9 million euros recognized in the first half of 2018 to 2 million euros in the same period of 2019, due to the amount of impairment for investment in the associated entity Banco Millennium Atlântico recognized in the first half of 2018, following the application of IAS29.

INCOME TAX

Income tax (current and deferred) amounted to Euros 121 million in the first half of 2019, which compares to Euros 72 million obtained in the same period of 2018.

These taxes include, in the first half of 2019, current tax of Euros 47 million (Euros 50 million in the first half of 2018) and deferred tax of Euros 74 million (Euros 22 million in the same period of 2018).

The increase in deferred tax expense in 2019 versus 2018 resulted mainly from the write-off of the deferred tax assets due to the change of prospects for future evolution in market interest rates, with the persistent scenario of the low interest rates, and to the actuarial losses from the pension fund.

NON-CONTROLLING INTERESTS

Non-controlling interests incorporate the portion attributable to third parties of the net income of the subsidiary companies, consolidated under the full method, wherein Group Banco Comercial Português does not hold, directly or indirectly, the entirety of their share capital.

Non-controlling interests stood at Euros 55 million in the first half of 2019, remaining globally in line (+0.1%) with the amount accounted in the same period of the previous year. Non-controlling interests record mainly the income for the year attributable to third parties related to the shareholdings in Bank Millennium in Poland (49.9%) and Millennium bim in Mozambique (33.3%), which showed a combined reduction that was totally offset by the increase in the results of the year attributable to third parties arising from the activity in Portugal.

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 2019 AND 2018 AND 31 DECEMBER 2018

Euro million

	30 Jun. 19	31 Dec. 18	30 Jun. 18	Change June 19/18
ASSETS				
Cash and deposits at central banks and loans and advances to credit institutions (1)	3,899	3,081	2,406	62.1%
Financial assets measured at amortised cost				
Loans and advances to credit institutions	971	890	878	10.6%
Loans and advances to customers	49,564	45,561	44,835	10.5%
Debt instruments	3,378	3,375	3,103	8.9%
Financial assets measured at fair value through profit or loss				
Financial assets held for trading	856	870	1,037	-17.5%
Financial assets not held for trading mandatorily at fair value through profit or loss	1,418	1,405	1,386	2.3%
Financial assets designated at fair value through profit or loss	32	33	33	-4.2%
Financial assets measured at fair value through other comprehensive income	13,386	13,846	12,050	11.1%
Investments in associated companies	422	405	489	-13.6%
Non-current assets held for sale	1,583	1,868	2,101	-24.7%
Other tangible assets, goodwill and intangible assets	927	636	659	40.6%
Current and deferred tax assets	2,851	2,949	2,965	-3.8%
Other (2)	1,586	1,004	1,156	37.2%
TOTAL ASSETS	80,873	75,923	73,100	10.6%
LIABILITIES				
Financial liabilities measured at amortized cost				
Resources from credit institutions	7,231	7,753	6,986	3.5%
Resources from customers	56,877	52,665	50,634	12.3%
Non subordinated debt securities issued	1,772	1,686	1,706	3.8%
Subordinated debt	1,302	1,072	1,152	13.1%
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading	332	327	340	-2.4%
Financial liabilities measured at fair value through profit or loss	3,514	3,604	3,717	-5.4%
Other (3)	2,279	1,853	1,679	35.7%
TOTAL LIABILITIES	73,308	68,959	66,213	10.7%
EQUITY				
Share capital	4,725	4,725	5,601	-15.6%
Share premium	16	16	16	
Preference shares	0	0	60	-100.0%
Other equity instruments	403	3	3	>200%
Treasury shares	(0)	(0)	(0)	69.8%
Reserves and retained earnings (4)	1,034	735	-28	>200%
Net income for the period attributable to Bank's Shareholders	170	301	151	12.7%
TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS	6,348	5,780	5,802	9.4%
Non-controlling interests	1,217	1,183	1,084	12.2%
TOTAL EQUITY	7,565	6,964	6,887	9.8%
TOTAL LIABILITIES AND EQUITY	80,873	75,923	73,100	10.6%

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

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

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

Loans to customers

Euro million

	30 Jun. 19	30 Jun. 18
Loans to customers at amortised cost (accounting Balance Sheet)	49,564	44,835
Debt instruments at amortised cost associated to credit operations	2,155	2,042
Balance sheet amount of loans to customers at fair value through profit or loss	316	264
Loan to customers (net) considering management criteria	**52,035**	**47,141**
Balance sheet impairment related to loans to customers at amortised cost	2,620	3,267
Balance sheet impairment associated with debt instruments at amortised cost related to credit operations	27	43
Fair value adjustments related to loans to customers at fair value through profit or loss	16	17
Loan to customers (gross) considering management criteria	**54,699**	**50,468**

Regarding deposits and other resources from customers, the Bank continued to use the approach previously used for the item "Resources from customers", putting together resources from customers at amortized 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 classified at amortized cost or designated at fair value through profit or loss.

Balance sheet customer funds

Euro million

	30 Jun. 19	30 Jun. 18
Financial liabilities at fair value through profit or loss (accounting Balance sheet)	3,514	3,717
Debt securities at fair value through profit or loss and certificates	-1,372	-896
Customer deposits at fair value through profit or loss considering management criteria	**2,142**	**2,821**
Resources from customers at amortised cost (accounting Balance sheet)	56,877	50,634
Deposits and other resources from customers considering management criteria (1)	**59,020**	**53,455**
Non subordinated debt securities issued at amortised cost (accounting Balance sheet)	1,772	1,706
Debt securities at fair value through profit or loss and certificates	1,372	896
Non subordinated debt securities placed with institucional customers	-1,466	-1,383
Debt securities placed with customers considering management criteria (2)	**1,678**	**1,219**
Balance sheet customer funds considering management criteria (1)+(2)	**60,698**	**54,674**

The securities portfolio includes (i) debt instruments at amortized cost not associated with credit operations (net of impairment), (ii) financial assets at fair value through profit and loss (excluding the amounts related to credit operations and trading derivatives), (iii) the financial assets at fair value through other comprehensive income and (iv) the assets with re-purchase agreement.

Securities portfolio

Euro million

	30 Jun. 19	30 Jun. 18
Debt instruments at amortised cost (accounting Balance sheet)	3,378	3,103
Debt instruments at amortised cost associated to credit operations net of impairment	-2,155	-2,042
Debt instruments at amortised cost considering management criteria (1)	**1,223**	**1,061**
Financial assets not held for trading mandatorily at fair value through profit or loss (accounting Balance sheet)	1,418	1,386
Balance sheet amount of loans to customers at fair value through profit or loss	-316	-264
Financial assets not held for trading mandatorily at fair value through profit or loss considering management criteria (2)	**1,102**	**1,122**
Financial assets held for trading (accounting Balance sheet) (3)	856	1,037
of which: trading derivatives (4)	632	663
Financial assets designated at fair value through profit or loss (accounting Balance sheet) (5)	32	33
Financial assets at fair value through other comprehensive income (accounting Balance sheet) (6)	13,386	12,050
Assets with repurchase agreement (accounting Balance sheet) (7)	0	25
Securities portfolio considering management criteria (1)+(2)+(3)-(4)+(5)+(6)+(7)	**15,966**	**14,666**

On 30 June 2019, total assets of the consolidated balance sheet of Millennium bcp stood at Euros 80,873 million, increasing 10.6% versus the Euros 73,100 million recorded on the same date of the previous year. This increase was due, mostly, to the acquisition of Euro Bank S.A. by the Polish subsidiary, whose impact was mainly in the evolution of the loan portfolio. Total assets considering the recurring activity of the Polish subsidiary also showed a favourable evolution compared to 30 June 2018.

At the same time, the evolution of total assets reflects the performance of the activity in Portugal, whose principal increases, as compared to 30 June 2018, were in cash at central banks and advances to credit institutions, securities portfolio, with the reinforcement of eligible assets, namelly Portuguese public debt portfolio and customer loans portfolio (net). Inversely, the most significant reduction occurred in non-current assets held for sale, namely in the portfolio of real estate properties received as payment.

Total Liabilities showed an increase of 10.7% from the Euros 66,213 million recorded as at 30 June 2018, reaching Euros 73,308 million by the end of June 2019, essentially due to the evolution of deposits and other resources from customers. Deposits and other resources from customers were influenced by both the activity in Portugal and the international activity, in this case boosted not only by the impact of the acquisition of Euro Bank S.A., but also by the activity of the Polish subsidiary, excluding the impact of the mentioned acquisition.

Equity, including non-controlling interests, totalled Euros 7,565 million on 30 June 2019, compared to Euros 6,887 million recorded at the end of June of the previous year, reflecting largerly the impact of the Additional Tier 1 issue amounting to Euros 400 million in January 2019 and the favourable evolution of the fair value reserve, in addition to the increase in non-controlling interests. Inversely, equity was reduced mostly by the actuarial losses associated to the pension fund, by the early repayment of the preferred shares issued by BCP Finance Company, Ltd and by the effect of the distribution of dividends. Additional information and details on the evolution of own capital are described in the Condensed Interim Consolidated Statements of Changes in Equity for the periods ended 30 June 2019 and 30 June 2018 in Consolidated accounts for the first half of 2019.

LOANS TO CUSTOMERS

Consolidated loans to customers (gross)[4] of Millennium bcp, as defined above, stood at Euros 54,699 million on 30 June 2019, showing an increase of 8.4% from the Euros 50,468 million at the same date of the previous year, benefiting from the performance of the international activity.

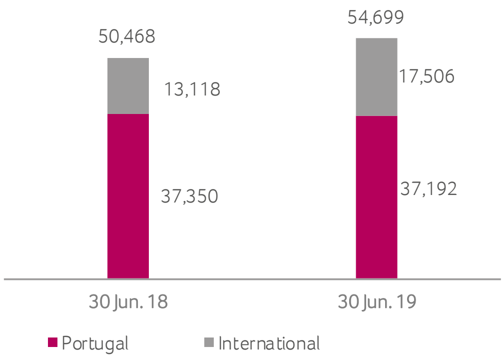
In the activity in Portugal, loans to customers (gross) were slightly below the Euros 37,350 million recorded on 30 June 2018, totaling Euros 37,192 million at the end of the first half of 2019. It is important to note that the decrease observed was due to the strong reduction in NPE, which decreased from Euros 5,913 million on 30 June 2018 to Euros 4,088 million on the same date of 2019, with the performing loans increasing 5.3% over the same period.

In the international activity, loans to customers (gross) increased 33.5% from the Euros 13,118 million booked on 30 June 2018, to Euros 17,506 million on 30 June 2019. This increase was boosted by the performance of Bank Millennium in Poland, reflecting not only the impact of the acquisition of Euro Bank S.A., but also the current activity of the subsidiary excluding that impact.

Consolidated loans to customers (gross) maintained a balanced level of diversification in the period of time comprised between 30 June 2018 and 30 June 2019, with loans to individuals and loans to companies representing respectively 57% (54% as at 30 June 2018) and 43% (46% as at 30 June 2018) of the total amount of loans to customers.

LOANS AND ADVANCES TO CUSTOMERS

Euro million



[4] Includes loans to customers at the amortised cost and fair value loans before the fair value adjustment.

LOANS TO CUSTOMERS (GROSS)

Euro million

	30 Jun. 19	30 Jun. 18	Change 19/18
INDIVIDUALS	31,342	27,268	14.9%
Mortgage	25,563	23,365	9.4%
Personnal loans	5,779	3,902	48.1%
COMPANIES	23,356	23,200	0.7%
Services	8,701	8,826	-1.4%
Commerce	3,598	3,447	4.4%
Construction	1,918	2,244	-14.6%
Others	9,139	8,683	5.3%
TOTAL	54,699	50,468	8.4%
Of which:			
Portugal activity	37,192	37,350	-0.4%
Foreign activity	17,506	13,118	33.5%

The quality of the credit portfolio continued to improve, reflecting the focus on selectivity and monitoring of the credit risk control processes, as well as from the initiatives carried out by the commercial areas and credit recovery areas towards the recovery of operations in default.

This improvement may be observed in the positive performance of the credit quality indicators, in particular in the evolution of NPE ratio as a percentage of the total loan portfolio which reduced from 13.2% as at 30 June 2018 to 9.1% at the end of the first half of 2019. The reduction of the implicit risks in the loan portfolio of the Group is also supported by the generalized increase in the coverage by impairments, namely in what refers to the reinforcement in the coverage of NPE by impairment, from 49.9% on 30 June 2018 to 53.6% on 30 June 2019. In the activity in Portugal, coverage of NPE by impairment stood at 52.5% on 30 June 2019, that compares to 47.5% recorded at the end of June 2018.

CREDIT QUALITY INDICATORS

	Group			Activity in Portugal		
	Jun. 19	Jun. 18	Var. % 19/18	Jun. 19	Jun. 18	Var. % 19/18
STOCK						
Loans to customers (gross)	54,699	50,468	8.4%	37,192	37,350	-0.4%
Overdue loans > 90 days	1,863	2,645	-29.6%	1,495	2,360	-36.7%
Overdue loans	2,034	2,764	-26.4%	1,534	2,412	-36.4%
Restructured loans	3,442	4,061	-15.2%	2,842	3,498	-18.7%
Non-performing loans (NPL) > 90 days	2,843	4,032	-29.5%	2,313	3,561	-35.0%
Non-performing exposures (NPE)	4,970	6,666	-25.4%	4,088	5,913	-30.9%
Loans impairment (Balance sheet)	2,664	3,327	-19.9%	2,146	2,810	-23.6%
RATIOS AS A PERCENTAGE OF LOANS TO CUSTOMERS						
Overdue loans > 90 days / Loans to customers (gross)	3.4%	5.2%		4.0%	6.3%	
Overdue loans / Loans to customers (gross)	3.7%	5.5%		4.1%	6.5%	
Restructured loans / Loans to customers (gross)	6.3%	8.0%		7.6%	9.4%	
Non-performing loans (NPL) > 90 days / Loans to customers (gross)	5.2%	8.0%		6.2%	9.5%	
Non-performing exposures (NPE) / Loans to customers (gross)	9.1%	13.2%		11.0%	15.8%	
COVERAGE BY IMPAIRMENTS						
Coverage of overdue loans > 90 days	143.0%	125.8%		143.6%	119.1%	
Coverage of overdue loans	131.0%	120.4%		139.9%	116.5%	
Coverage of *Non-performing loans* (NPL) > 90 dias	93.7%	82.5%		92.8%	78.9%	
Coverage of *Non-performing exposures* (NPE)	53.6%	49.9%		52.5%	47.5%	

CUSTOMER FUNDS

Total customer funds showed an increase of 9.3% compared to Euros 72,458 million recorded on 30 June 2018, reaching Euros 79,224 million at the end of the first half of 2019, due to the good performance of both the activity in Portugal and the international activity.

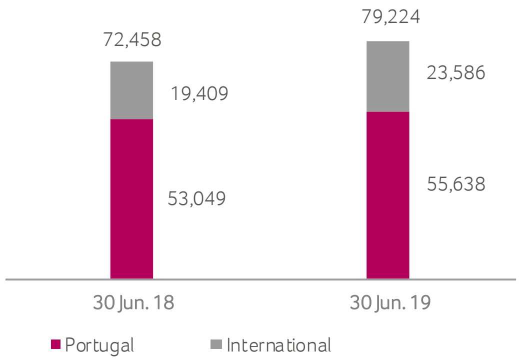
The increase in balance sheet resources of Euros 6,024 million, as compared to 30 June 2018, was a key factor for this evolution, particularly in the case of deposits and other resources from customers, which increased by Euros 5,565 million in the same period.

In the activity in Portugal, total customer funds stood at Euros 55,638 million on 30 June 2019, reflecting an increase of 4.9% compared to the Euros 53,049 million posted in the same date of the previous year. This evolution is mainly due to the performance of deposits and other resources from customers, which grew by Euros 1,342 million compared to 30 June 2018, confirming the maintenance of the weight of customer deposits in the assets financing structure. Off-balance sheet customer funds had also contributed to this favourable evolution, rising 5.9% over the amount recorded on 30 June 2018, driven by the increase of Euros 1,076 million in insurance products (savings and investment), partially absorbed by the reduction in assets placed with customers.

In the international activity, total customer funds expanded 21.5% in relation to the amount of Euros 19,409 million recorded at the end of the first half of 2018, attaining Euros 23,586 million on 30 June of 2019, mainly due to the increase of Euros 4,223 million in deposits and other resources from customers. This increase was determined by the performance of the Polish subsidiary, reflecting not only the impact of the acquisition of Euro Bank S.A., but also the current activity of the subsidiary excluding the impact of the new entity.

TOTAL CUSTOMER FUNDS

Euro million



On 30 June 2019, balance sheet customer funds represented 77% of total customer funds, with deposits and other resources from customers representing 74% of total customer funds.

The loans to deposits ratio, in accordance with the Bank of Portugal's Instruction no. 16/2004, stood at 88% on 30 June 2019, with the same ratio, considering on-balance sheet customers' funds, standing at 86%. Both ratios show values in line with those obtained on 30 June 2018.

TOTAL CUSTOMER FUNDS

Euro million

	30 Jun. 19	30 Jun. 18	Change 19/18
BALANCE SHEET CUSTOMER FUNDS	60,698	54,674	11.0%
Deposits and other resources from customers	59,020	53,455	10.4%
Debt securities	1,678	1,219	37.6%
OFF-BALANCE SHEET CUSTOMER FUNDS	18,526	17,784	4.2%
Assets under management	5,445	5,295	2.8%
Assets placed with customers	3,822	4,260	-10.3%
Insurance products (savings and investment)	9,260	8,228	12.5%
TOTAL	79,224	72,458	9.3%
Of which:			
Portugal activity	55,638	53,049	4.9%
Foreign activity	23,586	19,409	21.5%

SECURITIES PORTFOLIO

The securities portfolio, as defined above and also in the glossary, comprises a diversified set of financial assets that are broken-down according to the following accounting categories: financial assets at amortosed cost – debt instruments 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), financial assets at fair value through other comprehensive income and assets with repurchase agreement.

On 30 June 2019, the securities portfolio reached Euros 15,966 million, increasing 8.9% from Euros 14,666 million recorded in the same date of the previous year and representing 19.7% of total assets (20.1% on 30 June2018). This increase was due to the strengthening of the portfolios of both the activity in Portugal and the international activity, in particular with respect to financial assets at fair value through other comprehensive income, verified in both cases.

In the activity in Portugal, the increase in this portfolio was mainly justified by the growth of the portfolio of eligible assets, namely Portuguese sovereign debt. Likewise, in the international activity, the evolution was essentially due to the reinforcement of sovereign debt portfloio in the activity of the Polish subsidiary.

SECURITIES PORTFOLIO

Euro million

	30 Jun. 19	30 Jun. 18	Change 19/18
Financial assets measured at amortised cost (1)	1,223	1,061	15.2%
Financial assets measured at fair value through profit or loss (2)	1,357	1,530	-11.3%
Financial assets measured at fair value through other comprehensive income	13,386	12,050	11.1%
Assets with repurchase agreement	--	25	-100.0%
TOTAL	15,966	14,666	8.9%
of which:			
Activity in Portugal	10,623	9,828	8.1%
International activity	5,343	4,838	10.4%

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

(*) From Treasury and Markets International Division.

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

(***) Consolidated by the equity method.

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

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

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

Operating costs related to the business segments do not include restructuring costs recorded in the first half of 2019 and 2018, respectively.

The information presented below was based on the financial statements prepared in accordance with IFRS and on the organization of the Group's business areas as at 30 June 2019.

RETAIL

Mass Market

- Focus on the capture of business addressed to the segments which have Customers starting their careers and to the young people segment.
- Release of the campaign "A Escolha Certa, agora com mais 4 Vantagens" (the right choice, now with 4 more advantages), alluding to the fact that BCP was elected Consumers Choice in the Banking category. This campaign, exclusive for new Customers, presents four advantages in day-to-day management (subscription of an integrated solution with benefits) in Savings (access to the Deposit #1", with exclusive rates), in Salary (offer of Dental Médis Insurance) and in Credit Solutions (credit card with return of interests up to 3 months).
- Launching of the campaign for new Customers "2019 Summer Festivals" extending, in 2019, the offer of tickets (Festivals MEO Sudueste, Super Bock Super Rock, Sumol Summer Fest and Galp Beach Party) to all Customers, irrespective of age.
- The Bank is increasingly being recommended by the Customers (particularly to their relatives) through the promotion of the Advantage Family wherein Customers with integrated solutions may attribute special conditions to their immediate family associated to his/her account.
- Increase of the actions targeted at improving the Customer's experience.
- Focus at improving efficiency in Mass market Branches of the Retail Network, particularly in operational efficiency, reduction in the number of transactions, as well as an increased focus on digital migration.

Prestige

- A stronger pace in the capture of new Prestige Customers, showing an increase versus the first six months of 2018. This momentum was driven by the improvement in the commercial systematic, cross-networking and member get member initiatives and also by the setting up of protocols with companies. By association with the award Consumers Choice 2019, the bank engaged in a strong communication on the benefits of opening an account with Millennium bcp, with the reinforcement of the benefits at the moment the account is opened and a greater promotion of the advantages able of being extended to relatives of Prestige Customers.
- Within the scope of the Program #1 Prestige Customer Experience launched in 2018, the bank tried to enhance the monthly training of business approach and Customer servicing techniques and initiated an action that promotes weekly meetings of the Prestige teams for the monitoring of business and sharing of best practices. The goal is to continuously improve service to maintain the high levels of NPS the Bank was able to achieve in 2018.
- There was an increase in credit granting to Customers of the Prestige segment, both in personal loans (*online* and pre-approved), and mortgage loans, with the promotion of Customer friendly services, namely the provision of services after hours and representation of the Customer at the deed (by means of a power of attorney).
- Regarding savings and investment products and services, the Bank initiated the activities to improve the Customer's experience in all channels to be able to correspond to the Customer's expectations and objectives, with the diversification of their financial assets.
- In the Customized Remote Management, the Bank improved service to Digital Prestige Customers with an improvement in the NPS of this service.
- The Bank also promoted relationship marketing actions with the Prestige Customers in sports events, such as the Millennium Estoril Open.

Residents Abroad

- Strong growth in the number of Customers resident abroad versus the same period in 2018 and of the major business variables, namely in the number of new Customers, and in the amount of transfers made.
- The increase in the number of new Customers residing abroad continued to be supported by referral, communication and strengthening of the relation with Customers in countries with the largest communities of emigrants and via protocols to attract Customers classified as Non-habitual Residents and individuals with Golden Residence Permits.
- There was also an increase in the number of Foreign Customers and value-added Customers, mostly coming from Brazil, Angola, France and United Kingdom.
- The Bank enhanced proximity by establishing contacts during Easter, promoting customer-binding and the migration into digital, with benefits for the Customers, and celebration of the Day of Portugal and of the Portuguese communities by means of events organized in the countries where the Bank operates through representation offices.

Businesses

- Consolidation of the main business items, either in loans granted, recording a strong increment versus 2018, or in the attraction of new Customers, with a significant increase versus the previous year.
- Increasing support to the Company's business activities by means of Factoring and Confirming lines and Trade Finance.
- Reinforcement of the value proposal for Micro-companies Customers - containing credit solutions available through online requests – Loan Accounts, *Factoring* and *Confirming* – which was further improved with a new open banking service enabling to integrate the accounts of the Corporate Customers with the platform of the Portuguese Association of Certified Accountants (online TOC), this way benefiting Entrepreneurs and Accountants by means of payment integration and support to banking reconciliation.
- A stronger presence in the Commerce and Services sectors (B2C) with innovative receivables digital solutions – the "Millennium Moove App" and the payments gateway "P@y-me" to support e-commerce.
- Increased support to the brands operating in Portugal under a franchising model and establishment of a deeper relation with the most significant organizations of this sector.

Products

- 2019 began with a strong campaign for the capture of new clients by inviting them to experience an integrated solution for only 1 Euro, during a three-months period.
- Reinforcement of the position as Bank of the Families by enriching the benefits for relatives of Customers subscribers of integrated solutions.
- The Bank continued to focus on improving the value proposal of its Integrated Solution by including the MB WAY transfers, continuing, this way, to reward the Customers with a greater involvement with the Bank.
- Launching of a new account opening process at the branches, with the reading of the Citizen's Card and a dynamic commercial offer based on the profile of each Customer.
- Establishment of a partnership between Médis and the portuguese pharmacies, providing special conditions in several services available at the pharmacies and also specialised follow-up (ex. Pharmacists, Nutritionists, among other) to Médis Clients.
- Regarding the life insurance "Proteção Ativa", launching of a new option (Flex) and participation in a fund raising campaign for Liga Portuguesa Contra o Cancro.
- Launching of a life insurance for entrepreneurs.
- Maintenance of a careful management of the cost of term deposits.
- The Bank continued to focus at providing its Customers with the most complete offer of the market in terms of investment solutions, particularly solutions enabling the Bank to emerge as an expert in retirement solutions.
- Concerning Personal Loans, the Bank developed several actions with the purpose of capturing credit operations with good risk customers. There was also a strong focus on digital channels, with the development of several actions to increase customer business through this channel. The Bank also designed a new online solution specifically for used-cars credit in Millennium App.
- Regarding mortagage loans, the Bank continued to offer:
    - its 3-months interest-free instalments, campaign, an attractive offer, unique in the market;
    - the fixed-rate solutions, mostly chosen by Customers who privilege stability in their instalments;
    - an attractive proposal for Customers intending to transfer to Millennium bcp the credit they have with other credit institutions.
    - focus on comfort and convenience for the Customer, namely through the possibility of establishing contracts after hours and of being represented at the deed, free of charge for Customer.
    - furthermore, the Bank improved its contracting process through a specialized follow-up service.

Microcredit

- Funding of new 90 new operations, totalling 1.5 million Euro of credit and 172 new jobs.
- Establishment of 9 new cooperation agreements for entrepreneurial action and new dynamics for accessing microcredit, 3 of which with City Councils.
- Meetings were held with Municipalities, Parishes, Schools, Entrepreneurial Associations and Social Economy Entities. The Bank participated, as speaker, in 25 information sessions in events for the disclosure and promotion of employment and entrepreneurial spirit and attended 10 entrepreneurial fairs.

ActivoBank

- Enhancement of its digital offer by making the account opening process totally digital on the website, increasing in approximately 57% the capture of business via digital, versus the same period in 2018.
- By the end of the first half-year of 2019, the number of customers of ActivoBank grew 38%, if compared with the same period in 2018.
- There was a significant increase in the number of users of the App, which stood at 62% versus the 56% recorded by the end of June 2018.
- Launching of the ActivoTrader investments App which is a totally revamped and simplified trading experience, enabling immediate the trading and management of orders using the App, access to the most important world markets and trading of Shares, ETF's, Warrants, Certificates and bonds.
- Launching of the new ActivoBank App, with a re-designed user experience and new tools, of which the 100% digital personal loans process stands out, along with with a simpler and intuitive browsing.
- Development and implementation of a credit solution for the purchase of used cars, the Car Loan without reserved ownership.
- Launching of the personal loans campaign, mostly in radio and in digital means, focusing mainly on the major credit purposes: works; travels and first car.
- Support to creativity and entrepreneurial spirit in Portugal, continuing to support the "Management Summit" Forum, organized by the students of the licentiate degree in Management of Instituto Piaget in Almada. The Bank also attended the TEDxAveiro.
- Presence at the Social Media Hackathon, increasing the support provided to digital marketing and social media initiatives.
- Presence at one of the most important gaming events of the year, the MOCHE XL ESPORTS.
- By sponsoring sporting events, ActivoBank was at the Volleyball Nations League 2019, at the Beach VolleyBall Championship ACTIVOBANK and at several stages of the National Circuit of Beach Handball, this way, supporting physical activity and a healthy and active lifestyle.

Million euros

RETAIL BANKING	30 Jun. 19	30 Jun. 18	Chg. 19/18
PROFIT AND LOSS ACCOUNT			
Net interest income	228	212	7.7%
Other net income	201	197	1.9%
	429	409	4.9%
Operating costs	236	235	0.6%
Impairment (excluding the impairment related to NPE in the begening of the year)	8	7	12.8%
Income before tax (excluding impairment charges for NPE)	185	167	10.8%
Impairment charges for NPE	(3)	4	-176.2%
Income before tax	188	163	15.1%
Income taxes	58	50	14.7%
Income after tax	130	113	15.3%
SUMMARY OF INDICATORS			
Allocated capital	1,100	969	13.6%
Return on allocated capital	23.8%	23.4%	
Risk weighted assets	9,240	8,570	7.8%
Cost to income ratio	55.0%	57.3%	
Loans to Customers (net of impairment charges)	21,565	20,855	3.4%
Balance sheet Customer funds	29,269	27,351	7.0%

Notes:

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

Income

As at 30 June 2019, income after tax from Retail Banking segment of Millennium bcp in Portugal totalled Euros 130 million, showing a 15.3% growth compared to Euros 113 million in the same period of 2018, which reflects the favourable performance of this business unit in the first half of 2019. Regarding the evolution of the main income statement headings, the following aspects should be highlighted:

- Net interest income went up to Euros 228 million as at 30 June 2019 and grew by 7.7% compared to the previous year (Euros 212 million), positively influenced by the higher return on the loan portfolio, in particular through the increase of the existing volumes and by the continuous decrease in costs associated to term deposits, whose aggregated effect was partially mitigated by the lower income arising from the internal placements of the excess of liquidity.
- Other net income rose up from Euros 197 million at the end of June 2018 to Euros 201 million at the end of the first half of 2019, showing a 1.9% increase.
- Operating costs went up 0.6% from June 2018, reflecting the increase in the number of employees at the staff costs level. The evolution of other administrative expenses includes, on the one hand, the effect of the reduction in the number of branches and, on the other hand, the impacts associated with the renewal of branches following the ongoing digitization project.
- Impairment charges amounted to Euros 5 million by the end of June 2019, comparing favourably to Euros 11 million recorded in 2018, showing the trend towards the normalization of the cost of risk. In this context, it should be highlighted the favorable impact on the income statement from the recoveries of loans classified as non-performing exposures, which in the first half of 2009 exceeded the impairments recorded for this type of assets, remaining visible in this way the continuing effort made by the retail recovery division.
- In June 2019, loans to customers (net) totalled Euros 21,565 million, 3.4% up from the position at the end of June 2018 (Euros 20,855 million), while balance sheet customer funds increased by 7.0% in the same period, amounting to Euros 29,269 million by the end of June 2019 (Euros 27,351 million recorded at the end of the first half of the previous year), due to the relevant increase in customer deposits.

COMPANIES, CORPORATE AND INVESTMENT BANKING

Companies and Corporate

During the H1 2019 Millennium bcp continued to be leader, as the Best Bank for Companies, keeping its position as Main Bank for the Portuguese Companies (18% of market share) and the Closest, Most Innovative Bank, with the Products better suited for Companies (BFin Data-E 2019).

For the first time in the history of Millennium bcp, the Bank reaches leadership in the attribution of the condition PME Líder and PME Excelência, with 25% of the domestic share in the number of leading positions attributed. This way, after being considered the Best Bank for Companies and by achieving this double victory with PME Líder and PME Excelência, Millennium bcp is considered the the Bank for the Best Companies.

Thereby, Millennium bcp strengthened its leading position in support to companies and as the reference Bank in the support to the corporate sector.

Millennium bcp was, yet again, recognized as the #1 Bank in the Use of Credit Lines in Portugal, with a 27% market share (BFin Data-E 2019), and upgraded its offer with financial solutions, support to enterprise growth and modernization, in all sectors of economy, notably:

- Portugal 2020: Within the support to companies with Portugal 2020 applications and investment projects approved within the scope of Portugal 2020 Program, Millennium bcp granted new loans in an amount above 250 million euros. We must stand out the first cooperation protocols established with consulting companies able of providing Customers with expertise help, both in their applications and in the management of all stages of their investment projects;
- Financial Instrument for Urban Rehabilitation and Revitalisation (IFRRU): A 41% increase in the number of contracted operations and 59% in the amount of financing granted;
- FEI Cosme Line: New loans amounting to around 37 million euros (accrued) for the exclusive guarantee solution in Portugal that extended the Bank's offer to new Customers, New Companies or specific economic sectors such as Farming, Tourism, Energy, Services or Health;
- Millennium EIF Innovation II Credit Facility: New loans in the amount of approximately 126 million euros (accrued) reinforcing the Bank's leading position as FEI #1 Bank in Portugal;

- Release of the Line Millennium IFD Capitalizar Mid-Caps to finance loans granted by the Bank, in Portugal and in other countries of the European Union, in sectors of the economy linked to Industry, Farming and Tourism.

Market leadership in Factoring and Leasing, according to the Leasing and Factoring Association (ALF), achieving a 29% market share in total factoring and 25% in total leasing (data as of September 2018).

- Factoring and Confirming In comparison with the 2018 half-year, the factoring and confirming areas surged 20% and 16%, respectively, in terms of invoice financed and credit balance.
- Leasing New production reached approximately 287 million euros.

Global leader in Exporting Companies (BFin Data-E 2019) in Trade Finance. There was a 15% growth in new operations with a turnover above 28 billion euros. We must point out the negotiation established with COSEC which enabled complementing the offer in Trade Finance solutions .

Millennium bcp was distinguished, for the 2nd year in a row, as the #1 Bank in Building, Hotels, Catering, Cafeteria and Restaurants (BFin Data-E 2019). The focus on a policy based on the establishment of partnerships with companies, commercial proximity and innovation can be observed in the following activities:

- Organization of 18 sessions with Clients in the *Roadshow* Empresas 2020, held in various locations of the country and Islands;
- Participation in the Think-Tank of the Ministry of Environment and Energy Transition on sustainable financing the intention of which is to provide Government with the views that Financial Institutions have on this priority of the European Union;
- Participation in the XIII Congresso Nacional das Misericórdias (Solidarity Institution) in Algarve ;
- Organisation in Braga of the *workshop* "Financiamento para o Turismo – As melhores soluções" (Tourism funding - the best solutions), together with Confederação do Turismo Português (Portuguese Tourism Confederation);
- Signature of the CAP Protocol targeted at applications promoted within the scope of employment and professional training (Programs POISE and POCH);
- Attended the SISAB 2019, the 36th edition of Ovibeja and the FNA19

After consolidating its leading position as the most innovative Bank, Millennium bcp continued to be the most used Bank in *NetBanking*, with 27% of market share (BFin Data-E 2019), maintaining its focus on digital and in solutions to facilitate the management of Companies:

- Online *Factoring* and online *Confirming*, 100% digital – the first end to end digital product;
- Solution P@y.Me, an innovative and disruptive payments digital gateway and Solution Millennium Moove for the new era of TPAs and innovation in receivables;
- Immediate transfers using digital channels;
- M Contabilidade – the first PSD2 platform open to for Accountants and Clients enabling making a three-party liaison between Clients and their Accountants.

Investment Banking

In Corporate Finance, the Bank participated in several projects in Portugal and in international markets, providing financial counselling to its Clients and to the Bank itself in files, involving study, development and making of M&A operations, evaluation of companies, corporate restructuring and reorganization processes, as well as projects' economic-financial analysis and research. In the Segment Mergers and Acquisitions, should be emphasised the assistance provided to Galp Gás Natural Distribuição in the purchase of a majority stake in Tagusgás and assistance to 4H Investments for Health group, Tecnifar's parent company, in the sale of Imag.

In Project Finance, in Portugal, the closing of the financing operation for the EGF subsidiaries should be highlighted, an operation where Millennium investment banking acted as Mandated Lead Arranger, as well as the creation of a new business associated with the auctions for allocation of injection capacity in the electricity grid from a solar photovoltaic source. In the international area, stand out the financial advisory mandates in Mozambique in the area of electricity production and the participation of BCP Group in the major natural gas projects, that should ultimately position Mozambique as one of the 3 largest producers of LNG in the world .

In the Structured Finance activity, the analysis, structuring, negotiation and setting up new funding operations in Portugal (pharmaceutical, moulds, health, energy, media, industry, transport, hotels and tourism, construction), stressing the financial closing of medium and long-term financing operation to support Bial Group's investment plan. In terms of development, worth mentioning is the the work related to structured solutions for investment projects of Portuguese companies in the international markets.

During H1 2019, in the Capital Markets area, the organisation, the setting up and the bonds issuance of the Autonomous Region of Madeira should be emphasised, with the support of the State and together with a banking syndicate. In the equity capital markets segment, the role of financial intermediary taken by Millennium investment banking in the takeover bid on SAG Gest capital, as well as the participation in the IPO of HCB in Mozambique, should be highlighted.

In the Sectoral Approach, sectoral ecosystems were mapped in order to create business opportunities and maximize the number of new clients, increasing, in conjunction with the Bank's Networks, the added value to companies and investors.

In the Strategic Approach area, a pre-determined number of clients was analysed, aiming at exploring and presenting, in an all-encompassing perspective, potential investment banking opportunities, therefore fostering a close relationship and structured monitoring of clients.

Lastly, election of Millennium investment banking, for the second consecutive year, as the *Best Investment Bank* in Portugal, by Euromoney, the international magazine specialized in the financial sector and within the context of the Euromoney *Awards for Excellence* 2019, together with being distinguished by the magazine Global Finance, which also considered Millennium investment banking, at the beginning of 2019, as the *Best Investment Bank* in Portugal.

Real estate business

- In 2019 the Bank reinforced and developed several initiatives to maximize earnings, namely through: i) Ongoing follow-up of the performance of the Partnerships established with Real Estate Mediation Companies specialized in divesting in assets; ii) in-depth scrutiny on assets with greater impact on income, revising trading strategies; iii) further development of the relations with the market and assessment of new trends and agents, specifically investors.
- Continuity in the physical, legal and administrative fine-tuning and implementation of valuing actions / non-degradation of the real estate properties acquired for the recovery of loans or that are no longer assigned to operations in order to accelerate their disposal /sale.
- Regarding credit to real estate promotion, this 6-month period was dominated by the consolidation of the process implemented in the previous year, ensuring the analysis of the economic feasibility of real estate and tourism projects, the evaluation of the credit risk, the structuring of financing proposals, the issue of an opinion underlying the credit decision and technical support to all Commercial Networks.
- Within the scope of the Financial Instrument for Urban Rehabilitation and Revitalisation (IFRRU2020), the Bank continued to verify the framework of the proposals for financing operations presented by Clients to the commercial networks, the access and eligibility conditions to the program IFRRU2020, in accordance with the regulatory framework protocol established with the Managing Entity of this program. The follow-up of the execution of the operations able of being included in this program was ensured, in compliance with the framework and credit risk conditions agreed.

Interfundos

- Reinforcement of the continuity and of the financial sustainability of the Real Estate Investment Entities (OII), based on the preservation and creation of value and of liquidity conditions for the participants and shareholders, together with the consolidation of the leading position in the market.
- Global sales reached 37 million Euros, corresponding to 110 real estate properties in total;
- Assumption of the management of a Real Estate Investment Fund (Cimóvel).
- Extension of the term for the duration of one Real Estate Investment Fund (Inogi Capital).
- Conclusion of the process for the technical admission in Euronext Access of 44.919.000 shares of Multi24 – Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A., of 12.106.743 shares of Adelphi Gere – Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A. and of 30.300.000 shares of Monumental Residence – Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A..
- In the H1 2019, the volume of assets of the 36 OIIs (Real Estate Investment Funds and SICAFI's) managed by Interfundos reached 1,414 million Euros.

International

- The bank continued to implement a number of measures to strengthen the generation of value for exporting companies. BCP is increasingly affirming itself as the main domestic player through partnerships based on operational efficiency, safety, swiftness and predictability.
- The dynamic management of the correspondents network enables BCP to timely present competitive solutions in all countries with which the economic agents establish relations with, positioning itself as an efficient partner in this corporate segment.
- We wish to particularly point out the developments introduced in the process for becoming a member of the *Global Payments Initiative* from SWIFT, which will represent a substantial improvement in the experience of Customers making international payments.

- The Bank continued to pursue an in-depth cooperation with the European Investment Bank / European Investment Bank, namely entered into contracts, totalling 900 million euros, with the European Investment Fund. Of these, 400 million euros concern the renewal of the guarantee InnovFin and 500 million euros the new guarantee denominated Cosme, being Millennium bcp the first bank in Portugal to have this instrument.
- BCP was also forerunner in the signing of a contract with Instituição Financeira de Desenvolvimento, negotiating a 60 million euros line within the scope of the Line Capitalizar MidCaps.
- In terms of institutional custodian services, BCP reinforced its position as a national reference player, recognized by its clients and peers for the quality and competitiveness of the services it provides. This positioning originated a substantial increase in business with Risk Capital Funds (acting as depositary bank) and in institutional custodian services, both with domestic and international counter parties.

Million euros

COMPANIES, CORPORATE & INVESTMENT BANKING	30 Jun. 19	30 Jun. 18	Chg. 19/18
PROFIT AND LOSS ACCOUNT			
Net interest income	140	132	6.4%
Other net income	69	74	-7.4%
	209	206	1.4%
Operating costs	67	62	8.8%
Impairment (excluding the impairment related to NPE in the begening of the year)	41	33	23.6%
Income before tax (excluding impairment charges for NPE)	101	111	-8.9%
Impairment charges for NPE	97	172	-43.6%
Income before tax	4	(61)	-107.3%
Income taxes	1	(20)	-105.1%
Income after tax	3	(41)	-108.3%
SUMMARY OF INDICATORS			
Allocated capital	1,164	1,067	9.1%
Return on allocated capital	0.6%	-7.8%	
Risk weighted assets	10,077	9,610	4.9%
Cost to income ratio	32.1%	29.9%	
Loans to Customers (net of impairment charges)	12,769	13,205	-3.3%
Balance sheet Customer funds	7,966	8,252	-3.5%

Notes:

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

Income

Companies, Corporate and Investment Banking segment in Portugal went from a loss of Euro 41 million in the first half of 2018 to a marginal positive profit of Euro 3 million in June 2019. Net income still reflects the requirements of the Bank's non-performing exposures reduction plan with an impact on the reduction of the loan portfolio and on its levels of impairment, although lower than in the same period of the previous year. The performance of this segment is globally explained by the following changes:

- Net interest income stood at Euros 140 million as at 30 June 2019 and increased by 6.4% compared to the same period of the previous year (Euros 132 million), following the positive impact arising from the reduction of the cost of funding, given that interest income from the loan portfolio remains constrained by the low interest rates environment and the lower credit volumes.
- Other net income reached Euros 69 million in June 2019, being lower compared to the amount accounted in June 2018, which is mainly explained by the lower level of commissions coming from investment banking activity.
- Operating costs totalled Euros 67 million by the end of June 2019, 8.8% up from 30 June 2018, mainly due to the investment associated with the digital transformation project.
- Impairments recorded showed a significant reduction, falling from Euros 205 million in June 2018 to Euros 138 million in the first half of 2019. This decrease is especially relevant in what refers to credits classified as non-performing exposures, whose impairments sharply decreased 43.6%, as a result of the provisioning effort made in previous years.

- As at June 2019, loans to customers (net) totalled Euros 12,769 million, 3.3% lower compared to the existing position in June 2018 (Euros 13,205 million), reflecting the effort made to reduce the non-performing exposures as mentioned above. Balance sheet customer funds reached Euros 7,966 million, comparing to Euros 8,252 million recorded in June 2018, explained by the decrease in customer deposits.

PRIVATE BANKING

- Sustained growth of the Customer's base, particularly in non-resident ones with address in Portugal and in cross networking .
- 4% increase in financial assets versus the same period in 2018 as a result of the high satisfaction levels of Customers with the private banker and with core services provided by the Private Banking network, i.e. counselling provided by the investment expert and the portfolio management service.
- The Bank continues to manage the Customer's assets with the maximum rigour and professionalism, providing a service based on diversification principles - classes of assets, geographical regions and activity sectors – and on the degree of expertise of the asset managers it recommends.
- Increase in the number of relational marketing actions in sporting, cultural and economic events, particularly the "Macroeconomic Prospects for 2019", the concert exclusively for Private Customers held in Porto, the Millennium Estoril Open and Festival ao Largo Millennium 2019.
- To increase digital experience in the Private segment, the Bank developed paperless projects for this network and also a technological upgrade in terms of software and equipment used by the Private Bankers whenever they visit Customers, enabling responding to requests made by Customers through simple processes, access to all required information and approval in real time.
- Focus on training the commercial area, either via transversal *e-learning* on "Credit Certification", or through on-site actions on "Paperless in the Private network" and "Taxation".
- Launching of the project "Private 2.0", laying the groundwork of future Private Banking.

Million euros

PRIVATE BANKING	30 Jun. 19	30 Jun. 18	Chg. 19/18
PROFIT AND LOSS ACCOUNT			
Net interest income	4	8	-54.6%
Other net income	12	15	-12.7%
	16	23	-27.8%
Operating costs	10	9	9.2%
Impairment (excluding the impairment related to NPE in the begening of the year)	(1)	-	>200%
Income before tax (excluding impairment charges for NPE)	7	14	-51.6%
Impairment charges for NPE	(1)	(1)	23.0%
Income before tax	8	15	-46.7%
Income taxes	3	5	-46.7%
Income after tax	5	10	-46.7%
SUMMARY OF INDICATORS			
Allocated capital	66	59	10.1%
Return on allocated capital	16.4%	34.0%	
Risk weighted assets	570	510	11.8%
Cost to income ratio	59.6%	39.4%	
Loans to Customers (net of impairment charges)	248	303	-18.1%
Balance sheet Customer funds	2,193	1,909	14.9%

Notes:

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

Income

According to the geographic segmentation perspective, income after tax from Private Banking business in Portugal totalled Euros 5 million in June 2019, 46.7% down comparing to Euros 10 million recorded in the same period of 2018, mainly due to the unfavourable performance of banking income. Considering the main items of the income statement, the relevant situations are highlighted as follows:

- Banking income stood at Euros 16 million in the first half of 2019, 27.8% down from the same period of the previous year (Euros 23 million). This reduction is explained simultaneously by the unfavourable performance of net interest income and other net income. Net interest income totalled Euros 4 million in June 2019, comparing to Euros 8 million in the same period of 2018, penalized, namely by the lower income arising from the internal placements of the excess of liquidity ginve the low interest rates impact, but also the reduction of credit volumes. Other net income amounted to Euros 13 million in the first half of 2019, showing a decrease in comparison with Euros 14 million obtained as at 30 June 2018, benefiting in this period from higher commissions due to the seasonal effect related to the implementation of MiFID II.
- Operating costs amounted to Euros 10 million in the first six months of 2019, slightly above the operating costs presented in the first half of 2018.
- Impairments still continue to impact positively in the income statement, since reversals reached Euros 2 million in the first half of 2019 (Euros 1 million recorded at the end of June 2018).
- Loans to customers (net) amounted to Euros 248 million by the end of June 2019, showing a decrease of 18.1% compared to figures accounted in the same period of the previous year (Euros 303 million), while balance sheet customer funds grew 14.9% during the same period, from Euros 1,909 million in June 2018 to Euros 2,193 million in June 2019, mainly due to the increase in customer deposits.

FOREIGN BUSINESS

Poland

- Net earnings of Euros 77.9 million, with ROE of 9.7%
- Net operating revenue up by 18.0%, driven by net interest income; operating costs impacted by a higher contribution to the resolution fund, by Eurobank's staff and integration costs, and by increased IT costs
- Business volumes impacted by Eurobank's acquisition: Customer funds up by 23.6%, while loans to Customers increased by 49.4%, excluding FX-denominated mortgage loans
- CET1 ratio of 16.9% as of June 30, 2019, with total capital of 20.1%
- Experience redesign and new app and site features strengthen Customer service (Autopay – automatic toll payment, and online access to Family 500+, the State family support programme)
- Best bank in Poland by Global Finance

Switzerland

- Net income of Euros 3.7 million, in the first half of 2019 (+1.1%) with a 9.9% ROE.
- Increase in net operating income (+5.2%), driven by increase in core revenues (+ 4.0%).
- Operating costs increased by 6.2%, reaching Euros 12.5 million, connected with the recruitment process to expand the business.
- Total customer resources increased by 5.3% to Euros 3.1 billion.
- Total customer funds increased 8.5% and credit portfolio expanded 25.4%.

Mozambique

- Net earnings of Euros 48.0 million, with ROE of 20.6%, reflecting lower net interest income as a consequence of the normalisation of interest rates
- Customer funds grew 3.8%, with loan portfolio down by 17.2% reflecting a conservative approach under a challenging environment
- Capital ratio of 41.3%
- New "WhatsIZI" solution for banking services through Whatsapp, also featuring reinforced security on the onboarding process
- Utilisation of robotics on the bank's institutional facebook's chat bot, allowing for easier interaction with Customers, providing also information on the bank's range of products and services
- Best bank in Mozambique by Global Finance, for the 10th year in a row

Macao

- Net income of Euros 5.4 million (-5.7%), mainly due to the reduction in net interest income, due to the increase in financing costs, despite the positive evolution of gains on financial operations.

- In June 2019, customer funds stood at Euros 532 million (-18.2%) and gross loans reached Euros 387 million (-8.5%).
- The Branch acted as a support platform for Portuguese companies doing business in Macao.
- Financing of Macao business clients.
- Trade finance operations to support Portuguese companies with exports to and/or imports from China;
- Attraction of trading companies with international trade operations with China.
- Increase in contacts established between the Investment Banking area of Millennium bcp with Chinese companies seeking investment solutions in Portuguese-speaking countries.

Cayman Islands

- Net income of Euros 1.5 million (-40.1%), with a 0.9% ROE.
- Continuation of the process of reduction of commercial activity, translated into the reduction of core revenues, notwithstanding the reduction in operating costs.
- By June 2019, customer resources of Millennium bcp Bank & Trust stood at Euros 2.4 million and gross loans reached Euros 9.3 million.

Million euros

FOREIGN BUSINESS	30 Jun. 19	30 Jun. 18	Chg. 19/18
PROFIT AND LOSS ACCOUNT			
Net interest income	341	303	12.5%
Other net income (*)	119	119	0.4%
	460	422	9.1%
Operating costs	213	188	13.5%
Impairment	61	38	59.8%
Income before tax	186	196	-5.1%
Income taxes	47	47	-
Income after income tax	139	149	-6.7%
SUMMARY OF INDICATORS			
Allocated capital	2,957	2,756	7.3%
Return on allocated capital	9.5%	10.9%	
Risk weighted assets	15,135	12,047	25.6%
Cost to income ratio	46.2%	44.4%	
Loans to Customers (net of impairment charges)	16,989	12,600	34.8%
Balance sheet Customer funds	20,348	16,062	26.7%

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

Income

In terms of geographic segments, income after tax from Foreign Business stood at Euros 139 million in June 2019, reflecting a 6.7% decrease compared to Euros 149 million achieved in 2018. This evolution is explained by the unfavourable performance of operating costs and impairments, despite the higher banking income.

- Considering the different items of the income statement, the performance of Foreign Business can be analysed as follows:
- Net interest margin stood at Euros 341 million in June 2019 which compares to Euros 303 million achieved in the same period of 2018. Excluding the impact arising from the foreign exchange effects, the increase would have been 12.2%, reflecting the positive performance of the subsidiary in Poland, partly mitigated by the evolution observed in the subsidiary in Mozambique, as a consequence of the reduction of the loan portfolio exposures.
- Other net income increased 0.4%. Excluding foreign exchange effects, other net income increased 2.3%, benefiting from the positive performance presented by the Mozambican subsidiary, resulting from the sale of other assets and the evolution of the insurance business and by the subsidiary in Poland, although in this case this item has been also penalized by the increase in mandatory contributions. The lower contribution of Banco Millennium Atlântico mitigated the evolution of other net income between the end of the first half of 2018 and 2019.

- Operating costs amounted to Euros 213 million as at 30 June 2019, 13.5% up from June 2018. Excluding foreign exchange effects, operating costs would have risen 13.2%, mainly influenced by the operation in Poland, including the costs associated with the acquisition of Euro Bank S.A..
- Impairment charges in the first half of 2019 increased 59.8%, compared to figures from the same period of 2018. Excluding the foreign exchange effects, it would have risen 67.6%, reflecting the unfavourable evolution achieved by the Polish subsidiary, due to the impact of impairment charges for the risks implicit in the Euro Bank S.A. loans portfolio recorded in the moment of its acquisition. However, this evolution was mitigated by the positive impact arising from the end of the application of IAS 29 on Banco Millennium Atlântico.
- Loans to customers (net) stood at Euros 16,989 million at the end of June 2019, largely exceeding the amount attained as at 30 June 2018 (Euros 12.600 million). Excluding foreign exchange effects, the loan portfolio increased 31.3%, explained by the growth achieved by the Polish subsidiary, as a consequence not only from the impact of the Euro Bank S.A. acquisition in May 2019, but also from its recurring activity. The Foreign business' balance sheet customer funds increased 26.7% from Euros 16,062 million reported as at 30 June 2018 to Euros 20,348 million as at 30 June 2019. Excluding the foreign exchange effects, balance sheet customer funds increased 23,6%, mainly driven by the performance of the Polish subsidiary, reflecting both the Euro Bank S.A. consolidation impact and its current business activity.

OTHER

Sale of Insurances in the banking channel

During the first half of 2019, all the strategic pillars and ongoing projects were continued, which allow for an excellent customer service and maintenance of the Group's leadership in the sale of insurance through the Banking channel (Bancassurance).

There is a focus on 5 issues:

- The Digital Transformation, which is now a reality in the channel and which represents a daily challenge, opening a new world of possibilities in the insight and management of Clients.
- Equally trying are the challenges posed by changes in the Legal Framework, GDPR and DDS, with a direct impact on the insurance mediation activity.
- Reinforcement of our bet on models of analytical insight supporting the appeal to clients, their management and retention, across the sections of both Life and Non-Life insurance.
- Reinforcement of the cross selling actions, with several campaigns of assignment of incentives, to workers in the commercial areas and to Clients, with the objective of increasing the number of products per Customer and, at the same time, reducing the cancellation rate.
- Regarding health, the launch of several "Médis” campaigns, offering the 12th monthly payment and reinforcing the bet on prevention with the sensor for children to look out for their oral health. The success of the new "dental” insurance product has confirmed that Médis's strategy is on the right track for attracting new Customers.
- To go along this new differentiated value proposal, Médis Clinics defined the first half of 2019 with the opening of Algés clinic and the consolidation of Amoreiras Clinic.
- In both life and non-life insurance segments, there was a reinforcement of the Bancassurance market share.

Strategy

Strategic Plan 2018-2021

Millennium bcp has successfully executed an operational turnaround, reinforcing its financial and capital position despite the adverse setting of the banking sector in the core Portuguese market. This position reflects its relentless path and of multiple achievements, such as a higher than 40% cost reduction in Portugal since 2011, and a more than 60% reduction in Group NPE since 2013 (from Euros 13.7 to Euros 5.0 billion in June 2019). Three distinctive competences were at the core of this turnaround: a Customer-oriented relationship model, market-leading efficiency, and a competitive international portfolio.

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

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

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

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

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

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

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

The successful execution of these priorities should enable us to accomplish a set of strategic objectives for 2021: franchise growth (>6 million active Customers[5]), readiness for the future (from 45% to >60% digital customers by 2021), a sustainable business model (with NPEs reaching Euros 3 billion), and attractive returns for shareholders (≈40% cost-to-income and ≈10% ROE in 2021).

[5] Customers with a debit or credit card movement in the past three months, or who have assets greater than or equal to €100.

		1H 2019	2021
Franchise growth	Total active Customers*	4.9	>6 million
	Digital customers	57%	>60%
	Mobile customers	37%	>45%
Value creation	Cost-to-income	49% (47% excluding non-usual items)	≈40%
	ROE	5.7%	≈10%
	CET1**	12.2%	≈12%
	LTD	88%	<100%
	Dividend payout	--	≈40%
Asset quality	NPE stock ***	5.0	Euros3.0 billion
	Cost-of-risk	74 bp	<50 pb

*Customer counting criteria used in the 2021 Strategic Plan.

**Including unaudited earnings for the 1st half of 2019.

*** NPEs includes only loans.

Risk and Outlook

Internal Control System

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

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

In order to achieve these objectives, the internal control system is based on the Compliance function, the risk management function and internal audit function, which are exercised by centralised divisions and operate transversally across the Group. The Heads of these three divisions are appointed by the Bank's Board of Directors, with the favourable opinion of the Committee for Nominations and Remunerations, which approves their technical and professional profiles as appropriate for the function at stake.

The internal control system is based on:

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

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

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

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

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

The information and reporting system ensures the existence of information which is substantive, up-to-date, understandable, consistent, timely and reliable, so as to enable an overall and encompassing view of the financial situation, the development of the business, the achievement of the defined strategy and objectives, the risk profile of the institution and the behaviour and prospective evolution of relevant markets.

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

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

Within this context, the internal audit function is performed by the Audit Division on a permanent and independent basis, assessing, at all times and pursuant to the established plan, the adequacy and effectiveness of the different components of the internal control system, as a whole, issuing recommendations based on the outcome of those assessments.

These subsystems of the internal control system are managed by the Risk Office and Compliance Office in terms of risk management and by the Planning, Research and ALM Division, the Accounts and Consolidation Division and the areas responsible for accounting in the different subsidiaries, for information and reporting.

The activity of the Risk Office is transversal across the Group and includes the coordination of the local risk management structures. The activity of the Compliance Office is also transversal to all Institutions of the Group, in terms of applicable compliance policies, with observance of the legal specificities of each jurisdiction. The Accounting and Consolidation Division and the Planning, Research and ALM Division receive and centralise the financial information of all subsidiaries. The Audit Division is responsible for the on-site monitoring of the internal control system, performing this duty transversally.

The Risk Office, the Compliance Office, the Accounting and Consolidation Division, the Planning, Research and ALM Division and Audit Division ensure the implementation of the procedures and means required to obtain all the relevant information for the information consolidation process at Group level - both of an accounting nature and relative to management support and risk monitoring and control - which should include:

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

Main Risks and Uncertainties

Risk	Sources of risk	Risk level	Trend	Interactions
ENVIRONMENT				
Regulatory	▪ Risks associated to products related to the conversion of the credits into Swiss francs in Poland ▪ Regular practice of conducting Stress Tests by the ECB ▪ Absence of fiscal framework for the IFRS 9 transition ▪ European Commission and ECB guidelines on NPL provisioning ▪ EBA's guidelines on IRB models	Medium	↔	▪ Total CET1 requirements in 2019: 9.625% ▪ Disclosure of LCR, NFSR and Leverage ratio ▪ Most guidelines have already been translated into our risk models, which, pursuant to continuous dialogue with the ECB, have become very conservative when compared with most banks in Europe ▪ 55% RWA density
Sovereign	▪ Trade war between USA and China ▪ Economic slowdown in the Euro Area and Portugal ▪ Brexit ▪ Low interest rates and compression of the spread for active interest rates ▪ High indebtedness of public and private sectors ▪ Exposure to Portuguese and Mozambican and Angolan sovereign debt ▪ Exposure to credits held by Mozambican entities	High	↔	▪ Recovery of profitability limited by the low nominal interest rates and by the low potential growth ▪ Still high level of NPE ▪ Lower funding costs ▪ Future regularization of the ECB's monetary policy leads to pressure on public debt yields but the increasing steepness of the interest rates curve favours the banks' profitability
FUNDING AND LIQUIDITY				
Access to WSF markets and funding structure	▪ Conditions in WSF/MMI markets and progressive replacement of the funding obtained from the ECB by funding obtained in the IMM/WSF ▪ Incentive to the placement of financial instruments with Retail investors ▪ Continuation of the deleveraging process by the internal economic agents versus growth of loans	Low	↓	▪ Balance sheet customer deposits and funds paramount in the funding structure ▪ Credit portfolio may continue to contract as a result of the NPE stock decrease ▪ Need for access to the financial markets to meet MREL requirements, although the gap is manageable ▪ Reduction of cost of funding in the WSF markets in the H1 2019
CAPITAL				
Credit risk	▪ Still high NPA stock ▪ Execution Risk of the NPA Reduction Plans, including CRFs ▪ Exposure to real estate assets, directly or by participating in real estate investment or restructuring funds ▪ Exposure to emerging countries strongly dependent on commodities	High	↔	▪ Impact on capital ratios demand on the SREP from high level of NPE ▪ Need to decrease the workout time, for both loans and/or companies ▪ Need to decrease exposure to real estate risk, despite the positive trend in real estate prices ▪ Deterioration of the quality of loans granted directly to emerging countries or to companies in those countries or to Portuguese companies with business relationships with those countries

Risk	Sources of risk	Risk level	Trend	Interactions
CAPITAL				
Market risk	■ Volatility in capital markets	Low	⟷	■ Market uncertainty ■ Central Banks monetary policies ■ Profitability of the assets of the pension fund ■ Volatility of trading income
Operational risk	■ Inherent to the Group's business	Low	⟷	■ Streamlining processes ■ Degrading controls ■ Increased risk of fraud ■ Data base security ■ Business Continuity
Concentration risk	■ Concentration of assets of some size	Medium	⟷	■ Need to reduce the weight of the main Customers in the total credit portfolio
Reputational, legal and compliance risk	■ Inherent to the Group's business ■ Incentives to place financial products that enable recovery of profitability, not matching the Customers' risk profile or needs	Medium	⟷	■ Possible complaints from Customers ■ Possible sanctions or other unfavourable procedures resulting from inspections ■ Unstable regulatory framework applicable to financial activities ■ AML and counter terrorism financing rules
Profitability	■ Low nominal interest rates ■ Banks' obligation to fully reflect the negative value of the Euribor in mortgage loans rate ■ More limited space to increase spreads on term deposits in new production ■ Regulatory pressures on fees ■ Increase of the coverage of problematic assets by impairments ■ Exposure to emerging markets, including countries specifically affected by the fall in the commodities price ■ Fintech competition	Medium	⟷	■ Negative impact on the financial margin: price effect, volume effect and past due credit effect ■ Need to continue to control operating costs ■ Keeping adequate hedging of problematic assets by provisions ■ Reformulation of the business model and digital transformation

Risk management

Framework

Risk appetite

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

Thus, the Group establishes controls and limits on the material risks to which its activities are subject, based on its "Risk Appetite Statement" (RAS) which concurs in a relevant way for a posture of prudence and sustainability of the business, in view of its profitability, as well as the satisfaction of the different stakeholders: shareholders, customers and employees.

The RAS is composed by a set of 40 indicators considered of fundamental importance and representative of several risks classified as "material" within the formal risks' identification and quantification process, carried out at least once a year. For each of the indicators concerned, two levels of limitation are established: an 'alert level', up to which the level of risk represented is acceptable and from which corrective measures must be taken immediately (in order to that the level of risk regained to an acceptable level) and a 'level of breach', which requires immediate measures with significant impact, aimed at correcting a risk situation considered unacceptable.

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

Risk strategy

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

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

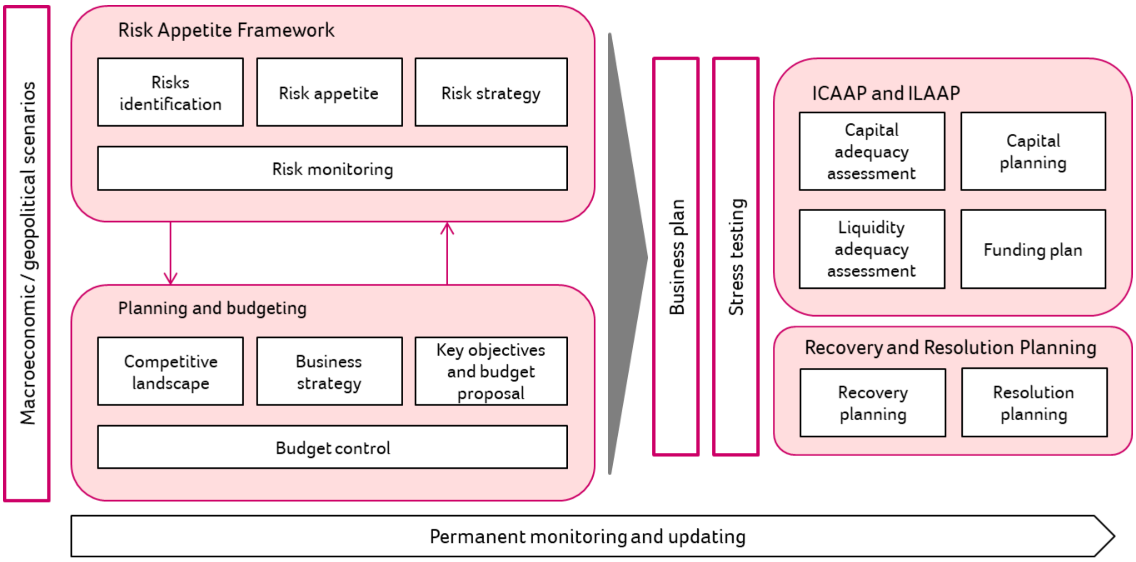
Integration between the business and risk management

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

In addition, there is an interaction, in both senses, between the definition of the Group's risk appetite structure and its business objectives, represented in the business planning and budgeting. Thus, the risk appetite structure both conditions and is conditioned by the environing business objectives, just as much as the latter also influence and are influenced by the framework and limits of the risk appetite.

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

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



[1] Risk Appetite Framework
[2] Internal Capital Adequacy Assessment Process
[3] Internal Liquidity Adequacy Assessment Process
[4] Recovery and Resolution Planning

Internal control

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

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

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

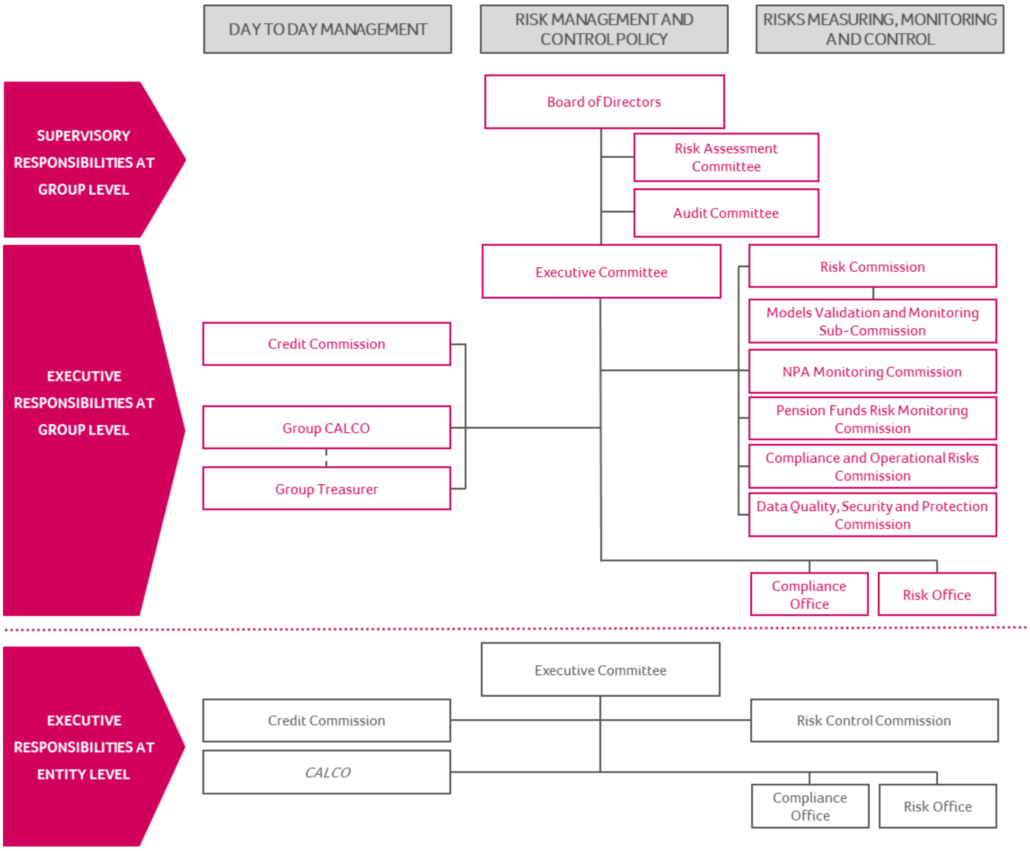
Thus, the SGR embodies the second Line of Defence in relation to the risks that impend over the Group's capital and liquidity. Under this approach, the first Line of Defence is ensured, on a day-to-day basis, by all the Group's organizational units - based on adequate training and awareness of risks,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

It should also be mentioned that the SCI:

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

Risk management Governance

The following figure represents the SGR's Governance, as at 30/06/2019, exerted through various organizational bodies and units with specific responsibilities in the area of risk management or internal supervision.



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

Risks Assessment Committee

The Risks Assessment Committee is composed of four non-executive Directors and has the following capacities:

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

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

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

Audit Committee

The BoD's Audit Committee is composed of three non-executive directors. Within the risk management governance, this Committee has global corporate supervising capacities - e.g. in what concerns the risk levels follow-up - as well as those that are attributed within the SCI, namely:

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

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

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

Risk Commission

This EC committee is responsible 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, taking into account the defined risk thresholds.

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

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

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

NPA(*) Monitoring Commission

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

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

The CEO, the CRO, the CRetO and the COO are members of this Commission, as well as, optionally, the CFO. The Heads of the following Divisions are also members of this Commission: Risk Office (ROFF), DCR, DRAT, Specialised Monitoring (DAE), Retail Recovery (DRR), Specialised Recovery (DRE), Legal Advisory and Litigation (DAJC), Management Information (DIG) and Specialised and Real-Estate Credit (DCEI). The Head of DAU is a permanently invited member of the Risk Commission, without voting rights.

(*) Non-performing assets.

Pension Funds Risk Monitoring Commission

This EC commission has the following competences:

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

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

Compliance and Operational Risks Comission

This EC Commission has the following capacities and responsibilities:

- Monitoring of the Bank's activities, as well of those of the other Group entities, regularly coordinating and managing the policies and the duties of the Bank and its branches/subsidiaries, in order to ensure the compliance with the legal and internal rulings;
- Monitoring of the operational risks management framework, which encompasses the management of the IT risks and the Outsourcing risks;
- Monitoring of the exposures to operational risks, as well as the implementation status and the effectiveness of the risks mitigation measures and of those that aim at the reinforcement of the internal control environment;
- Following-up of the management and improvement to the Bank's processes, in order to monitor and reduce the level of exposure to compliance and operational risks.

The Commission members are the CEO, the COO, the CRO and the CRetO. The Heads of the following Divisions are also members of the Commission: COFF, ROFF, IT (DIT), Operations (DO), Quality and Network Support (DQAR). The Head of DAU, the AML Officer and the managers responsible for the COFF areas that deal with the matters under discussion are also permanently invited members of this Commission, without voting rights.

Data Quality, Security and Protection Commission

This EC Commission has the following capacities and responsibilities:

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

The Commission members are the COO, the CRO and the CRetO. The Heads of the following Divisions are also members of this Commission: COFF, ROFF, DIT, DQAR, Digital Transformation Office (DOFF), IT Systems Security (DSSI) and Physical Security and Business Continuity (DSFCN). The Data Protection Officer (DPO) and the Chief Data Officer (CDO) are also permanent members of this Commission, along with the Head of DAU (this last, without voting rights).

Credit Commission

This body stems from 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 also issues advisory opinions on credit proposals from subsidiary Group entities.

The members of this Commission are the CEO, the CFO (optional), the CCorpO, the CRetO, the CRO and the COO (optional), as well as the Heads of DCR, DAJC and DRAT, the level 3 credit managers, two members of the subsidiaries' Credit Commissions (whenever proposals originated in those entities are analysed) and the coordinating managers of the proposing areas. The Company's Secretary, the Risk Officer and the Compliance Officer are permanently invited members of this Commission, without voting rights.

Group CALCO

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

- Establishment of management guidelines for assets, liabilities and off-balance sheet items at consolidated level;
- Definition of the capital allocation and risk premium policies;
- Definition of transfer pricing policy, in particular with regard to liquidity premiums;
- Monitoring of the capital and liquidity indicators, of the Recovery Plan indicators and of the execution of the Liquidity Plan;
- Definition of policies and strategies to access wholesale funding markets and definition of the liquidity buffer composition;
- Definition of the investment policy of the Investment Portfolio and monitoring of its performance;
- Definition of the strategy and positioning within the scope of the interest rate risk management, as well as of the respective policies and limits, taking into account the market conditions at any given moment.

The Group CALCO meets every month and is composed of the following executive Directors: CEO (optional), CFO, CCorpO, CRetO, CRO and COO (optional). The other members of the Group CALCO are the Risk Officer, the Chief Economist and the Heads of DEPALM, DIG and DTMI, the responsible for the ALM Department of DEPALM and 2 representatives nominated by the Retail and the Corporate & Investment Banking Commissions.

Risk Office

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

- Supporting the establishment of risk management policies and methodologies for the identification, measurement, limitation, monitoring, mitigation and reporting of the different types of risk;
- Proposing and implementing a set of metrics for the different types of risk;
- Coordinating the NPA Reduction Plan;
- Ensuring the existence of a body of rules and procedures to support risk management, as well as of an effective IT platform and 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.

The Risk Officer is appointed by the BoD, reporting on a line basis to that body and its EC, also reporting functionally to the Risks Assessment Committee.

Compliance Office

The main task of the Compliance Office (COFF) is to ensure the adoption, by all Group entities, of the internal and external laws and regulations that frame their activity, so as to contribute to mitigate the risk of sanctions imposed upon the Group entities. COFF has also the responsability of managing the operational risk.

While exercising these functions, the Compliance Office issues binding decisions upon the respective recipients, aiming at the lawful and regulatory compliance of the different business and business support areas.

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 in corporate processes or in those that refer to products and services –, 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. It is also responsible for the preparation and submission of reports to the management body, at least once a year, identifying the compliance flaws verified and the recommendations issued for their correction.

The COFF intervenes and actively participates in the training policy of employees, namely, through training actions in Compliance, for the entire universe of the Group, also maintaining a high knowledge of compliance issues – notably, in what concerns the Anti Money Laundering and Counter-Terrorism Financing (AML/CTF) and the prevention of market abuse – for the development of an internal control culture within the Group.

Operational Risk management has been under the responsibility of the Compliance Office since the end of the first quarter of 2019, given the strong component of normative workload and procedures' management involved in the activity of the second line of defence to deal with this type of risk.

The Compliance Officer performs his/her duties with independence, in a permanent and effective way. Such duties include:

- The definition of the compliance tools that are appropriate for the communication and information process, for the regulations' monitoring process and for defining the policy principles and guidelines, so as to achieve a proactive and preventive action and risks' assessment, namely, in what concerns the control and monitoring of the compliance and operational risks, the AML/CTF prevention and the mitigation of reputational risk in all entities of the Group, aiming at the alignment of concepts, procedures and goals for these matters;
- To ensure the adoption, by all Group entities, of the policies, principles and procedure defined by the COFF and the nomination of a local Compliance Officer in each subsidiary.

The Compliance Officer is appointed by the BoD, reporting on a line basis to that body and its EC, also reporting functionally to the Audit Committee.

Main developments and activies in 2019

The next highlights briefly identify the main activities developed, the responses coordinated and the achievements concerning the Risk Management function, in the first semester of 2019, within the scope of the control, monitoring and follow-up of the various risks to which the Group is subject:

- In-depth analysis of the potential risks related to the integration of eurobank in Bank Millennium (Poland) and definition of the appropriate mitigation measures to be implemented;
- For eurobank's CHF-denominated mortgage loan portfolio, Societe Générale Financial Services Holding has provided a 10-year guarantee covering 80% of defaults and currency risk on these loans - giving Bank Milennium an effective risk weight reduction for the acquired CHF portfolio - and a 20-year coverage of litigation costs incurred for these mortgage loans, including legal changes;
- Coordination of the update of the NPA reduction plan, aligned with the most recent strategic objectives and incorporating the 2018 results (which exceeded the objectives set);
- Monitoring of the implementation of the NPA reduction plan and execution of the respective follow-up reports;
- Participation in ECB's NPA stocktake exercises;
- Execution of 2 sales of non-collateralized loans from the non-performing Retail portfolio (Portugal);
- Compliance with reporting obligations under Law 15/2019 (Portugal);
- Submission of requests for material changes to the CCF* estimation model (Portugal) to the Supervisory Authority;
- Preparation of a gap analysis for the EBA's NPL guidelines;
- Participation in the ECB's Liquidity Stress Test (LiST);
- Revision of internal regulations on liquidity risk and review of the operational liquidity indicators, with revision of limits for short term liquidity indicators (immediate liquidity and quarterly liquidity);
- Participation in Phase 2 of the 2019 EBA Benchmarking exercise;

- Participation in the internal 2019 Funding and Capital Plan exercise;
- Integration of the Operational Risk management area in the Compliance Office structure, aiming at a higher efficiency of action, due to the strong regulatory and procedural management burden involved in dealing with the topics concerned;
- Coordination of ICAAP and ILAAP;
- Participation in the preparation of the Group's Internal Control reports.

Credit risk

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

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

Evolution and breakdown of the loan portfolio

The next table presents the Group's credit portfolio between 31/12/2018 and 30/06/2019, in terms of EAD (Exposure at Default)*, in the three main geographies where the Group operates (Portugal, Poland and Mozambique), which represented around 99.1% of the Group's EAD by 30/06/2019. For Poland, the EAD amount does not include eurobank's portfolio, to neutralise the effects of the portfolio's growth that resulted from that bank's acquisition by Bank Millennium (Poland).

(Million EUR)

Geography	Jun19	Dec 18	Change	
			Amount	%
Portugal	50 351	49 625	727	1,5%
Poland (*)	19 133	19 093	40	0,2%
Mozambique	1 987	2 025	(38)	-1,9%
TOTAL	**71 471**	**70 743**	**728**	**1,0%**

(*) Does not include the eurobank's credit portfolio in the amount of c. 3,3 thousand million euros.

Not considering the portfolio growth through the acquisition of eurobank, the Group's loan portfolio in the first half of 2019 registered an organic growth of around 1.0% in euros (EUR). To a relevant extent, this credit portfolio growth is due to the growth of the Portuguese portfolio, as Poland's portfolio remained stable, with the impact of the strong reduction in Public Debt positions (related to the acquisition of eurobank) being fully offset by the interesting growth of other segments of the respective loan portfolio. In Mozambique there was a global contraction of the portfolio, together with a devaluation of the metical (MZN) against the EUR of 0.3% in the first half of 2019, which slightly amplified the percentage value of the portfolio decrease measured in EUR.

* Without impairment deduction to the exposures treated prudentially under the Standardised Approach (STD).

The portfolio increase in Portugal - which continued to occur alongside the strong reduction in exposure through the non-performing exposures (NPA) reduction plan - reached 1.5% in relative terms, representing 727 million euros. This growth occurred for the segments of “Retail” (around 192 million euros) and “Banks and Sovereigns” (around 537 million euros), the “Corporates” segment registering a portfolio volume by 30/06/2019 practically equal to the volume on 31/12/2018. In a context of NPE reduction, this volume maintenance corresponds, in practice, to a real growth of performing exposures. It should be also pointed out that portfolio growth in the “Banks and Sovereigns” segment presents some historical volatility characteristics, especially in relation to the “Institutions” risk class.

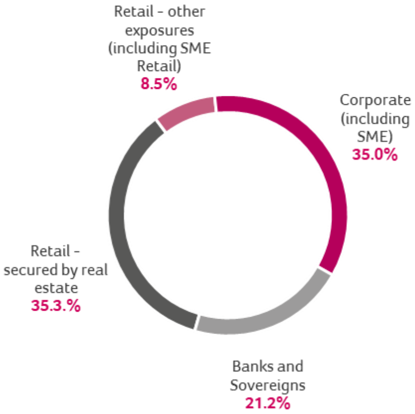
As at 30 June 2019, the portfolios denominated in PLN and CHF - with weights of around 77% and 17% of Poland's overall portfolio, measured in EUR on that date - recorded, respectively, changes of around -1.3. % (portfolio in PLN) and -3.5% (portfolio in CHF) in original currencies. Measured in EUR, these changes were somewhat lower, given the appreciation of PLN and CHF against the EUR of around 1.2% and 1.5%, respectively, in the first half of 2019: approximately -0.1% (PLN) and -2.1% (CHF) compared to December 2018. It should be noted that the increase in credit risk of the mortgage loan portfolio expressed in CHF, due to the appreciation of this currency against the EUR (and PLN), was thus mitigated by the contraction of this portfolio, resulting from its natural erosion by maturity.

As already mentioned, in terms of Poland’s portfolio segments, the acquisition of eurobank implied the application of liquidity and a consequent decrease in the “Banks and Sovereigns” segment (-880 million euros, representing a variation of almost -15%), through the decrease of the Sovereign Debt portfolio and the reduction of positions in the “Institutions” risk class, while the “Retail” and “Corporate” segments registered a positive half-year growth of, respectively, 446 million euros (+4, 7%) and 474 million euros (+ 13.0%).

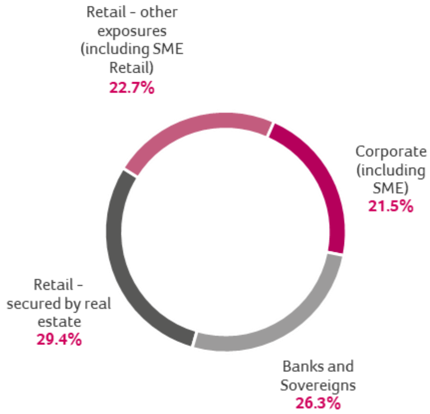
In Mozambique, the portfolios denominated in MZN and USD represented approximately 76.1% and 21.3%, respectively, of the overall portfolio of this geography (measured in EUR) on 30/06/2019. In this case, only the “Corporate” segment recorded some growth (+ 10.8%), which was not enough to compensate for the decrease in positions observed for the remaining segments of the portfolio: -3.0% for “Banks and Sovereigns” and -11.1% for “Retail”. Thus, in overall terms, the credit portfolio in Mozambique contracted by almost 2% (in EUR), to which also contributed, as mentioned above, the MZN's depreciation against the EUR. The appreciation of the USD against the EUR in the first half of 2019 (+ 0.4%) has only partially offset the extent of the USD portfolio contraction.

The following graphs illustrate the portfolio breakdown by risk classes (without the effect of eurobank's acquisition) as at 30/06/2019:

PORTUGAL



POLAND



MOZAMBIQUE

The weights of the segments in Portugal's portfolio did not change significantly compared to 31/12/2018, despite the semi-annual growth registered in the "Banks and Sovereigns" segment (+ 5.3%), mainly due to the growth of the national Public Debt portfolio. Thus, together with the significant growth of weight of "Banks and Sovereigns" (which was 20.4% in December 2018 and 21.2% in June 2019), the remaining segments registered a slight weight decrease, excluding the "Retail - other exposures" segment, which accounted for 8.3% of the global portfolio as at 31/12/2018.

In Poland, without considering the acquisition of eurobank, the weights of the various segments in the global portfolio of this geography registered some relevant semi-annual variations, with the exception of the "Mortgage Retail" segment (which remained at around 30%): the weight of "Banks and Sovereigns" decreased from 31.0% to 26.3% (on 31/12/2018 and 30/06/2019, respectively), the weight of "Companies" increased from 19.1% to 21.5% (idem) and the weight of the "Retail - other exposures" segment rose from 19.9% to 22.7% (idem). These changes in the overall portfolio composition (that excludes the eurobank effect) resulted, as mentioned above, from the decline in the volume of positions in Polish sovereign debt and the reduction in the volume of positions with "Institutions".

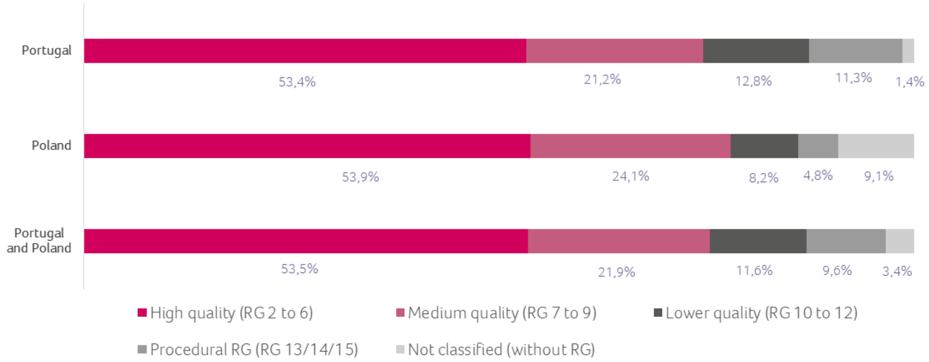
In what concerns the Mozambican portfolio, its breakdown by segment did not change significantly between the end of December 2018 and the end of June 2019, the segments weighting being approximately the same, with only a weight gain to be registered for the "Corporates" segment, corresponding to a growth in this segment's portfolio.

The eurobank's portfolio on 30/06/2019 is essentially constituted by loans to individuals ("Retail" segment), which accounted for around 90% of the portfolio (c. 44% of mortgage loans and c. 46% of consumer loans), the portfolio of Sovereigns representing close to 10%.

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

The internal ratings of the debtors of credit operations (Portugal and Poland) have been showing a clearly positive evolution, reflecting an improvement of the portfolio's quality, as these risk grades reflect the Probability of Default (PD) of the debtors.

The distribution of the portfolio amounts (in terms of EAD) by the internal Rating Masterscale that is used across the Group - with 15 grades, corresponding to different levels of the debtors' PD – assigned to credit position holders in Portugal and in Poland * on 30/06/2019 is shown in the following graph.



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

At the end of June 2019, the weight of EAD corresponding to medium and higher quality risk grades across the two geographies concerned, represented 75.4% of the total, compared with weights of 73.6%. and 69.8% for these risk grades at the end of 2018 and 2017, respectively.

This positive evolution in the semester is mainly due to the increase in the weight of the portfolio held by customers with higher risk quality in Portugal, as well as to the increase in the weight of the portfolio held by customers with medium quality risk in Poland (in the latter case, without a decrease in the weight of the EAD from clients with higher risk quality).

Also, in the first half of 2019, the trend of contraction in the weight of EAD from clients with procedural risk grades was maintained; it was of 11.3% at the end of 2018 and decreased to 9.6% on 30/06/2019 (reduction from 12.8% to 11.3% in Portugal and from 6.4% to 4.8% in Poland).

Main credit risk indicators

The following chart presents the main credit risk indicators, between 31/12/2017 and 30/06/2019, for the Group and the portfolios of Portugal, Poland and Mozambique:

	Jun 19	Dec 18	Jun 18	Dec 17
CONSOLIDATED				
NPE/Gross credit	9,1%	10,9%	13,2%	15,0%
NPL > 90 days / Gross credit	3,4%	3,8%	5,2%	5,8%
Past due credit / Gross credit	3,7%	4,1%	5,5%	5,9%
Impairment / Gross credit	4,9%	5,7%	6,6%	6,5%
PORTUGAL				
NPE/Gross credit	11,0%	12,9%	15,8%	17,8%
NPL > 90 days / Gross credit	4,0%	4,5%	6,3%	7,0%
Past due credit / Gross credit	4,1%	4,7%	6,5%	7,1%
Impairment / Gross credit	5,8%	6,4%	7,5%	7,5%
POLAND				
NPE/Gross credit	4,4%	4,6%	4,9%	5,7%
NPL > 90 days / Gross credit	1,9%	1,9%	2,0%	2,0%
Past due credit / Gross credit	2,7%	2,4%	2,5%	2,4%
Impairment / Gross credit	2,7%	3,4%	3,6%	3,1%
MOZAMBIQUE				
NPE/Gross credit	20,3%	20,0%	17,6%	23,9%
NPL > 90 days / Gross credit	6,7%	5,4%	5,3%	5,0%
Past due credit / Gross credit	6,8%	5,5%	6,0%	5,5%
Impairment / Gross credit	9,8%	11,3%	8,7%	9,7%

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

The evolution of these indicators in the first half of 2019 was globally positive in Portugal and Poland, as well as at a consolidated level (except for the 'Past due Credit / Gross Credit' ratio in Poland, even though the value of this ratio has not deviated significantly from the observations prior to 2019). It is noteworthy that the improvement in the quality of the loan portfolio as measured by the 'NPE / Gross Credit' ratio, at consolidated level, resulted in less than 10% as at 30 June 2019, about 4 percentage points lower than the ratio for June 2018. This positive variation resulted from the continued trend in the NPE reduction effort in Portugal, as well as from the prudent growth of the loan portfolio in these 2 geographies.

In Mozambique, the credit risk indicators evolved negatively in the semester, which should be framed in the scope of the adjustment of the economy of this geography. However, the NPE ratio for Banco Internacional de Moçambique was relatively stable compared to December 2018

NPA/NPE Reduction Plan

The implementation of the Group's NPA Reduction Plan continued to be a priority along the first half of 2019, under its two components - of NPE and assets received in lieu of payment, the foreclosed assets (FA) - focusing mainly on NPE portfolios and on FA held for sale, in Portugal.

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

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

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

The NPA Reduction Plan has consistently registered very positive and above initially planned, the last annual revision of this Plan occurring in March 2019. On this date, the objectives were adjusted to reduction levels above those initially set in the goals of the previous year's version of the Plan.

The following table presents the evolution of NPE volumes between 30 /06/2018 and 30/06/2019, for the Group and for Portugal:

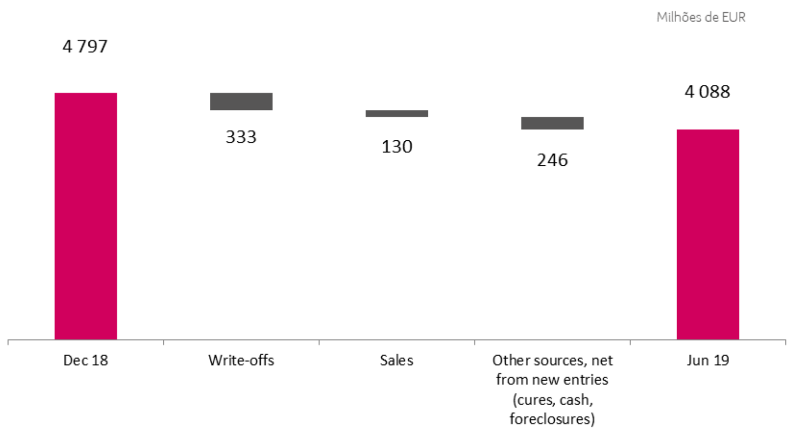
(Million EUR)

	Jun 19	Mar 19	Dec 18	Sep 18	Jun 18
CONSOLIDATED	4 970	5 179	5 548	6 308	6 665
	-1 695				
PORTUGAL	4 088	4 438	4 797	5 548	5 913
	-1 826				

Thus, as illustrated by the table above, between the end of the first semester 2018 and the end of the first semester 2019 the Group's NPE reduction reached 1,695 million euros, which represents a decrease of around 25%. In Portugal, the reduction was of 1,826 million euros (c. -31%).

It should also be noted that the consolidated NPE stock in the first half of 2019 (as at 30/06/2019) was influenced by eurobank’s acquisition, which resulted in an increase of c. 128 million euros of NPE. This represents the respective fair value (purchase price) of these credits, i.e., net from their impairment provisions. Hence, for the purpose of NPE coverage by impairment, on 30/06/2019, the NPE amount form eurobank should not be considered.

The breakdown of the NPE reduction in Portugal, by the different sources of reduction at stake, in the first half of 2019, is shown in the following graph, in which the item “Other sources, net of new entries” includes the situations of “cure” (i.e., exposures that, in the period concerned, ceased being classified as NPE, due to the extinction of the motives for NPE classification):



In what concerns the on-balance assets received as the result of credit repayment (foreclosed assets), the next table shows the evolution of its stock – with a breakdown regarding the different asset types - between December 2016 and June 2019, before impairment:

(MillionEUR)

	Jun 19	Dec 18	Jun 18	Dec 17	Dec 16
Real estate properties	1 329	1 474	1 664	1 778	1 782
Real estate Funds and companies	320	330	435	466	538
Other assets (non-Real estate)	94	156	142	95	75
SUB-TOTAL - Portugal	**1 743**	**1 960**	**2 241**	**2 339**	**2 395**
Other geographies Foreclosed Assets	50	58	45	37	18
GROUP TOTAL	**1 792**	**2 019**	**2 286**	**2 376**	**2 413**

The figures in this table show a clearly decreasing trend for the FA stock since December 2017, due not only to the higher focus and sales effort for this kind of assets, but also to the reduction in their inflow as a result of improvements in the collection and credit recovery processes - which justify the contraction of the non-performing loan portfolio - and from the sale of collateralized credits portfolios of the Corporate segment.

Additionally, it should be noted that the reduction in these assets' portfolio has been accelerating: in Portugal, the reduction between June 2018 and June 2019 was of 498 million euros, compared with a reduction of 378 million euros in 2018 and 56 million euros in 2017.

The positive performance in the reduction of real estate FA is framed in the scope of a favourable evolution of the real estate market, which limits the risk of real estate FA still on-balance in Portugal (real estate and investment funds/real estate companies). The positive impact that has occurred in the past from the sale of these assets demonstrates the Bank's prudence in their valuation.

Credit concentration risk

The figures concerning credit concentration, as at 30/06/2019, measured by the weight in total EAD[*] of the 20 largest performing exposures of the Group, not considering the risk classes of "Banks and Sovereigns" and using the concept of "Groups of clients/Corporate Groups", are presented in the following chart:

Client Groups	Exposure weight in total (EAD)
Client group 1	1,2%
Client group 2	0,6%
Client group 3	0,6%
Client group 4	0,6%
Client group 5	0,5%
Client group 6	0,4%
Client group 7	0,4%
Client group 8	0,4%
Client group 9	0,3%
Client group 10	0,3%
Client group 11	0,3%
Client group 12	0,3%
Client group 13	0,3%
Client group 14	0,2%
Client group 15	0,2%
Client group 16	0,2%
Client group 17	0,2%
Client group 18	0,2%
Client group 19	0,2%
Client group 20	0,2%
Total	**7,6%**

[*] Without considering eurobank's portfolio volume.

Globally, this set of 20 largest 'non-NPE' exposures accounted for 7.6% of total EAD as of 30/06/2019, which compares with a global weight of 7,9% by the end of 2018. Besides, the total amount of exposure at stake for these clients has decreased by around 110 million euros in the semester concerned, also resulting in a positive evolution of the credit risk concentration, under this measurement.

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

For all cases, the concentration limits definition depends on the internal/external risk grade attributed to the clients at stake and consider their respective Net Exposure (= LGD x EAD, with LGD =45% whenever an own estimate does not exist or is not applicable).

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

eurobank's portfolio

The credit portfolio added through eurobank's acquisition by Bank Millennium (Poland) may be simply described as follows (as at 30/06/2019):

- Around 1500 million euros of consumer credit;
- Around 1500 million euros of mortgages, from which c. 16% denominated in CHF;
- Around 330 million euros of exposure to Sovereigns.

Thus, the portfolio comprised by the acquisition of eurobank is not very different from the current portfolio of Bank Millennium, except in what concerns corporate credits and Leasing, which are not present in the acquired portfolio.

The main impact of the eurobank's acquisition, in terms of the portfolio composition and the prospects for its evolution, is the growth of Bank Millennium's loans to individuals' segment – namely, through the increase in the consumer lending portfolio - as well as the improvement of the bank's ability to attract new customers.

The risk policy, the models and the processes that will frame consumer credit for the new portfolio are those defined and used by Bank Millennium, but with some new features such as: a franchised distribution network and a focus on new customer segments (e.g. farmers).

Concerning the control of franchised activities, the credit decision process will be maintained with full centralization, as will anti-fraud and audit-strengthening mechanisms. These controls will effectively manage credit and operational risks.

Operational risk

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

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

The operational risk management system adopts the 3 lines of defence model and is based on a 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, this processes structure 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, all the Group's subsidiaries have their own processes structure, which is periodically adjusted according to business evolution, in order to ensure suitable coverage of the business activities (or business support activities) developed.

The responsibility for the day-to-day management of operational risk lies with the 1st line of defence which is composed of process owners (seconded by process managers), whose mission is to characterise the operational losses captured under their processes, to monitor the respective KRI, to perform the RSA exercises, as well as to identify and implement 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 review of the processes' structure in each geography is ensured by local structure units.

The Compliance Office - the structure unit that integrates the risk management system - integrates the 2nd Line of Defense, and ensures the implementation of the operational risk policy defined for the Group, having the responsibility to propose and develop methodologies for managing this risk. supervise its implementation and challenge the 1st Line of Defense as to the levels of risk incurred.

In the first half of 2019, the usual tasks of operational risk management continued to be carried out by the various participants in the management of this risk, aiming at an effective and systematic identification, assessment, mitigation and control of exposures, as well as at the corresponding reporting duties, either to the Group's management bodies or within the regulatory sphere. At the end of the first quarter of 2019, the responsibility for managing operational risk was transferred to the Compliance Office, taking into account the strong normative and procedural aspects related to the management of this risk by the 2nd Line of Defence.

The mobilization of the Bank to reinvent the banking experience, based on new technologies, presents significant challenges in the management of operational risk, the highlights of which are the strengthening of the security of the digital banking channels, the strengthening of mechanisms for potential frauds' prevention and detection, the responsible management of personal data and the fulfilment of the legally prescribed information duties on sales through digital banking channels. In order to strengthen the mechanisms for a more efficient control of risk and to enable the Bank to confidently face these challenges, a number of initiatives have been launched, among which the following should be highlighted:

- Higher proximity between the Compliance and Operational Risks team and the teams that design products/ services to be implemented;
- Strengthening of the conflicts of interest monitoring;
- Review of the outsourcing service monitoring process, within the scope of the processes in which they intervene;
- Implementation, within of internal regulations, of the procedures and methodologies to ensure effective and efficient management of IT Risks;
- Collaboration of the risk management function in the tasks related to the ECB's inspection to Information and Communication Technologies' (ICT) risks.

Risks self-assessment (RSA)

The objective of the RSA exercises is to promote the identification and mitigation (or elimination) of risks, either actual or potential, in each process, through the assessment of each of the 20 subtypes of operational risk considered. These assessments are positioned in a risk tolerance matrix, considering the worst case event that might occur in each process, for three different scenarios. This allows for:

- The assessment of the risks exposure of the different processes, not considering the influence of existing controls (Inherent Risk);
- The determination of the influence of the existing control environment in reducing the level of exposure (Residual Risk);
- The identification of the impact of the improvement opportunities in the risk reduction of the most significant exposures (Target Risk).

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

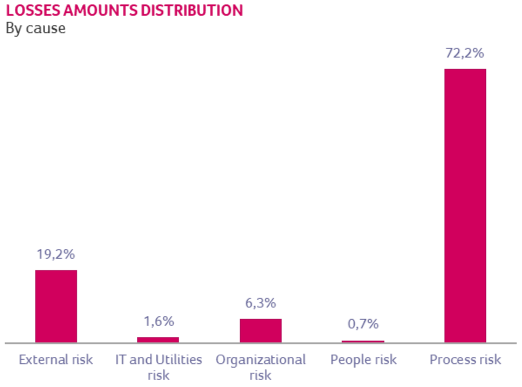
Operational losses capture

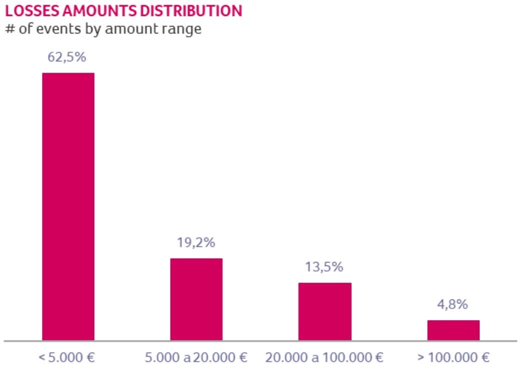
The operational losses data capture (i.e. the identification, registration and characterisation) of operational losses and of the originating events aims at the strengthening of the the awareness of this risk and to provide relevant information to process owners, for incorporation within their process management. As such, it is an important instrument to quantify risk exposures and also for the back-testing of the RSA results, enabling the assessment of the evaluation/classification attributed to each risk subtype.

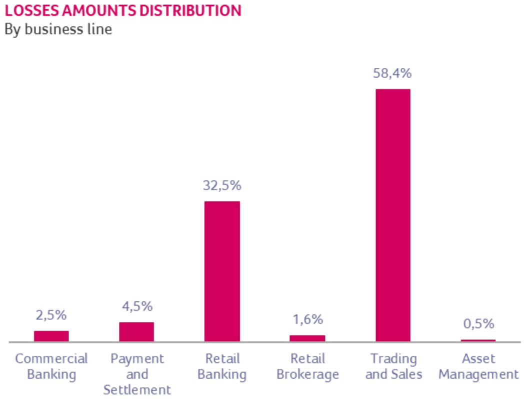
The detection and reporting of operational losses is a responsibility of all employees of the Group, the process owners playing a crucial role in the promotion of these procedures within the context of the processes for which they are responsible.

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

The following graphs present the profile of the losses captured in the respective database in the \t-half of 2019:







The causes for most of the losses were procedural risks, related to failures to formalize a discontinued product at the beginning of this decade and esxternal risks related with the natural disaster that fell upon the Beira province, in Mozambique (Idai hurricane). It should be noted that the pattern of operational losses verified is not far from what is usual and expected, with a higher frequency of losses of low amounts, without concentration on significant amounts.

It should also be highlighted that the average ratio of gross losses to the relevant gross income indicator for regulatory capital requirements has been below 1% over the past five years, which compares very favourably with the international benchmark and attests to the robustness of the Group's operating risk management and control environment.

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, so as to prevent potential risks from materialising into losses. These indicators currently encompass all of the 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 contibutes for the detection of risks.

Scenario analysis

Scenario Analysis, carried out in Portugal, is an exercise oriented towards the assessment of potential risks of high severity, aimed at quantifying the impact of extreme events (low frequency/high severity) which would be relevant for the Bank, even if never registered in the past.

All Macro-Process Owners and other top managers from selected Divisions participate in this exercise, due to their knowledge and experience concerning the activities, which are essential for the description of this type of events' impacts and for the quantification of potential losses that could result from those events.

The results from the scenarios assessment are incorporated into the model developed to determine the capital adequacy (ICAAP) and the information gathered also used for risk management and mitigation, thus contributing to the reinforcement of the internal control environment.

Business continuity management

In accordance with the guidelines of the internal Group Code "Business Continuity Management System - Policy and Methodology", each Group operation establishes and implements an annual program of maintenance for its strategy and operational plans that ensure the recovery of the main business activities in the event of a disaster or major contingency.

In the last semester, the Group continued its efforts for the continuous improvement in this area of risk management, led by dedicated structure units, with an emphasis on the growing level of requirements and on the adequacy of recovery premises to the increasing recovery specifications of organizational units, in particular, under the technological scope. In addition, a general review of the "Business Impact Analysis" was launched in Portugal, with a view to update the list of critical processes and their recovery times, as well as the necessary requirements to recover these processes within the defined times.

Insurance contracting

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

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

Market risks

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

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

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

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

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

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

Trading Book market risks(*)

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

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

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

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

The table below presents the amounts at risk for the Trading Book, between 01/07/2017 and 30/06/2019, as measured by the methodologies referred to above, that registered moderate levels along the period under analysis:

(Thousand EUR)

	Jun 19	Max of global risk in the period	Max of global risk in the period	Jun 18
GENERIC RISK (VaR)	4 865	5 491	1 661	4 800
Interest rate risk	4 967	5 596	1 760	4 126
FX risk	232	306	305	1 577
Equity risk	15	32	66	109
Diversification effects	*(350)*	*(444)*	*(471)*	*(1 013)*
SPECIFIC RISK	17	372	4	156
NON-LINEAR RISK	0	17	0	10
COMMODITIES RISK	3	6	1	4
GLOBAL RISK	**4 884**	**5 508**	**1 746**	**4 969**

VaR model monitoring and validation

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

The VaR model's hypothetical back-testing exercise for the Trading Book of Portugal, between 01/07/2018 and 30/06/2018, resulted in 4 negative excesses over the model's predictive results (and 1 positive), representing a frequency of 1.5% in 256 days of observation. Hence, in terms of the frequency of excesses verified, this back-testing results allows the validation of the model as appropriate for measuring the risk at stake.

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

Trading Book Stress Tests

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

The results of these tests on the Group's Trading Book, as at 30/06/2019, in terms of impacts over this portfolio's results, were the following:

(Thousand EUR)

	Negative impact scenario	Impact
STANDARD SCENARIOS		
Parallel shift of the yield curve by +/- 100 bps	- 100 bps	- 12.801
Change in the slope of the yield curve (for maturities from 2 to 10 years) up to +/- 25 bps	-25 bps	- 5.544
4 combinations of the previous 2 scenarios	- 100 bps and + 25 bps	-6.813
	- 100 bps and - 25 bps	- 18.931
Variation in the main stock market indices by +/- 30%	-30%	- 15
Variation in foreign exchange rates (against the euro) by +/- 10% for the main currencies and by +/- 25% for other currencies	+10%, +25%	- 774
Variation in swap spreads by +/- 20 bps	- 20 bps	- 1.729
NON-STANDARD SCENARIOS		
Widening/narrowing of the bid-ask spread	Widening	- 1.441
Significant vertices[1]	VaR without diversification	- 14.011
	VaR with diversification	- 14.024
Historical scenarios[2]	06/Oct/2008	- 15.271
	12/Sep/2011	- 13.114

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

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

These results show that the exposure of the Group's trading book to the different risk factors considered remains relatively limited and that the main adverse scenario to be taken into account refers to a general decrease in interest rates, especially when accompanied by a change in the slope of the yield curve, in the case of a higher decrease in longer terms than in shorter terms (decrease of the curve's slope). In what concerns the non-standard scenarios, the main loss case refers to the variations occurred at 06/10/2008 when applied over the current portfolio.

Interest rate risk of the Banking Book

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

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

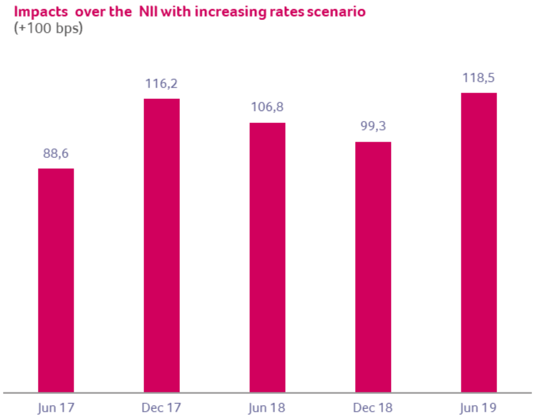
The main risk factors arise from the repricing mismatch of the portfolio positions (gap risk) which may cause direct or indirect financial losses in the banking Book, due to changes in interest rates that have different impacts over assets and liabilities' classes, making the Bank vulnerable to variations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

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

The result of this analysis for a +100 basis point change in the level of the Euro interest rates (for all maturities, i.e. assuming a parallel shift of the yield curve), on the Banking Book portfolio as at 30/06/2019 consists in a positive impact on the balance sheet's economic value of around 119 million euros. On the other hand, the impact of a generalized drop in Euro rates of -100 basis points, and considering a floor of 0% for the cash flows discount rate, would be of around +82 million euros. Hence, on that date, the Group was positively exposed to interest rates' variations (increase or decrease).

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

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



Hence, for a change of +100 bps in interest rates, as at 30/06/2019, the financial margin would have an increase of around 119 million euros.

FX and equity risks of the Banking Book

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

As at 30/06/2018, the Group's holdings in convertible foreign currency were fully hedged. On a consolidated basis, these hedges are identified, in accounting terms, as 'Net investment hedges', in accordance with the IFRS nomenclature. On an individual basis, hedge accounting is also carried out, through a 'Fair Value Hedge' methodology, I this case.

Excluding the financial holdings from the participations in the foreign subsidiaries, the exposure to FX risk is quite limited, corresponding to less than 0.3 million euros in terms of VaR, as at 30/06/2019.

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

Liquidity risk

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

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

In the first half of 2019, at consolidated level, there was an increase of 160 million euros in WSF requirements, almost entirely as the result of eurobank's acquisition by Bank Millennium (Poland).

With regard to medium-long-term issues, taking advantage of improved market conditions, Bank in January 2019 the Bank placed an issue of Additional Tier 1 instruments Bank, eligible for MREL *, in the amount of 400 million euros. In the same month, in order to strengthen its financing structure for the acquisition of eurobank, Bank Millennium issued subordinated bonds amounting to 830 million zlotys. Both issues correspond to the execution of the goals defined in the Group's Liquidity Plan.

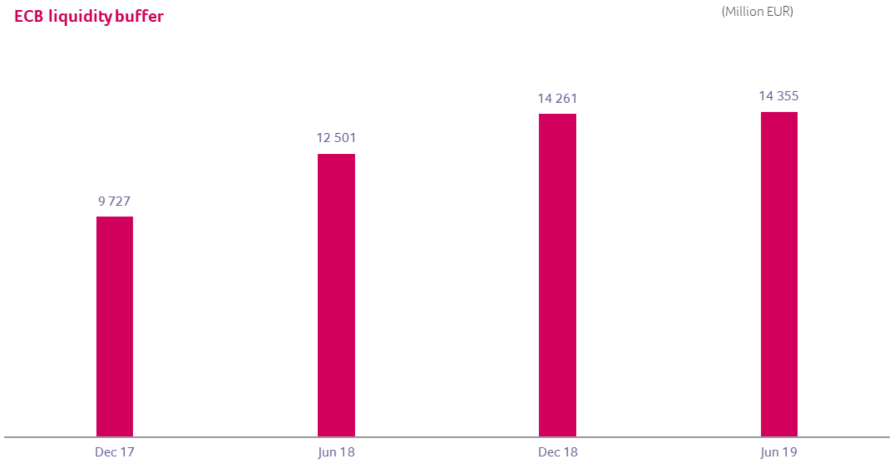
The evolution of the Group's financing structure reflects, when compared to December 2018, the strengthening of the medium-long term component resulting from the referred issues, as well as the reduction, of similar magnitude, of the use of money market instruments (jointly, MMI and REPOS):

	Jun 19	Dec 18	Change in weight
Money market	-2,7%	8,7%	-11,4%
ECB	46,2%	47,1%	-0,9%
Private placements	0,8%	0,8%	0,0%
Repos	7,8%	5,1%	2,7%
Loan agreements	22,0%	20,7%	1,4%
EMTN	1,4%	0,0%	1,4%
Covered Bonds	11,6%	11,8%	-0,2%
Subordinated Debt	12,9%	5,9%	7,1%
Total	100,0%	100,0%	

The value of collateralized borrowings from the ECB remained at 4,000 million euros, corresponding to the balance of the targeted longer-term refinancing operations (TLTRO) that will mature in 2020.

Although the weight of gross financing at the ECB has remained practically unchanged, it should be noted that in net terms (i.e. by deducting the balance deposited at Banco de Portugal and other liquidity in excess over the minimum cash reserves, from the amount of the borrowings), this funding source had a further reduction of 600 million euros in the first half of 2019, to a net balance of 2,052 million euros.

As for the liquidity buffer with the ECB, it increased by around 95 million euros from 31 December 2018 to 14,355 million euros on 30 June 2019, as shown in the following chart, with the buffer's evolution since December 2017:



For Bank Millennium, the respective liquidity buffer at the Central Bank of Poland amounted to 4 thousand million euros on 30 June 2019, 1100 million euros less than in December 2018, due to the application of liquidity in the acquisition of eurobank. In any case, Bank Millennium's liquidity ratios remain very comfortable. With the full integration of Eurobank, liquidity risk management will remain centralized and will be assumed by Bank Millennium's organizational units responsible for liquidity risk management, monitoring and control, in accordance with the policies and risk tolerance profile adopted at local and Group level.

The Bank's counterbalancing capacity is defined by the ability to generate additional liquidity in the short term to cope with possible financial stress situations. The measures for its reinforcement are described in the Recovery Plan for each entity. In Portugal, by 30 June 2019, the total estimated amount for this capacity was of 3,410 million euros, with the following origins: sale of corporate bonds, sale of commercial paper, securitisation of a consumer credit portfolio and the issuance of mortgage bonds to be included in the ECB's monetary policy pool.

Liquidity risk control

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

The Group controls the structural liquidity profile through the regular monitoring of a set of indicators defined both internally and by the regulations, aimed at characterising liquidity risk, such as the loans-to-deposits ratio (which was of 88% as at 30/06/2019), the regulatory ratios LCR (Liquidity coverage ratio) and NSFR (Net stable funding ratio) - respectively, of 218% and 133% at the same date - and also the relative dimension of the excess of available collateral for discounting at EU central banks (the liquidity buffer, previously referred to), *vis-à-vis* the total clients' deposits.

Pension Fund risk

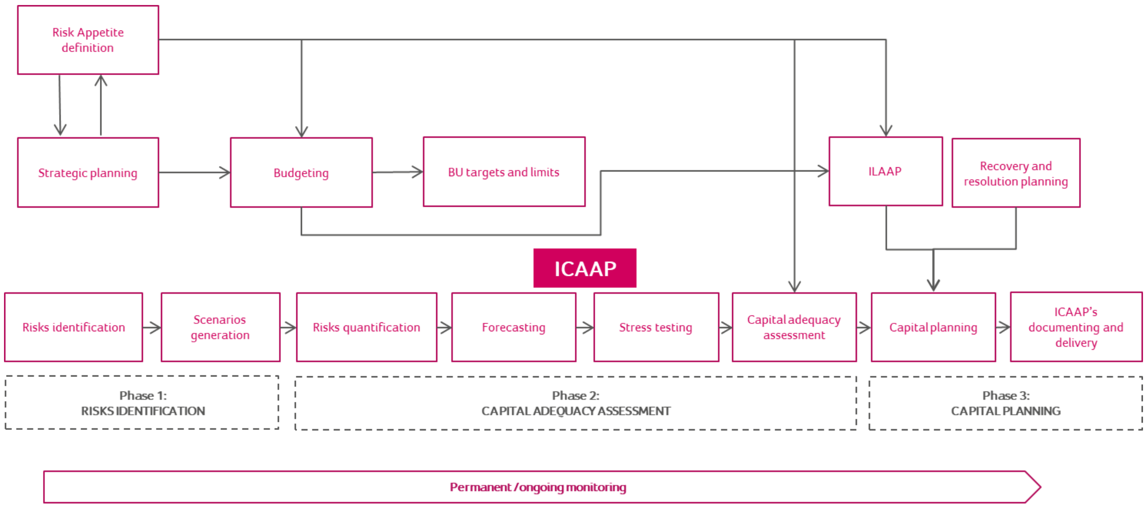
This risk arises from the potential devaluation of the assets of the Fund associated with the Defined Benefit Plan or from the reduction of its expected returns as well as from actuarial differences that may occur from the evolution of demographical factors, in relation to the actuarial assumptions considered.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

In the first half of 2019, the BCP Group Pension Fund recorded a net return rate of +4.7%, which was higher than the return on the fund's benchmark. All asset classes performed positively during this period, except for the Liquidity component. In comparative terms, the highlight goes to the positive contribution from the Portuguese equities component, as European equities were penalized by positions in specific securities that underperformed compared to the EuroStoxx. The asset classes that least contributed to the Pension Fund's very positive performance in the first-half of 2019 were the Alternative Investments*, the Fixed Rate assets and also Real Estate Assets, given the specific performance of a real-estate fund that decisively affected earnings from this component.

The fall in market interest rates led to the updating of the actuarial assumption used to determine the Fund's liabilities and the discount rate was set at 1.6% (against 2.1% at the end of December 2018).

Internal Capital Adequacy Assessment Process (ICAAP)

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



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

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

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

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

The result of this stage is the list of risks to be incorporated in the ICAAP, as well as of the variables to be considered

* Basicamente: Fundos de *Private Equity* e Fundos de Retorno Absoluto.

for the establishment of the base and the stressed scenarios. The approval of the results of the risks identification process is a capacity attributed to the Risks Assessment Committee.

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

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

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

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

The ICAAP's results are assessed by the EC and by the Risks Assessment Commission and approved by the BoD, being one of the main sources for the review of the Group's RAS.

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

The results of the ICAAP, as of 31/12/2018, show that current capitalization levels are adequate for the 3-year time horizon, both in the baseline scenario and in the stressed/adverse scenario, which is confirmed by the quarterly monitoring performed by the Bank.

Models validation and monitoring

This function is ensured by the Models Monitoring and Validation Office (GAVM), reporting to the Executive Committee member that is responsible for Risk Management.

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

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

Besides the activities directly connected with the follow-up and performance validation of models, GAVM is responsible for the coordination of the model risk management (MRM) activities, including the creation and maintenance of a complete repository of the models used by the Bank and its permanent monitoring and updating through the use of the model management and risk assessment tool implemented at the Bank as support for the MRM framework. This tool is supported by a functional and approval workflow that corresponds to a set of internal documentation requirements that are fully aligned with applicable regulations and supervisory expectations.

In the first half of 2019, several actions were carried out to monitor and validate the internal models in use by the Bank. These actions aim, *inter alia*, to reinforce the confidence in the models, to monitor their performance and evolution, ensuring their adequacy to the business reality and their compliance with current regulations, as well as to reinforce the identification and reaction capabilities to changes in their predictive quality.

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

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

Within the scope of model monitoring, GAVM is also responsible for coordinating and preparing on-site inspections of the Targeted Review on Internal Models (TRIM), as well as ensuring the response, in collaboration with other areas of the Bank, to the requests made in the scope of TRIM and of the regulatory benchmarking exercises, both promoted by the Supervision.

Due to their importance and allocated resources, a highlight should be made concerning GAVM's participation in the TRIM's on-site inspections of PD models associated with Low Default Portfolios and of Corporate LGD (TRIMIX-2018-PTBCP-3973), from December 2018 to March 2019, and on the CCF model (TRIMIX-2019-PTBCP-4660), since June 2019.

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 has drawn and annually revises a Recovery Plan for its business and activities, in which a large set of key indicators are defined; these are permanently monitored, allowing for immediate management action whenever there are deviations that exceed pre-defined thresholds (also defined in the Plan), the report of which, to the Group's management and supervision bodies, is mandatory.

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

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

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

Ratings assigned to BCP

During the first six months of 2019, there was an improvement of macroeconomic indicators in Portugal, namely, the reduction in external vulnerability and budget consolidation, with the announcement of a 0.4% budget surplus in the first trimester of 2019. Additionally, the Portuguese economy continues to record GDP growth rates above the Euro Zone average.

Also noteworthy were the improvements in the sustainability of public debt, progress recognized by the rating agencies, in particular Standard & Poor's, which on March 15, 2019 revised the Portuguese Republic's rating from BBB- to BBB

Portuguese banks continued to pursue their activities within a challenging context during the first six months of 2019, with the ECB keeping interest rates at low levels, and announcing possible further declines.

These conditions constrain the net interest income. However, in some cases, the negative impact on the net interest income was compensated by trading gains and the continued reduction in operating costs and cost of risk.

It is also important to highlight the progress in the improvement of Portuguese banks' asset quality – through the reduction of NPEs –, as well as the strengthening in capital and profitability levels, contributing for a better outlook of the Portuguese banking sector's performance.

Notwithstanding the significant reduction in problematic assets by Portuguese banks, its amount remains high, which is one of rating agencies' main concerns.

In the first half of 2019, two rating agencies recognised the success on the implementation of BCP's strategic plan.

On April 1, Moody's upgraded the Deposits rating to Ba1's and the Senior Debt rating to Ba2. This action by Moody's reflects the improvement in BCP's credit profile by significantly reducing the stock of problematic assets and improving domestic profitability, in line with Moody's expectation that the bank's financial fundamentals will continue to improve in 2019. It further reflects Moody's expectation that BCP will issue an additional Euros 1.2 billion of debt (net of amortizations) to meet MREL requirements by June 2022.

On June 3, DBRS upgraded the long-term Deposits rating in one notch, from BBB (low) to BBB, and the long-term Senior Debt rating from BB (High) to BBB (low), reflecting improved profitability that is supported by improved results in Portugal, maintenance of high efficiency levels, cost of risk reduction and a fast paced NPE reduction.

Moody's

Baseline Credit Assessment	Ba3
Adjusted Baseline Credit Assessment	Ba3
Counterparty Risk Assessment LT / ST	Baa3 (cr)/ P-3 (cr)
Counterparty Risk LT / ST	Baa3 / P-3
Deposits LT / ST	Ba1 / NP
Senior Debt	Ba2 / NP
Senior Non Preferred	B1
Outlook deposits / senior	Stable
Subordinated Debt - MTN	(P) B1
Subordinated Debt	B1
Additional Tier 1	B3 (hyb)
Other Short Term Debt	P (NP)
Covered Bonds	Aa3

Rating Actions

22 January 2019 – Assigned a 'Caa1 (hyb)' rating to AT1 Notes.
1 April 2019 - Upgraded the long term Deposits rating from 'Ba1' to 'Ba3' and the long term Senior Debt rating from 'Ba3' to 'Ba2'. Upgraded the Baseline Credit Assessment (BCA) and the Adjusted BCA, from 'b1' to 'ba3', the Subordinated Debt rating, from 'B2' to 'B1', the Additional Tier 1 rating, from 'Caa1 (hyb) to 'B3 (hyb)' and the Counterparty Risk rating, from 'Ba1 / Not-Prime' to 'Baa3 / Prime-3'
14 May 2019 - Assigned a 'B1' rating to the Senior Non Preferred Debt

Standard & Poor's

Stand-alone credit profile (SACP)	bb
Resolution Counterparty Credit Rating LT / ST	BBB- / A-3
Issuer Credit Rating LT / ST	BB / B
Senior Debt	BB
Senior Non Preferred	B+
Outlook	Stable
Subordinated Debt	B
Additional Tier 1	CCC+

Rating Actions

22 January 2019 - Reaffirmed AT1 Notes rating at 'CCC+'
10 May 2019 - Assigned a 'B+' rating to Senior Non Preferred Debt.

Fitch Ratings

Viability Rating	bb
Support	*5*
Support Floor	No Floor
Deposits LT / ST	BB / B
Senior Debt LT / ST	BB / B
Senior Non Preferred	BB
Outlook	Stable
Subordinated Debt Lower Tier 2	BB-
Additional Tier 1	B-
Covered Bonds	BBB+

Rating Actions

22 January 2019 - Assigned a 'B-' rating to AT1 Notes.
20 May 2019 - Assigned a 'BB' rating to Senior Non Preferred Debt.

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	Stable
Dated Subordinated Notes	BB
Additional Tier 1	B
Covered Bonds	A

Rating Actions

22 January 2019 - Atribuição do rating de AT1 de 'B (low)'.
16 May 2019 - Assigned a 'BB' rating to Senior Non Preferred Debt.
3 June 2019 - Upgraded Intrinsic rating from 'BB (high)' to 'BBB (low)'; the Critical Obligations rating from 'BBB' to 'BBB (high)'; the Deposits rating from 'BBB (low)' to 'BBB'; the Senior Debt rating from 'BB (high)' to 'BBB (low)'; the Senior Non Preferred Debt rating from 'BB' to 'BB (high)'; and the Subordinated Debt rating from 'BB (low)' to 'BB'.

Capital

According to our interpretation of CRD IV/CRR to date, the CET1 ratio as at 30 June 2019 stood at 12.2% both phased-in and fully implemented, consistent with the amounts presented as at 31 December 2018, above the ones presented at the same period of 2018 (11.7% both phased-in and fully implemented) and above the minimum required ratios under the SREP (Supervisory Review and Evaluation Process) for 2019 (CET1 9.625%, T1 11.125% and Total 13.125%).

The CET1 phased-in ratio performance during the first semester of 2019 mainly reflects:

- the phased-in progression along with the application of the 2019 SREP result, determined an increase of 47 million euros in CET1 and a 53 million euros in risk weighted assets (+10 basis points in CET1 phased-in ratio);
- the IFRS16 adoption originated 256 million euros of increase in risk weighted assets (-7 basis points in CET1 phase-in ratio);
- the acquisition of Euro Bank, S.A. by Bank Millennium in Poland, that took place in May 2019, determined an increase of 32 million euros in CET1 and of 2,067 million euros in risk weighted assets (-49 basis points in CET1 phase-in ratio);
- the pension fund’s responsibilities discount rate reduction, as a consequence of the interest rate decrease, although partially compensated by the fund’s appreciation, decreased the CET1 in 175 million euros and the risk weighted assets in 66 million euros (-40 basis points in CET1 phase-in ratio).

The T1 and Total ratio were also influenced, during the first semester of 2019, by the following impacts:

- the issuance of perpetual subordinated notes qualified as Additional Tier 1 (AT1), in January, in the amount of 400 million euros (+96 basis points in both T1 and Total ratios phased-in);
- the issuance, also in January, by Bank Millennium, S.A. in Poland of subordinated bonds qualified as Tier 2 capital instruments, amounting 830 million zlotys (+10 basis points in Total ratio phased-in).

The organic generation of capital, including the positive net income of the first semester of 2019, contributed significantly to the good capital ratios performance on this period.

SOLVABILITY RATIOS

(Euro million)

	30 Jun. 19	31 Dec. 18	30 Jun. 18	30 Jun. 19	31 Dec. 18	30 Jun. 18
	PHASED-IN			FULLY IMPLEMENTED		
OWN FUNDS						
Common Equity Tier 1 (CET1)	5.450	5.047	4.895	5.435	5.024	4.865
Tier 1	5.952	5.121	4.968	5.935	5.102	4.942
TOTAL CAPITAL	6.565	5.688	5.581	6.553	5.663	5.548
RISK WEIGHTED ASSETS	44.675	41.883	41.793	44.625	41.819	41.724
CAPITAL RATIOS (*)						
CET1	12,2%	12,1%	11,7%	12,2%	12,0%	11,7%
Tier 1	13,3%	12,2%	11,9%	13,3%	12,2%	11,8%
Total	14,7%	13,6%	13,4%	14,7%	13,5%	13,3%

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

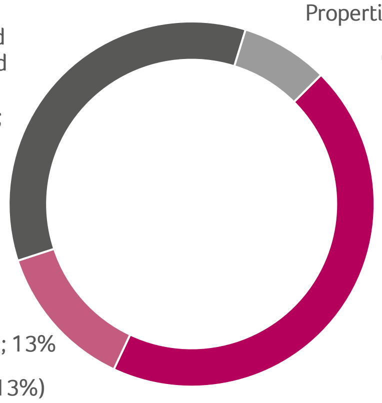
Pension Fund

The Group's responsibilities with pensions on retirement and other benefits are related with the payment to Employees of pensions on retirement or disability. As at 30 June 2019, the Group's responsibilities stood at 3,319 million Euros, comparing to 3,068 million Euros at the end of 2018.

At the end of the first half of 2019, the Pension Fund's assets reached 3,174 million Euros (3,078 million Euros as at 31 December 2018) and a positive rate of return of 4.7%, which compares favourably to the assumed actuarial rate of 2.1% (the actuarial rate was changed to 1.6% on 30 June 2019).

As at 30 June 2019, the structure of the Pension Fund's portfolio does not show material changes from the position existing at the end of previous year. At the end of the first half of 2019, the main asset categories in the Pension Fund's portfolio, were as follows:

STRUCTURE OF THE PENSION FUND'S ASSETS AS AT 30 JUNE 2019



(xx%) Proportion as at 31 de December 2018

The main actuarial assumptions used to determine the Pension Fund's liabilities as at 30 June 2019 and for the years ended in 2018 and 2017 are shown below:

ASSUMPTIONS	17	18	1H19
Discount rate	2,10%	2,10%	1,60%
Increase in future compensation levels	0.25% until 2019 0.75% after 2019	0.25% until 2019 0.75% after 2019	0.25% until 2019 0.75% after 2019
Rate of pensions increase	0% until 2019 0.5% after 2019	0% until 2019 0.5% after 2019	0% until 2019 0.5% after 2019
Projected rate of return on fund's assets	2,10%	2,10%	1,60%
Mortality tables			
Men	TV 88/90	TV 88/90	TV 88/90
Women	TV 88/90 - 3 years	TV 88/90 - 3 years	TV 88/90 - 3 years
Disability rate	Not applicable	Not applicable	Not applicable
Turnover rate	Not applicable	Not applicable	Not applicable
Normal retirement age	66 years and 3 months	66 years and 4 months	66 years and 5 months
Total salary growth rate for Social Security purposes	1,75%	1,75%	1,75%
Revaluation rate of wages / pensions of Social Security	1,00%	1,00%	1,00%

At the 2016 year end the Collective Labour Agreement was revised and the respective impacts were recognized in the consolidated profit and loss account. The changes introduced in the Collective Labour Agreement were only formally accepted by the "Northern Trade Union" in April 2017 and therefore the respective impact was recognized in first half of 2017.

At the 2017 year end, the agreement of the Group's Pension Fund was amended in order to incorporate the responsibilities that have been directly supported by each Group entity (extra-fund liabilities), as well as the changes introduced in the Group's Collective Labour Agreements, in terms of retirements benefits.

The actuarial differences recorded in the first half of 2019 amounted to 158 million Euros, before taxes, including 116 million Euros of positive financial deviations related to the pension fund's return and 273 million Euros of actuarial losses, of which 256 million Euros referring to actuarial deviations arising from changes in the actuarial rate assumptions.

As of June 2019, the Group's responsibilities were not fully funded, given the shortfall of 145 million Euros between the value of the Pension Fund and the existing liabilities.

The main indicators of the Pension Fund as at the end of the first half of 2019 and the years ended in 2018 and 2017 are as follows:

MAIN INDICATORS	17	18	1H19
Liabilities with pensions	3.050	3.066	3.319
Minimum level of liabilities to cover*	2.997	3.015	3.263
Value of the Pension Fund	3.166	3.078	3.174
Coverage rate	103,8%	100,4%	95,6%
Coverage rate of the minimum level of liabilities*	105,7%	102,1%	97,3%
Return on Pension Fund	4,2%	0,2%	4,7%
Actuarial (gains) and losses	-29	98	158

* According to the Bank of Portugal requirements

Information on trends

Despite the acceleration of the economic recovery in Portugal, the stabilisation of the banking industry and the decrease in public and private indebtedness, Portuguese banks continued to operate in a challenging environment in the H1 2019. Banks are operating within a context of very low interest rates, exercising pressure on the net interest income. Moreover, Portuguese Banks still have a significant number of non-interest bearing assets in their balance sheets. In addition, the context is marked by fast technological evolution and, pursuant to the Payment Services Directive 2 ("PSD2"), by the competition from new players in the market (Fintechs). There are also new regulatory requirements, namely, as a result of the adoption of IFRS16 since January 2019.

Banco de Portugal's forecasts for the Portuguese economy, from 2018 to 2021, point towards the slowdown of the recovery of economic activity, converging to the expected GDP growth for the Euro Area. GDP is expected to have grown, on average, 2.1% in 2018, 1.7% in 2019 and 1.6% in 2020 and 2021, after having grown 2.8% in 2017. It is expected that the contribution provided by net exports will gradually decrease its importance in GDP's growth between 2018 and 2021. Public deficit decreased to 0.5% of the GDP in 2018, the lowest ever since Portugal joined the Euro Area. A surplus is expected as soon as 2020.

At the end of 2018, all the rating agencies assigned an investment grade rating to the Portuguese Republic, which, together with the improvement in the perception of the market vis-à-vis the Portuguese economy, led to a sharp reduction in sovereign risk premiums and of banks.

In accordance with Banco de Portugal, Portuguese banks resort to the ECB in the amount of EUR 18.7 billion at the end of May 2019. There figures are consistent with the downwards trend in place since the second half of 2013. These figures show an improvement in the liquidity position of the domestic banks which has benefited from the resilient performance of deposits, namely from individuals (+3.9% year-on-year in April 2019, with demand deposits up 15.6% and term deposits up 3.8%, also year-on-year).

Moreover, the deleveraging of the Portuguese financial sector continues and the total loans to individuals increased 0.0% and loans to companies decreased 0.2%, year-on-year, respectively, in April 2019. The loans-to-deposits ratio of the banking sector in Portugal stood at 87.7% at the end of March 2019 versus 128% at the end of 2012 and 158% at the end of 2010.

The loans granted by BCP continued to decrease but reflects two different dynamics: the NPE portfolio decreased by EUR 1.7 billion in June 2019, year-on-year, and the performing portfolio increased by EUR 2.5 billion (in Portugal: NPE portfolio decreased by EUR 1.8 billion and performing portfolio increased by EUR 1.7 billion). At the same time, deposits also continued to grow: +5.6% year-on-year, in Portugal, in June 2019. As BCP has excess liquidity (loans-to-deposits ratio stood at 88% in June 2019), it decided to reduce its use of funding from the ECB to EUR 2.1 billion in June 2019.

At the end of June 2019, BCP was the largest Portuguese private sector bank, with a robust asset structure, a fully implemented CET1 ratio of 12.2%, above regulatory requirements (SREP) and a loans-to-deposits ratio of 88%.

The low level of interest rates is contributing to decrease the spread on term deposits of the Portuguese banks, a trend which continued, albeit at a slower pace, in 2018, more than offsetting the lower spreads in credit. The rates of the term deposits reached, by the end of December 2018, values around 10 basis points, and the portfolio's average rate should converge to these levels over the course of next year.

The price effect on the net interest income should continue to be globally positive, translating the improvement of the net interest income on operations with Customers (differential between the loans average rate and the average rate at which the banks remunerate the deposits). The profitability of the Portuguese banks is expected to continue to be constrained by the prospects of continuation of a low short term interest rates environment.

Several institutions should continue to apply restructuring plans, to increase operating efficiency and the adjustment of business models, which translates into the decrease in the number of branches and employees and in the release of capital allocated to non-core activities. Profitability in the banking industry is still affected by a high NPE stock.

There is great focus on the management of the stock of problematic assets and respective coverage levels by LLRs. BCP has recently presented a new Strategic Plan (Mobilizing Millennium: 2021 Ambitions and Strategic Plan) which includes a new target of NPEs reduction: 60% reduction of NPE stock, reaching approximately EUR 3 billion by 2021.

BCP Group has a relevant exposure to Poland where there are risks due to legislative amendments with impact on the Polish financial system, including the ones related to the issue of the conversion of the credits into Swiss francs in Poland. It is worth mentioning that Bank Millennium has been reducing its foreign currency mortgage loans portfolio on average circa of 6% per year and that currently it represents only 20% of the total loans portfolio in Poland.

Regarding regulations on FX mortgage loans, which have been discussed in Poland during last 4 years, it was recently approved a Presidential Draft Bill of 2 August 2017 regarding changes in the Act on Support for Distressed Borrowers who Took Residential Loans. The finally accepted Bill does not include the creation of a Conversion Fund. On the other hand, it increased availability of the PLN 600 million (Euros 141.29 million) worth Borrowers' Support Fund originally created in 2015 and still waiting to be used for borrowers in need (both PLN and FX mortgages) and sets potential future contributions. The Bill will come into force from 1 January 2020.

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

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

- For payments from the Resolution Fund to be made (limited to a maximum of Euros 3,890 million over the lifetime of the mechanism), losses on the assets under the contingent mechanism should be incurred and the capital ratios of Novo Banco should stand below the agreed reference thresholds;
- The payment to be made by the Resolution Fund corresponds to the lower of the accumulated losses on the assets covered and the amount necessary to restore the capital ratios above the minimum reference threshold;
- The reference capital ratios are, in 2017, 2018 and 2019, linked to the regulatory requirements applicable to Novo Banco (CET1 ratio of 11.25% and Tier 1 ratio of 12.75%), but, as from 2020, the reference ratio will correspond to a CET1 ratio of 12%;
- The initial reference value of the portfolio comprising the contingent capitalization mechanism was as of 30 June 2016 of Euros 7,838 million (book value of the associated assets, net of impairments), and the value of the portfolio, as of 31 December 2018, amounted to approximately Euros 3,920 million (book value, net of impairments);
- The accumulated losses of the covered assets and their management, between 30 June 2016 (reference date of the mechanism) and 31 December 2018, correspond to Euros 2,661 million. Of this amount, the Resolution Fund paid in 2018, in accordance with the terms and conditions of the CCA, around Euros 792 million, hence, the amount of losses not borne by the Fund was, at the end of 2018, approximately Euros 1,869 million;
- The amount necessary to maintain the capital ratios of Novo Banco for 2018 at the agreed levels is Euros 1,149 million. The amount payable by the Resolution Fund results from a comparison between the amount of Euros 1.869 million (accumulated loss on the covered assets not supported by the Fund) and the amount of Euros 1,149 million, corresponding to the lower of those amounts, i.e. Euros 1,149 million.

On 24 May 2018, arising from the referred mechanism, the Resolution Fund paid Euros 792 million to Novo Banco using its available financial resources from banking contributions (direct or indirect) and complemented by a State loan of Euros 430,000 thousand under the terms agreed between the Portuguese State and the Resolution Fund in October 2017. On 1 March 2019, the Resolution Fund stated that the amount to be paid by the Resolution Fund in 2019 to Novo Banco under the CCA will be carried out after the legal certification of Novo Banco's accounts and following a verification procedure by an independent entity, to ascertain that the amount to be paid by the Fund has been correctly accounted for. Additionally, the Resolution Fund paid to Novo Banco on 6 May 2019 the calculated value relative to 2018 exercise of Euros 1.149 million. For this purpose, the Resolution Fund used its own resources and also resorted to a State loan of Euros 850 million which corresponds to the annual maximum funding limit agreed between the Resolution Fund and the State. The amount paid by the Resolution Fund to Novo Banco in two years was Euros 1,941 million.

In its 2018 annual report, the Resolution Fund states that "Regarding future periods, a significant uncertainty as to the relevant parameters for the calculation of future liabilities is deemed to exist, either for their increase or reduction, under the terms of the agreement on the contingent capital mechanism with Novo Banco".

The Bank has been notified by the Banco de Portugal on the Single Resolution Board's decision regarding the minimum requirement for MREL for the resolution group headed by the Bank, at a sub-consolidated level, which includes the operations based in Portugal, Switzerland and Cayman, and excludes the operations based in Mozambique and Poland (the "Resolution Group").

The MREL requirement has been set at 26.61% of its RWA for the resolution group based on the data of 30 June 2017. Moreover, the Bank has been informed that the MREL requirement needs to be met by 1 July 2022.

This is fully aligned with the Bank's expectations and generally consistent with the funding projections already included in the Bank's strategic Plan for the period 2018-2021, which underpins the medium term performance targets disclosed to the market with the results announcement for the first nine months of 2018. Nevertheless, it must be noted that the MREL requirement may be adjusted in the future by the competent authorities, to reflect their assessment of the underlying risks, business evolution or changes in the profile of the Bank's assets and liabilities.

Non-financial information

SUSTAINABILITY POLICY

BCP Group continues to pursue dynamic strategies appropriate to the new challenges imposed by the different stakeholders with which it is related. The main objectives of the adopted sustainability policies, which foster a culture of Social Responsibility, has been to positively influence the organisation's value proposition in the long term, balanced with the well-being of the people, the company and communities in which it operates, while preserving natural resources, climate and the environment.

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

- Involvement with both the external and the internal communities;
- Offering of products and services that incorporate social and environmental principles;
- Sharing sustainability principles.

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

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

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

IDENTIFICATION AND INTEGRATION OF EXPECTATIONS

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

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

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

Sustainability Master Plan (SMP)

Ethics and professional conduct	Enhance the link established between the Employees and the Bank's Values Foster a culture of compliance and of a strict management of risk; Publish clear policies in the wake of the prevention of corruption, health and safety issues, human rights and protection of maternity.
Service Quality	Implementation and improvement of the satisfaction assessment processes; Create mechanisms for the immediate detection and management of opportunities for improvement in customer service.
Accessibilities	Improve the implementation of differentiated working hours; Enhance and promote the accessibilities made available to individuals with special needs.
Proximity and reporting	Enhance the proximity and involvement with the Bank's Shareholders; Improve the institutional report in what regards Sustainability; Perform a survey to identify stakeholders expectations.
Expectations management	Consult the Bank's Stakeholders to know and include their expectations; Collect and implement ideas suggested by the Employees on Sustainability issues.
Motivation	Identify best performances at Client Service level; Support the adoption of healthy lifestyles; Improve the mechanisms ensuring a greater proximity between the Employees and top managers.
Products and Services	Consolidate the Bank's position in the micro credit market; Strengthen negotiation and search for suitable solutions to situations of financial difficulty of Customers; Promote and launch products that observe social responsibility principles and cope with the new environmental challenges.
Share and educate	Institutionalise the donation of furniture and IT equipment to institutions in need; Implement social and/or environmental awareness actions common to the entire Group; Launch a financial literacy programme transversal to the Bank.
Volunteer Actions	Structure a volunteering programme for and with the participation of the Employees.
Partnerships	Develop campaigns together with non governmental organizations and charitable institutions to foster a sustainable development.
Fundação Millennium bcp	Strengthen the identity of Fundação Millennium bcp
Social and environmental risk	Promote climate changes awareness with corporate clients developing their activities in sectors more exposed to risks and environmental regulations Identify and classify Corporate Clients with greater environmental and social risks; Formalise compliance with social and environmental requirements in the relationship established with Suppliers.
Environmental performance	Enhance the measures for the reduction of consumption Implement measures aimed at the reduction of waste and the creation of a formal recycling process Formalise and communicate Environmental performance quantitative objectives.

In this context, and when the next Sustainability Master Plan for the 2019/2021 is already under preparation, the activity developed by Millennium bcp in the Responsible Business during the 1st half of 2019, summarized in this chapter , testifies to the Bank's commitment to fully tackle the current SMP.

ETHICS AND PROFESSIONAL CONDUCT

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

- Within the scope of prevention of money laundering and terrorism financing (ML&TF), the activities of the compliance area, during the first six months of 2019, very focused on risk, included the filtering of operations, a process that ensured the compliance with the sanctions and embargoes regimes imposed by the competent national and international authorities, monitoring them to prevent potentially irregular situations and also the prior validation, substantive and formal, of the opening and maintenance of entities, accounts and of credit operations. This functional perimeter, based on dedicated technological solutions, also foresees the definition and management of risk models according to the evolution of the various competing variables to establish scorings to be applied to operations. With the purpose of improving technological solutions, a new computer application (SAS - AML) came into effect, replacing the previous one (Actimize), starting last February. This change represented the need to develop new approaches and new operational circuits.

- So as to reinforce the mechanisms for detecting market abuse practices, during the second half of 2018, a new IT solution called Trading Hub came into effect, resulting in the redefinition of internal operating circuits in the first half of 2019.

- The detection mechanisms related to the increased risk presented by some countries were also enhanced, focusing on "cryptocurrency" transactions, as signalled by the European Commission, together with ML&TF prevention practices, in accordance with Law no. 83/2017, of August 18 - Banco de Portugal Anti-Money Laundering and Countering the Financing of Terrorism Regime.

- As a relevant fact in the Bank's integrated risk management, we highlight the integration of the operational risk management function into the Compliance Office, by transfer from the Risk Office, so as to harness the benefits of a joint operational and compliance risk management in the design and management of products and processes.

- Concerning the Groups' activity plan, it is still a priority to provide Employees with the necessary skills to deal with complex diligence processes and in the collection of client's data, namely those presenting not negligible risks, in order to mitigate operational and fraud risks.

SERVICE QUALITY

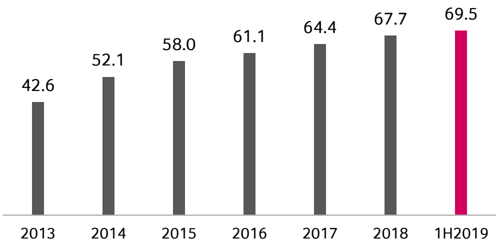
- Millennium bcp maintains its model for assessing Client experiences. 24 hours after interaction with the Bank, the Client is invited to answer a brief questionnaire to assess Client satisfaction with his/her experience with the Bank and the corresponding level of recommendation.

  In the first six months of 2019, were assessed over 69,000 experiences of Clients who visited Branches or were contacted by Client Managers.

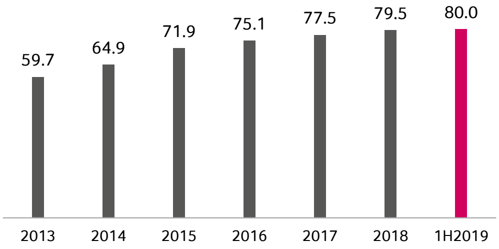
  The Millennium bcp's NPS indicator (Net Promoter Score) - the difference between the percentage of Promoter Customers (who grade the Bank with 8 or 9 on a scale from 0 to 9) and the percentage of Detractor Clients (who grade the Bank with 0 to 5 using the same scale) - was computed using the answers to the questions on whether they recommend the Bank. This indicator has shown a positive performance since this process began in 2013, reaching its highest level ever at the first half of 2019, at 69.5 points.

  Another issue dealt with was the recommendation of the service provided by the Employee / Account Manager. This NPS Assistance indicator also records a very positive performance, at 80.0 in the 1st six months of 2019.

NPS
Millennium BCP



NPS
Customer manager service



- In the first half of 2019, 2 waves of *Cliente Mistério* (Mystery Client) took place, totalling more than 900 visits to Mass Market branches. The evaluation grid used, with about 45 items, intends to evaluate the service choreography defined by Millennium bcp with the purpose of providing a service of excellence to Clients. The average of results obtained this year is in line with those recorded in 2018, reaching 79%.

- In order to strengthen Employee skills so customer service can be improved, in the first half of 2019, The Bank pursued the "# 1 in Customer Experience" project for Mass-Market Customers, reformulating the monthly training sessions format, which are now shorter and increasingly focused on a specific selling technique or choreography, with a presentation proposal shown in video.

  In addition, the Bank launched in May a new weekly news service called "Moment #1", which explores, in a short video, practical topics about products, tools and service choreography.

  We also launched a new program for Mass-Market, called Be Number One (B#1), based on detecting Employee's development needs concerning products, servicing, methods, choreography and leadership vectors, with practical training sessions in dynamic digital formats adjusted to the needs of each employee, which are already underway.

  In the Prestige segment, the Bank also continued the process of implementing Client Experience transformation program #1, undertaking, in the first half of 2019, the integration and certification of the new managers, ensuring that costumer service skills are assimilated and put into practice in the relationship with clients.

  This programme, besides its formative component, aims also at implementing a set of changes to Processes, Methods and Global Value Proposition in order to provide (increasingly) distinctive experiences to Millennium bcp Customers.

- Millennium bcp continued to monitor various studies carried out by external companies, so as to obtain indicators able of positioning the Bank in the sector and assess, with regard to quality of the service provided, the Bank's image, the products and services it sells and also Customer satisfaction and loyalty.

  - One of these studies is the CSI Banca, carried out by Marktest. It is a study made every six months and based on a structural model enabling to compare banks in aspects such as "Image", "Communication", "Quality of the Products and Services", "Competitiveness" and "Expectations", resulting in a Costumer Satisfaction Index.
  - In the first six months of 2019, Millennium bcp recorded a very positive performance in the CSI Banking Index when compared to previous six-months periods, reaching the highest value ever (77.1), high above the industry average (74.3), meaning that it ranks first among the 5 largest banks operating in Portugal. The leading position achieved is transversal and independent from the main channel used by clients to contact their Main Bank: 1st position in customers that go to branches and 1st position in customers that use digital channels.
  - On the other hand, the BFin, made by DataE, focuses on the characterization of the banking industry in Portugal, according to the companies perspective, relating to products and services made available by the Banks. In the 2019 survey, Millennium bcp was once more considered the Main Bank for companies in Portugal. Millennium bcp was also mentioned as the "Overall Best Bank for Companies" having "Products Most appropriate to companies", being "More Innovative" and "Closest to Customers". It also leads in the recommendation indicator (Net Promoter Score Scale) among the 5 largest banks operating in Portugal.
  - In the banking industry, Millennium bcp was "Consumer's Choice 2019" in the "Large Banks" category, in the survey made by Consumer Choice.

PROXIMITY, REPORTING AND RECOGNITION

- The 2018 Sustainability Report was produced and published once again in digital format and such document provides an integrated view of BCP Group's performance in the Economic/Governance, Social and Environmental scales, but also a summary of each of its operations, namely Mozambique, Poland, Portugal and Switzerland.
- The 2018 Sustainability Report of Bank Millennium was also made available, in this case with detailed information regarding the operation in Poland.
- Millennium bcp, in addition to periodically reporting non-financial information included in the Sustainability area. It also responds to external and independent entities by completing specific questionnaires on these matters. The participation in these external evaluation processes has enabled, besides the comparison of performances between

companies of the sector, the inclusion in Sustainability indexes.

- Therefore, at the end of the first half of the year, the Bank maintained itself in the "Ethibel Excellence Europe" and "Ethibel EXCELLENCE Investment Register", (VigeoEiris analyst), "Carbon Rankings (Engaged Tracking)" and "European Banks Index (Standard Ethics)" indexes/positions.
- In the sphere of the continuous communication flow directed at different target audiences on Sustainability themes and initiatives, the systematic dissemination of information was maintained, focusing on the diversity and frequency of publications on:
    - external communication, by regularly updating the sustainability area in the institutional website and of content posted in social media, like Facebook and YouTube;
    - internal communication, made through the Bank's corporate channels.

MOTIVATION AND TRAINING

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

In the first half of 2019 we highlight the process of training and knowledge certification of the Employees who "intervene in the preparation, commercialisation and signing of loan agreements and, as well, ancillary services usually offered in connection with said agreements." The certification comprised 7 e-learning and self-study modules that, together with the exam, totalled 25 individual training hours. This first process, which began in January and ended in March, engaged around 5 thousand Bank employees.

The M Power Leadership Program was pursued, being a process to prepare future leaders by stimulating their capacities and skills, mobilizing them to become an engine for the cultural transformation of the Bank. This Program involves 332 participants classified as having high potential for future leadership and above-average performance, from different areas, with training journeys tailored to the needs of the various recipients and with a solid experience, which intend to strengthen the emotional intelligence component in the leadership function.

- This program, which already celebrated the birth of 77 babies in 2019, includes a set of hard-earned advantages for Employees and their families, including a Baby Millennium savings voucher, offered at the time of birth / adoption of a child, with the value of 500 euros.

  The possibility of enjoying the afternoon free of work on the date of the birthday of a child up to 12 years old, benefited, during the first six months of the year, 991 Employees.
- *Mil Ideias* is an internal programme to generate ideas based on the recognition of Employees as a creative force that originates innovative and valuable proposals. Throughout the 1st half of 2019, 30 new ideas were submitted, which compare with 57 recorded in the same period of 2018.
- The Programme for recognising the best employees, "Millennium People", continued to give visibility to Employees that commit and outperform. In the second edition of this programme, 70 Employees were recognised, and awarded, simultaneously, as the winners of the two individual categories - Millennium *Líder* (Leader) and Millennium *Impacto* (Impact) - and the team category - Millennium *Valores* (Values).
- The Programme for recognising the best employees, "Millennium People", continued to highlight those that commit and outperform. The awards ceremony took place during the 2019 Management Staff Meeting, and around 60 Employees were awarded with the Millennium *Líder, Impacto, Excelência* and *Valores* awards. Besides the above mentioned awards, around 100 Employees of the Bank's Divisions were awarded, in a decentralised manner, for their distinctive contribution.
- Meanwhile, in the beginning of April, it was possible for Employees to access free Nutrition consultations also at Porto Medical Services (similarly to Taguspark), an improvement in health benefits for Employees.
- In 2019, the comprehensive disclosure of the results of the Organizational Environment Questionnaire 2018, global and of each Division, was continued by publishing its results on the internal Human Resources website and by holding extended Human Resources meetings with the the Bank's Divisions to analyse the results and define Action Plans to improve the indicators achieving a lower rate. This questionnaire, which had a participation rate of 84%, the highest ever, is a critical element of Employee involvement in the Bank's strategic goals, creating opportunities for improvement and development. Generally speaking, the tendency of the main indicators concerning motivation and satisfaction of employees is one of stability, and it should be noted the trend of improvement in satisfaction with the Direct Manager.

PRODUCTS AND SERVICES

- Credit cards issued by Millennium bcp - Visa/Mastercard Networks and, already in a discontinuation phase, the American Express Membership Rewards Program - have continued to encourage social aid through loyalty programmes that allow you to redeem card points in donations to Social Solidarity Institutions, namely Cáritas Portuguesa, Liga Portuguesa Contra o Cancro (Portuguese Anti-Cancer League), Unicef, Casa do Gaiato, Acreditar, Ajuda de Berço, Cerci and AMI (Reforest Portugal programme). In the first six months of 2019, 9,322 Euros were donated, corresponding to 951 rebates.

- Materializing the Bank's cultural commitment, the credit cards issued by Millennium bcp continued to allow their holders to take advantage of the partnership with NOS movie theatres, offering two tickets for the price of one. In the first six months of 2019, this partnership enabled the awarding of more than 70.000 tickets.

- Providing an answer to the needs of Investors who consider important to include social and environmental risk factors in their investments, Millennium bcp has kept Socially Responsible Investing Funds (SRI - Socially Responsible Investing) available for subscription, either using Millenniumbcp online platform (4 environmental funds, related to energy, totalling in June 30 a portfolio of over 7,469 thousand euros), either from ActivoBank.

- Aiming to continue to support customers struggling with financial difficulties, and to avoid defaults, the Bank continued to promote the Financial Assistance Service (FAS). In the scope of FAS packages, during the first half of 2019, around 6,750 renegotiation operations were carried out, totalling a restructuring amount of over 300 million euros.

- Aiming at reducing the potential factors of social exclusion, Millennium bcp was one of the first banking institutions to voluntarily offer the current account - Minimum Banking Services Account (*SMB*); with a maximum annual cost equivalent to 1% of the social aid index, it can be used with a debit card and allows intra-bank transfers and 24 annual interbank transfers within the European Union through home banking. At the end of the first half of 2019, 7,933 Millennium bcp Customers benefited from this service.

- University Loans - In Portugal, for students who decided to pursue their academic career, the Bank concluded, in the first six months of 2019, within the University Credit Line, 14 new loans totalling 137 thousand euros. The volume of credit granted to the 357 operations in the portfolio amounted to 2,720 thousand Euros.

- Under the protocol signed between Millennium bcp and the Mutual Guarantee Societies, in line with the *Programa Operacional Capital Humano* (Human Capital Operational Programme) and the Portuguese Government, through the Foundation for Science and Technology, the University Credit Line with Mutual Guarantee was maintained. This line intends to support access to higher education with the aim of increasing participation and educational qualification. During the first half of 2019, 454 operations were financed, totalling 5,034 thousand Euros and the volume of credit granted to 982 operations in the portfolio totalled 4,467 thousand Euros.

- In Portugal, within the scope of Entities that incorporate the social sector, Millennium bcp keeps available the Non-Profit Association Account, a current account with special conditions that does not require an opening minimum deposit and has no maintenance and overdraft fees. 171 accounts were opened in this period, adding up to 4,526 accounts in total on the Bank's portfolio.

- Millennium bcp joined the "2020 Efficient House", a programme launched by the Portuguese Government and co-funded by the European Investment Bank (EIB), with total funding to be made available by the Bank of 50 million Euros (25 million Euros from the EIB and 25 million Euros from the Bank). The purpose of this program is to grant loans under favourable conditions to operations promoting the improvement of environmental performance of private residences,giving a special attention to energy and hydroelectric energy, as well as to urban waste.

- In the support to investments targeted at the creation of companies by unemployed individuals with subsidized financing conditions, within the scope of the protocol established with Instituto do Emprego e Formação Profissional (IEFP) and with the Mutual Guarantee Companies, the Bank financed, during the 1st six months of 2019, through the credit lines: i) Microinvest Line - 23 entrepreneurs in a total of 335 thousand euros; and ii) Invest+ Line - 17 entrepreneurs, reaching a total amount of 872 thousand euros.

- So as to ease the inclusion of institutions from the third sector in the financial system, a protocol was signed with Instituto de Emprego e Formação Profissional, Cooperativa António Sérgio para a Economia Social and the Mutual Guarantee Societies, defining a credit line – Social Investe – to support social economy. In the first six months of 2019, the Bank maintained 6 operations in the portfolio, with a total value of 221 thousand Euros.

- To support Agriculture and Fishing, the bank remained available to grant funds, under the protocol established with IFAP (Instituto de Financiamento da Agricultura e Pescas), through the credit lines – PRODER/ PROMAR and Short Term IFAP -. Millennium bcp financed 124 operations totalling 8,100 million Euros.

- Under the protocol established between Millennium bcp and Turismo de Portugal, the Bank maintained the credit line that enables companies to invest in projects aimed at the re-qualification of tourism undertakings and at the creation of new tourism undertakings, restaurants and leisure activities. 6 operations were financed, up to a total amount of 1,154 thousand Euros.

- Under the protocols signed with the IAPMEI, PME Investimentos (Line Managing Entity) and the Mutual Guarantee Societies to support investment projects or increase the working capital, the Bank maintained the PME Crescimento Line active. 1,287 operations were financed, up to a total amount of 129,352 thousand Euros.

- The financing Line - INVESTE QREN - in the wake of the protocol signed with the Portuguese State through Instituto Financeiro para o Desenvolvimento Regional (IFDR) and the Mutual Guarantee Societies (SGM), to help companies accessing bank credit, face treasury needs or to implement investment projects, maintained in portfolio 24 operations, totalling an amount of 1,008 thousand euros.

- The Bank also made available the - Linha Capitalizar Mais -, a protocol established between Millennium bcp, the Instituição Financeira de Desenvolvimento (IFD) and the Mutual Guarantee Societies that created a Credit Line with mutual guarantee to finance projects to be implemented in mainland Portugal and in the Autonomous Region of the Azores to help reinforce the entrepreneurial capacity of the SME for the development of goods and services that are innovative in terms of processes, products, organization or marketing. Millennium bcp financed 87 operations totalling 33,867 million Euros in credit.

- The Contact Centre, a channel with great accessibility and close to Clients within the scope of their daily bank relation, enables Clients to access a wide range of bank services in extended working hours, 24/7, 365 days/year by phone. The foreign community residing in Portugal has available an automated and customized service in the English and Spanish languages. With the purpose of achieving an ongoing monitoring of the quality of the service provided, there is also a survey made at the end of the phone calls whose results enable the Bank to define improvements to introduce in the processes and direct the training actions to the issues that, at each moment, are critical.

- Concerning Safety, BCP continues to regularly disclose information to its Clients, alerting to transactions made in remote channels and self-banking, particularly: i) Safety Newsletter issued every three months and handling issues related with the safe utilization of internet and of the website millenniumbcp.pt; ii) the millenniumbcp.pt website has an area devoted to the safe use of internet and of the Bank's remote channels; and iii) APB Online Seafety Forum - establishment of a collaboration with Associação Portuguesa de Bancos (Portuguese Banking Association) in the regular publication of information to increase Client's awareness regarding safety issues, particularly while using internet and mobile banking.

MICROCREDIT

Millennium bcp, materializing its social responsibility policy, strengthened its commitment to the microcredit activity.

Within an economic context that remains to be understood by the Bank as an opportunity to provide support to those who have an entrepreneurial spirit and a feasible business idea by encouraging them, through this solution, to create their own jobs, the strategic priorities of Microcredit have their foundations on the disclosure of this type of financing and promotion of entrepreneurial spirit in the different regions of Portugal, strengthening the leading and reference position of Millennium bcp in this area.

During the 1st six months of 2019, 9 new cooperation agreements for entrepreneurial action and promotion of access to microcredit were concluded.

The Bank carried out 25 information sessions, participated in 10 Entrepreneurship Fairs and held several meetings with municipalities, entrepreneurial associations, counselling and training companies, professional schools, universities and social economy entities. From these, one must point out the following:

- Establishment of Protocols with IC Innovation – Braga, Associação para o Ensino Profissional em Transportes e Logística – Lisboa, Municipality of Santana – Madeira, Qualificar Formação Profissional, Lda – Madeira, Associação Comercial de Braga, Capital Douro - Associação Comercial, Industrial e Serviços de S. João da Pesqueira, Municipality of Peso da Régua, Associação Empresarial de Vila Franca de Xira e Arruda dos Vinhos, Municipality of Sobral de Monte Agraço;

- Participation as speakers on Microcredit in Masters on Social and Solidarity Economy from ISCTE Lisbon, Information session at Incubcenter in Oeiras, "Entrepreneurship and Microcredit" in the wake of a partnership established with the Municipalities of Lamego and Peso da Régua, Workshop for unemployed individuals at Instituto de Emprego e Formação Profissional of Porto, attendance at the Innovation Challenge from the Projects Incubator StartUp Madeira;

- Millennium bcp was part of the final evaluation jury of the Entrepreneurial Ideas Contest from the Project Douro StartUp;

- Presence at the Employment and Entrepreneurship fairs from Universidade da Madeira, (In)forma 2019 of Vila Nova de Gaia, Fair of Qualified Jobs from Universidade de Trás os Montes e Alto Douro.

Millennium bcp Microcredit, created in 2005, is recognized as a full counselling service, with an ongoing follow-up of the Client throughout the duration of the loan agreement. Its social responsibility nature is revealed by a permanent focus on the Client's reality, circumstances and needs.

SHARING AND EDUCATING

- Regular support to institutions through the donation of IT equipment and office furniture that is no longer used, but is in condition to be reused. In this context, the agreement concluded with Entrajuda, the main beneficiary entity, has been maintained. In the first six months of 2019, from amongst computer equipment and furniture, the Bank donated 491 goods to 25 institutions, of which 88 to Entrajuda.

- The event "Portugal Restaurant Week", which counted, once again, with the participation of Millennium bcp, enabled the attribution of financial support to the solidarity institutions Fundação Rui Osório de Castro and Associação Crescer Ser With a donation of one Euro for each "Restaurant Week" menu, the total amount donated exceeded 28,000 euros.

- Culturally speaking, we must point out the 11th edition of Festival ao Largo, which every year presents on stage at Largo de São Carlos a series of shows with the best of opera, ballet and symphonic music. The purpose of this action is to take art to increasingly inclusive audiences, thus contributing for the cultural enrichment of Portugal.

- Support to external solidarity initiatives, namely the project "Vela Sem Limites", an initiative from Clube Naval de Cascais which enables 60 disabled individuals to regularly practice sailing and many other to have their first sea experience.

- Support to external solidarity initiatives, particularly the 10th edition of "Meninos do Céu" in Chaves, an action promoted by the Associations "Les Enfants du Ciel" and "Meninos do Céu" with the support of Banque BCP and of Millennium bcp, wherein approximately 400 children with special needs had the chance of making their first flight.

- In terms of financial management and financial literacy, Millennium bcp contributed to increase the level of financial literacy and the adoption of adequate and informed financial behaviours, helping customers with their family budgets:
  - In its institutional website, the Bank continued to promote the instruments - Savings Centre, Finance Managers and the Kit for unexpected expenses -, which, despite being independent tools, have the same purpose: help clients manage their personal budget. In the website area, M Vídeos, it is also possible to find tutorials and savings suggestions;
  - The Bank continued to regularly share contents related with financial planning at the "Mais Millennium" Facebook page.
  - Also with the goal of stimulating saving habits, the ActivoBank launched a live streaming video App on its Facebook page, called "Conversas Activo" (also available in Youtube), on issues that contribute for an increased knowledge on issues related with the provision of financial services.

- The Bank also participated in the Work Group of Associação Portuguesa de Bancos (Portuguese Bank Association), together with several financial institutions and Instituto de Formação Bancária, whose mission is to develop and support initiatives for the promotion of the financial education of all citizens. From the activity developed in 2019, we must point out another edition of the European Money Week, a digital competition promoted by the European Banking Federation to test the financial literacy of Europe's young people, aged between 13 and 15 years old. In Portugal, APB ensured the participation of more than 3.000 students from 60 schools located throughout the country, sending to the European final, in Brussels, Belgium, the two Portuguese winning students.

- Millennium bcp was also in the first line of emergency response to the victims of the cyclone Idai in Mozambique. To complement the financial aid granted by by the Bank, in the amount of 50.000 Euros, the Employees of Millennium bcp also participated in this collective effort by means of a partnership established with the Association HELPO – an organization which has a recognized work on the field -, by collecting tons of essential goods, especially food and clothes to be donated to the people affected by this natural disaster.

VOLUNTEER ACTIONS

- The Bank continued to collaborate with the Junior Achievement Portugal, a collaboration initiated in 2005 for the development of programmes targeted at entrepreneurial spirit, taste for risk, creativity and innovation, through: i) sponsoring by Fundação Millennium bcp to the StartUp Programme (11th Edition) for university students; and ii) of Millennium bcp, supporting programmes for the basic and secondary education.

  Within the scope of the partnership established with JAP, the Bank received two young students from the initiative "Leader 4 a Day", an initiative whose goal is to bring young people closer to the world of labour, providing them with a practical involvement and experience that enables them to better understand the fundamental skills that companies look for.

- The Bank (Employees and their families) continued to participate in the regular collection of food for the Portuguese Food Bank. Together, about 50 volunteers, employees and their families, gave, in May 2019, their charitable contribution at 7 (of 21) of the warehouses of the Food Bank in Portugal, weighting, separating and packing the donated goods.

- Emphasis should also be given to the M Social Power", a development initiative strategically aligned with a new dimension of the social responsibility of Millennium bcp:promotion of jobs for disabled people. The Bank considers vital the commitment by current and future leaders for the promotion of a more inclusive community. This program's stag implementation will be carried out throughout the last six months of 2019.

PARTNERSHIPS

- The Bank also remained close to universities, creating conditions for the establishment of academic internships. During the first six months of 2017, 58 students had the opportunity to put into practice the knowledge acquired in an academic internship and each all intern was assisted by an experienced tutor who guided him/her in the learning process.

- During the first six months of 2019, the Bank promoted 142 professional traineeships endeavouring to provide, through this contact with the professional life, an opportunity for the professional and personal enrichment of these young people which proves distinctive and able of enhancing their future employability.

- The protection of environment, the preservation of natural resources and the rationalization of consumption are objectives which are part of the substance of the environmental policy of Millennium bcp. This way, by means of a partnership established with the Municipality of Cascais and within the scope of its Forestation Plan, approximately 50 Millennium volunteers, from amongst Employees, their relatives and friends helped to plant 400 trees in Sintra Cascais nature reserve, a distinctive sign of a responsible, close and intervening citizenship.

FUNDAÇÃO MILLENNIUM BCP

The patronage activity of Fundação Millennium bcp aims promoting the creation of social cultural values by collaborating with initiatives that, included in the exercise of the institutional social responsibility of Millennium bcp, produce benefits for society in its several dimensions, namely through the support to projects for expanding access to culture and the diversification of the cultural offer, the carrying out of educational programs of excellence and for their internationalization, acting also as an incentive to scientific research and for the sustainability of social solidarity entities.

Until June 2019, the Foundation provided financial aid to several projects, from which we highlight - within the scope of Culture – the main vocation of the Foundation – the preservation and disclosure of the Bank's art heritage, the following ones with free access:

- Maintenance of the Archaeological Nucleus of Rua dos Correeiros (ANRC) and management of the guided tours, a space that received, until the end of May, time when it closed for rehabilitation works, 3,627 visitors;
- The project "Shared Art" carried out the painting and drawing exhibition "Julio e outros modernistas", at the Gallery Julio - Centro de Memória, of Vila do Conde. This exhibition was open to the public from 25 May to 22 September.

As part of the disclosure of the Bank's art heritage and its own cultural initiatives, the Foundation established a partnership with the General-Directorate of Cultural Heritage (DGPC) and with the Fine Arts College from the University of Lisbon. This partnership is focused on the promotion and disclosure of the art heritage and cultural activities of the Museu Nacional de Arte Contemporânea (MNAC) (Portuguese Museum of Modern Art). This partnership will enable the Foundation to carry out exhibits in a space from MNAC, and the museum will remain in charge of programming and curatorship.

Regarding the promotion of museum activities, recovery of art heritage and other cultural initiatives, we must point out the following:

- Museu Nacional de Arte Antiga (MNAA) (Portuguese museum of ancient art) - support to several projects and activities;
- Museu Nacional de Arte Contemporânea – Museu do Chiado (MNAC) - support to the museum activities;
- Museu Nacional do Azulejo (Portuguese Tile Museum) – support to an educational initiative, part of the initiative Museum Night;
- Palácio Nacional da Ajuda: support to the conservation and restoration works of Room D. João IV;
- Association Castelo D' If - 10th edition of the event "Opening of Artists' Studios ", in Lisbon, consisting in the opening to the public of the work studios of several artists;
- Associação Geração Inabalável: support to the 9th Porto Dance Contest, a competition that intends to disclose, support and attribute awards to young dancers of Classical and Contemporary Ballet.
- Inter municipal Tâmega and Sousa Community - support to the 2019 edition of the Festival Mimo. This festival presents several musical shows, cinema, an educational and children's program, a forum of ideas, a cultural itinerary, "rain of poetry", together with an exhibition with works from the Millennium bcp collection, called "Abstraction". Shared Art Collection Millennium bcp", taking place in Museu Amadeo Souza Cardoso;
- Fundação Cupertino de Miranda - financial aid for the rehabilitation of the head office for the creation of the Portuguese Centre of Surrealism and installation of the Literary Tower with the purpose of turning Famalicão into the Portuguese Centre of Surrealism (3-year protocol);
- Associação Internacional dos Críticos de Arte (AICA) (International Association of Art Critics) - support to the "Visual Arts and Architecture Awards AICA/MC/Millennium bcp", which are attributed every year in Portugal to a visual artist and to an architect;
- SPIRA and Universidade Nova de Lisboa: Support to the Study "Cultural Heritage in Portugal: Evaluation of the Social and Economic Value";
- Carpe Diem Art and Research - Contest "Young Art Fundação Millennium bcp 2019" for students of visual arts;
- AR.CO - Centro Arte Comunicação Visual - support to the making of the catalogue of the exhibition "Tiara - 40 Anos do Departamento de Joalharia do Ar.Co";
- Associação Internacional de Música da Costa do Estoril - support to the 45th Music Festival of Estoril, this year under the theme "The Travel and the Moon";
- Associação de Desenvolvimento Artístico Culturcentro – support to the tour celebrating the 50th anniversary of the career of the pianist Adriano Jordão;
- IFEMA – ARCO Lisboa - Feira Internacional de Arte Contemporânea Arco, support to the Millenium Art Talks, a program for debating and exchanging ideas on international modern art;
- Embassy of Portugal in Maputo – Exhibit "Art and Artists from Mozambique", at Palácio Nacional da Ajuda;
- Embassy of Portugal in China - financial aid for the organization of classical music concerts - Virtuosos Trio Masterpieces Performance, in Beijing and Shanghai;
- BoCA - Biennial of Contemporary Arts - creation and production of new programs and special events portraying different fields of contemporary art;

- Municipality of Leiria – Cycle of Conferences "Diálogos com a Música" (Dialogues with Music) an initiative carried out due to the application of Leiria to the Network of Creative Cities, created by UNESCO to foster cultural diversity;
- Art Fairs – support to the 2nd edition of the fair of modern art JustLX: Lisboa Contemporary Art Fair, at Museum of Carris, a fair composed by 45 galleries from 12 countries. . In this Project, the Foundation is the patron of the Emerging Art Award of Fundação Millennium bcp;
- Inter-municipal community of Tâmega and Sousa - Support to the educational activities of Festival Mimo 2019, which took place from 21 to 28 July in Amarante;
- Municipality of Leiria - Festival a Porta 2019 – the festival consists of a diversified, multidisciplinary, intergenerational and inclusive program with several activities addressed to young people and children. It counted with more than 300 artists, 40 concerts, 36 workshops for the families, a collective exhibition of plastic arts with more than 20 artists, guided tours, creative workshops, 4 theme dinners, theatre, dance, art installations, street activities, art residences. During the ten days, the Festival was visited by more than 16.000 individuals.

Regarding Education and Scientific Research one may, as an example, mention the following initiatives:

- IMM (Instituto de Medicina Molecular de Lisboa) - a project developed by the Centre for the Investigation of Brain Tumours with the purpose of investigating the mechanisms responsible for the surging of brain tumours, especially in children;
- Fundação Rui Osório de Castro: attribution of an award to scientific investigation in the area of paediatric oncology; With the purpose of developing innovative projects and initiatives in this area, able to foster and promote better care for children with an oncology disease, Fundação Rui Osório de Castro created the annual award Rui Osório de Castro Millennium bcp;
- Instituto de História de Arte - College of Social and Human Sciences - Universidade Nova de Lisboa - Investigation scholarships in Art History for the in-depth study of the most important artists who are common to the collection of Millennium bcp and the one of Museu do Chiado;
- Portuguese Centre of Geo-History and Pre-History - support to investigation on palaeobotany;
- Instituto de Biologia Molecular e Celular - support to the investigation on Alzheimer's disease;

- A scholarship program of Fundação Millennium bcp aimed at students from Portuguese-speaking African countries and from Timor (PALOP) The management of these scholarships was entrusted to Instituto Camões by means of a collaboration protocol;
- Universidade Católica Portuguesa – Faculdade de Direito (Faculty of Law) – support given to Master of Laws program;
- Universidade Católica Portuguesa - Health Sciences Institute: support to the Pedipedia project, development of an online paediatric encyclopaedia with the purpose of creating a pedagogical tool to support clinical practices and training in health care; Its recipients are health professionals, parents, caretakers, children and teenagers from Portuguese-speaking countries;
- Geology Museum Fernando Real - financial aid to the several activities carried out in 2019;
- Associação de Teatro Aresta Rebelde - support to the national meeting of Performing Arts Courses;
- Associação Empresários pela Inclusão Social (EPIS) – Educational project for social inclusion, programme "Mediators for academic success". In this edition, the programme was extended to a greater number of locations, thus reaching a higher number of students. Within the scope of this programme, EPIS, in the wake of the European Year of Cultural Heritage, organized a visit to the Archaeological Nucleus of Rua dos Correeiros (NARC) for the 50 top students of the 3rd cycle;
- Fundação Dr. António Cupertino de Miranda - support to the 8th edition of the Financial Literacy project "No Poupar Está o Ganho", (When you save, you gain) a project to increase the pre-school, basic and secondary student's awareness on the importance of money, thus contributing for the acquisition of skills on this theme;
- Universidade do Porto - Astrophysics Centre - support to "AstroCamp", an academic program in the area of astronomy and physics, providing inspiring and high quality training to the participants . The program is intended for students of the secondary education from countries of the European Union who will be selected in accordance with their motivation and academic merit;
- Municipality of Pedrogão Grande -support to "+Future", a project focused on three aspects: Education and Citizenship, Road Safety and Sustainability. It is based on the approach of contents in schools (1st cycle) located in the municipalities of Castanheira de Pêra, Figueiró dos Vinhos and Pedrogão Grande;
- MoneyLab: Financial Education Labs – roadshow the purpose of which is to fill gaps regarding the misinformation that young people have on financial literacy, especially high-school students from private and public

schools. The project contemplates 10 Portuguese districts: Aveiro, Braga, Castelo Branco, Coimbra, Évora, Leiria, Lisboa, Porto, Setúbal and Viseu.

Within the scope of Social Solidarity, the Foundation supported, until this date, actions carried out by different entities, of which we point out:

- APSA - Associação Portuguesa de Síndrome de Asperger (Portuguese Association of the Asperger Syndrome) - support to the program "Employability", for young people/adults with Asperger Syndrome (SA), over 18 years of age; its purpose is providing them with the skills for inclusion in the social and professional life;
- CERCICA - Cooperative for the Education and Rehabilitation of maladjusted individuals from Cascais - support to the activities carried out by this cooperative;
- Portuguese Food Bank – support to food collection campaigns;
- Centre Doutor João dos Santos - support to the 2019 Therapeutic Holiday Camp - the donation made by the Foundation enables supporting the accommodation and food expenses and inclusion in the team of technicians for the development of specific activities. This initiative seeks to provide reference models of co-existence and everyday life to be later on replicated in the usual environment;
- Fundação Portuguesa de Cardiologia - Support to the Month of the Heart;
- AESE Business School – Programme GOS (Management of Social Organizations) – a program developed by means of a partnership established with ENTRAJUDA. The program is intended for the training in management of leaders of entities developing their activities in the social economy sector;
- Apoio à Vida (Support to Life) - help, sheltering and training of teenagers and pregnant women experiencing a fragile economic situation who do not have the conditions to, without help, guarantee the education of their children;

- FAMSER – Associação de Apoio Famílias Desfavorecidas – Projeto GPS - Gerar, Percorrer e Socializar, a specialized residential foster home located in Castro Verde, capable of assisting 30 young people, aged between 12 and 18 years old;
- Associação Terra dos Sonhos (Association Dreamland): "Bolsa com sonhos" - support to the accomplishment of a child' dream or of young people in situations of illness or risk;
- Access to Culture - support for the launching of a website that gathers information on cultural programs suited for individuals with disabilities;
- Associação de Doentes com Lúpus (Association for Lupus patients) – support to activities;
- BUS Association - Social Utility Assets: support for the development of its activities which consist in the collection of useful goods, forwarding them to individuals/families in need.

ENVIRONMENTAL PERFORMANCE

The protection of environment, the preservation of natural resources and the rationalization of consumption are objectives which are part of the substance of the environmental policy of Millennium bcp.

It is within this context that the ongoing optimization, the tangible result of the improvement process that the bank is has undertaking throughout the last years, is based upon a strategy focused on the sustainability and adequate management of the available resources but also in the materialisation of energy efficiency policies, of which an example are some of the actions currently underway, planned or recently completed:

- Production of Solar Energy - the photovoltaic solar energy plant at Taguspark – installed at the end of 2017 – with a power output of around 1 MW, is now fully functioning, being an decisive alternative to the consumption of energy from the public grid.
- LED lighting – a plan to replace fluorescent lights with LED lights in parking areas at Taguspark is underway, which by enabling a 50% reduction of energy consumption for lighting in those areas will continue to optimisation of energy performance in these central buildings;
- Regarding Branches, whenever these are renovated/intervened, the Bank has always installed LED lighting, a step-by-step methodology that has meant a steady decrease of energy consumption in the commercial network;

In addition to these initiatives, the Bank pursues the following:

- Monitoring of consumption, as a form of defining a stricter energy policy according to specific consumption profiles.
- The Bank continued making regular communications on the corporate platforms, the internal campaign - Reduction in Consumptions / Environmental signposting -. This initiative, fundamentally encompassing discretionary consumption of energy, water and paper, aims to contribute to the optimization of the Bank's operating costs, to improve environmental performance - by increasing the adoption of practices by all that allow a more rational use of these resources -, but also to increase the Employees' identification with an organization that has a strong environmental commitment;
- The Green IT programme was also continued, which covers a series of actions designed to identify initiatives and solutions that are reflected in technological and environmental gains. It was within this reference framework that the Bank consolidated the use of webcasting tools (recording a 25% increase when compared with the same period in 2018) and continues to significantly reduce the number of local printings in Divisions (26% less versus the same period in 2018), results that enable the Bank to continue to pursue a culture of sustainable consumption habits that strictly obey to functional needs, reducing costs and waste and optimizing consumed resources;
- Within the scope of technological projects, we must point out the continuance of the "GO Paperless" project, a transformation that is focused on the dematerialisation of operations as a way to innovate and optimize processes by resorting to solutions of production and electronic signature of documents which enabled the Bank to, in the first six months of 2019, save 1,719,379 prints, corresponding to a 13.2% decrease of prints made in branches, if compared with the same period in 2018, providing a monthly average of less 286,563 prints;
- The Bank has been encouraging the Client´s access to basic digital tools (*e-mail*, e-statement, website and App), at the moment the account is opened as using direct marketing actions, enabling the Bank to reach, at the end of the first six months of 2019, the percentage of 70% of active account with an e-statement;
- The performance of the digital overseer, employees that, in each Branch, are responsible for making the entire team aware of the importance of fostering the use of digital solutions by Clients, contributed immensely for the results achieved.

Thus, Millennium bcp thus continues to contribute to cutting the use and circulation of paper, on one hand through regular communication/information actions on the advantages of documental dematerialisation and, on the other, through programmes of migration to – and of binding to – digital solutions.

Regulatory Information

Consolidated financial statements

BANCO COMERCIAL PORTUGUÊS

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE SIX MONTHS PERIODS ENDED 30 JUNE 2019 AND 2018

(Thousands of euros)

	30 June 2019	30 June 2018
Interest and similar income	952,855	935,949
Interest expense and similar charges	(212,782)	(248,294)
NET INTEREST INCOME	740,073	687,655
Dividends from equity instruments	675	620
Net fees and commissions income	342,184	340,214
Net gains / (losses) from financial operations at fair value through profit or loss	(1,371)	16,504
Net gains / (losses) from foreign exchange	30,318	36,792
Net gains / (losses) from hedge accounting operations	(4,192)	1,401
Net gains / (losses) from derecognition of assets and financial liabilities at amortised cost	(9,830)	(22,877)
Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive in	80,612	45,198
Net gains / (losses) from insurance activity	5,467	1,655
Other operating income / (losses)	(105,612)	(103,423)
TOTAL OPERATING INCOME	1,078,324	1,003,739
Staff costs	324,242	289,775
Other administrative costs	166,982	182,674
Amortisations and depreciations	56,957	28,351
TOTAL OPERATING EXPENSES	548,181	500,800
NET OPERATING INCOME BEFORE PROVISIONS AND IMPAIRMENTS	530,143	502,939
Impairment for financial assets at amortised cost	(200,026)	(219,414)
Impairment for financial assets at fair value through other comprehensive income	(139)	3,651
Impairment for other assets	(41,001)	(41,473)
Other provisions	(1,958)	(22,568)
NET OPERATING INCOME	287,019	223,135
Share of profit of associates under the equity method	21,191	41,383
Gains / (losses) arising from sales of subsidiaries and other assets	24,706	11,654
NET INCOME BEFORE INCOME TAXES	332,916	276,172
Income taxes		
Current	(47,437)	(49,905)
Deferred	(73,651)	(21,990)
NET INCOME AFTER INCOME TAXES FROM CONTINUING OPERATIONS	211,828	204,277
Income arising from discontinued or discontinuing operations	13,413	1,750
NET INCOME AFTER INCOME TAXES	225,241	206,027
Net income for the period attributable to:		
Bank's Shareholders	169,779	150,643
Non-controlling interests	55,462	55,384
NET INCOME FOR THE PERIOD	225,241	206,027
Earnings per share (in Euros)		
Basic	0.023	0.020
Diluted	0.023	0.020

BANCO COMERCIAL PORTUGUÊS

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2019 AND 2018 AND 31 DECEMBER 2018

(Thousands of euros)

	30 June 2019	31 December 2018	30 June 2018
ASSETS			
Cash and deposits at Central Banks	3,586,081	2,753,839	2,165,774
Loans and advances to credit institutions repayable on demand	313,410	326,707	240,576
Financial assets at amortised cost			
Loans and advances to credit institutions	971,191	890,033	878,421
Loans and advances to customers	49,564,362	45,560,926	44,834,920
Debt securities	3,378,140	3,375,014	3,103,173
Financial assets at fair value through profit or loss			
Financial assets held for trading	855,686	870,454	1,037,182
Financial assets not held for trading mandatorily at fair value through profit or lc	1,417,907	1,404,684	1,386,407
Financial assets designated at fair value through profit or loss	31,544	33,034	32,938
Financial assets at fair value through other comprehensive income	13,385,951	13,845,625	12,049,794
Assets with repurchase agreement	-	58,252	24,895
Hedging derivatives	207,312	123,054	95,722
Investments in associated companies	421,964	405,082	488,600
Non-current assets held for sale	1,582,654	1,868,458	2,101,478
Investment property	9,712	11,058	12,098
Other tangible assets	712,384	461,276	487,759
Goodwill and intangible assets	214,696	174,395	171,596
Current tax assets	52,478	32,712	26,977
Deferred tax assets	2,798,682	2,916,630	2,938,089
Other assets	1,369,084	811,816	1,023,760
TOTAL ASSETS	80,873,238	75,923,049	73,100,159
LIABILITIES			
Financial liabilities at amortised cost			
Resources from credit institutions	7,231,450	7,752,796	6,985,804
Resources from customers	56,877,433	52,664,687	50,633,675
Non subordinated debt securities issued	1,771,788	1,686,087	1,706,311
Subordinated debt	1,302,023	1,072,105	1,151,701
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	332,002	327,008	340,035
Financial liabilities at fair value through profit or loss	3,514,497	3,603,647	3,716,726
Hedging derivatives	278,927	177,900	192,159
Provisions	314,422	350,832	325,928
Current tax liabilities	9,171	18,547	7,279
Deferred tax liabilities	10,579	5,460	4,406
Other liabilities	1,665,824	1,300,074	1,149,218
TOTAL LIABILITIES	73,308,116	68,959,143	66,213,242
EQUITY			
Share capital	4,725,000	4,725,000	5,600,738
Share premium	16,471	16,471	16,471
Preference shares	-	-	59,910
Other equity instruments	402,922	2,922	2,922
Legal and statutory reserves	240,535	264,608	264,608
Treasury shares	(88)	(74)	(291)
Reserves and retained earnings	793,684	470,481	(292,577)
Net income for the period attributable to Bank's Shareholders	169,779	301,065	150,643
TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS	6,348,303	5,780,473	5,802,424
Non-controlling interests	1,216,819	1,183,433	1,084,493
TOTAL EQUITY	7,565,122	6,963,906	6,886,917
TOTAL LIABILITIES AND EQUITY	80,873,238	75,923,049	73,100,159

Alternative performance measures

The BCP Group prepares financial information in accordance with International Financial Reporting Standards (IFRS) endorsed by European Union. As a complement to that information, the BCP Group uses a set of alternative performance measures that allow monitoring the evolution of its activity over the time. Following the guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA) on October 2015 (ESMA/2015/1415), the BCP Group presents some indicators related to the assessment of profitability and efficiency and the quality of the credit portfolio, among others, which are intended to facilitate comprehension of the evolution of the economic and financial position of the Group. The information presented in this context has not been audited and does not, under any circumstance, replace the financial information prepared in accordance with IFRS. It should also be noted that the definitions and concepts used by the BCP Group for the calculation of these indicators may differ from those used by other entities in the determination of other similar measures and may therefore not be directly comparable. In accordance with the above-mentioned guidelines, alternative performance measures, which are detailed below, are presented together with additional information that reconciles the accounting figures presented in the consolidated financial statements prepared in accordance with IFRS and financial information reflecting the management criteria adopted by the BCP Group. These indicators and their components are also described in more detail in the glossary.

1) Loans to customer (net) / Balance sheet customer funds

Relevance of the indicator: the loans-to-deposits ratio is an indicator of liquidity that allows the evaluation of the Group's retail funding structure.

Euro million

		30 Jun. 19	30 Jun. 18
Loans to customers (net) (1)		52,035	47,141
Balance sheet customer funds (2)		60,698	54,674
	(1) / (2)	85.7%	86.2%

2) Return on average assets (ROA)

Relevance of the indicator: allows measurement of the capacity of the Group to generate results with the volume of available assets.

Euro million

		1H19	1H18
Net income (1)		170	151
Non-controlling interests (2)		55	55
Average total assets (3)		78,000	72,887
	[(1) + (2), annualised] / (3)	0.6%	0.6%

3) Return on average equity (ROE)

Relevance of the indicator: allows assessment of the capacity of the Group to remunerate its shareholders, assessing the level of profitability generated by the funds invested by the shareholders in the Group.

Euro million

	1H19	1H18
Net income (1)	170	151
Average equity (2)	5,973	5,713
[(1), annualised] / (2)	5.7%	5.3%

4) Cost to income

Relevance of the indicator: it allows for the monitoring of the level of efficiency of the Group, evaluating the volume of operating costs (excluding specific items) to generate net operating revenues.

Euro million

	1H19	1H18
Operating costs (1)	548	501
Specific items (2)	22	8
Net operating revenues (3)	1,124	1,057
[(1) - (2)] / (3)	46.8%	46.6%

5) Cost of risk, net of recoveries (expressed in basis points, annualised)

Relevance of the indicator: allows assessment of the quality of the loan portfolio by evaluating the ratio between impairment charges (net of reversals and recoveries of credit and interest) recognised in the period and the stock of loans to customers at the end of that period.

Euro million

	1H19	1H18
Loans to customers at amortised cost, before impairment (1)	54,366	50,186
Loan impairment charges (net of recoveries) (2)	200	221
[(2), annualised] / (1)	74	88

6) Non-performing exposures (NPE) / Loans to customers (gross)

Relevance of the indicator: allows the assessment of the level of credit risk to which the Group is exposed based on the proportion of the NPE loan portfolio in the loans-to-customers portfolio (gross).

Euro million

		30 Jun. 19	30 Jun. 18
Non-Performing Exposures (1)		4,970	6,666
Loans to customers (gross) (2)		54,699	50,468
	(1) / (2)	9.1%	13.2%

7) Coverage of non-performing exposures (NPE) by balance sheet impairment

Relevance of the indicator: it allows the assessment of the level of coverage of the NPE portfolio by balance sheet impairment.

Euro million

		30 Jun. 19	30 Jun. 18
Non-Performing Exposures (1)		4,970	6,666
Loans impairments (balance sheet) (2)		2,664	3,327
	(2) / (1)	53.6%	49.9%

Glossary and alternative performance measures

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.

Commercial gap – loans to customers (gross) minus on-balance sheet customer funds.

Core income - net interest income plus net fees and commissions income.

Core net income - net interest income plus net fees and commissions income deducted from operating costs.

Cost of risk, net (expressed in basis points) - ratio of loans impairment (P&L) accounted in the period to loans to customers at amortised cost and debt instruments at amortised cost related to credit operations before impairment at the end of the period.

Cost to core income - operating costs divided by core income.

Cost to income – operating costs divided by net operating revenues.

Coverage of non-performing exposures by impairments – loans impairments (balance sheet) divided by the stock of NPE.

Coverage of non-performing loans by impairments – loans impairments (balance sheet) divided by the stock of NPL.

Coverage of overdue loans by impairments - loans impairments (balance sheet) divided by overdue loans.

Coverage of overdue loans by more than 90 days by impairments - loans impairments (balance sheet) divided by overdue loans by more than 90 days.

Debt instruments – non-subordinated debt instruments at amortised cost and financial liabilities measured at fair value through profit or loss (debt securities and certificates).

Debt securities placed with customers - debt securities issued by the Bank and placed with customers.

Deposits and other resources from customers – resources from customers at amortised cost and customer deposits at fair value through profit or loss.

Dividends from equity instruments - dividends received from investments classified as financial assets at fair value through other comprehensive income and from financial assets held for trading.

Equity accounted earnings - results appropriated by the Group related to the consolidation of entities where, despite having a significant influence, the Group does not control the financial and operational policies.

Insurance products – includes unit linked saving products and retirement saving plans ("PPR", "PPE" and "PPR/E").

Loans impairment (balance sheet) – balance sheet impairment related to loans to customers at amortised cost, balance sheet impairment associated with debt instruments at amortised cost related to credit operations and fair value adjustments related to loans to customers at fair value through profit or loss.

Loans impairment (P&L) – impairment (net of reversals and net of recoveries - principal and accrual) of financial assets at amortised cost for loans to customers and for debt instruments related to credit operations.

Loans to customers (gross) – loans to customers at amortised cost before impairment, debt instruments at amortised cost associated to credit operations before impairment and loans to customers at fair value through profit or loss before fair value adjustments.

Loans to customers (net) - loans to customers at amortised cost net of impairment, debt instruments at amortised cost associated to credit operations net of impairment and balance sheet amount of loans to customers at fair value through profit or loss.

Loan to Deposits ratio (LTD) – loans to customers (net) divided by deposits and other resources from customers.

Loan to value ratio (LTV) – mortgage amount divided by the appraised value of property.

Net commissions - net fees and commissions income.

Net interest margin (NIM) - net interest income for the period as a percentage of average interest earning assets.

Net operating revenues - net interest income, dividends from equity instruments, net commissions, net trading income, other net operating income and equity accounted earnings.

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

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) of financial assets at amortised cost for loans and advances of credit institutions, impairment of financial assets (at fair value through other comprehensive income and at amortised cost not associated with credit operations), other assets impairment, in particular provision charges related to assets received as payment in kind not fully covered by collateral, investments in associated companies and goodwill of subsidiaries and other provisions.

Other net income – dividends from equity instruments, net commissions, net trading income, other net operating income and equity accounted earnings.

Other net operating income – net gains from insurance activity, other operating income/(loss) and gains/(losses) arising from sales of subsidiaries and other assets.

Overdue loans – total outstanding amount of past due loans to customers (loans to customers at amortised cost, debt instruments at amortised cost associated to credit operations and loans to customers at fair value through profit or loss), including principal and interests.

Overdue loans by more than 90 days – total outstanding amount of past due loans to customers by more than 90 days (loans to customers at amortised cost, debt instruments at amortised cost associated to credit operations and loans to customers at fair value through profit or loss), including principal and interests.

Resources from credit institutions – resources and other financing from Central Banks and resources from other credit institutions.

Return on average assets (Instruction from the Bank of Portugal no. 16/2004) – net income (before tax) divided by the average total assets (weighted average of the average of monthly net assets in the period).

Return on average assets (ROA) – net income (before minority interests) divided by the average total assets (weighted average of the average of monthly net assets in the period).

Return on equity (Instruction from the Bank of Portugal no. 16/2004) – net income (before tax) divided by the average attributable equity + non-controlling interests (weighted average of the average of monthly equity in the period).

Return on equity (ROE) – net income (after minority interests) divided by the average attributable equity, deducted from preference shares and other capital instruments (weighted average of the average of monthly equity in the period).

Securities portfolio - debt instruments at amortised cost not associated with credit operations (net of impairment), financial assets at fair value through profit or loss (excluding the ones related to loans to customers and trading derivatives), financial assets at fair value through other comprehensive income and assets with repurchase agreement.

Spread - increase (in percentage points) to the index used by the Bank in loans granting or fund raising.

Total customer funds - balance sheet customer funds and off-balance sheet customer fund.

Accounts and Notes to the Consolidated Accounts

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE SIX MONTHS PERIODS ENDED 30 JUNE 2019 AND 2018

(Thousands of euros)

	Notes	30 June 2019	30 June 2018
Interest and similar income	2	952,855	935,949
Interest expense and similar charges	2	(212,782)	(248,294)
NET INTEREST INCOME		740,073	687,655
Dividends from equity instruments	3	675	620
Net fees and commissions income	4	342,184	340,214
Net gains / (losses) from financial operations at fair value through profit or loss	5	(1,371)	16,504
Net gains / (losses) from foreign exchange	5	30,318	36,792
Net gains / (losses) from hedge accounting operations	5	(4,192)	1,401
Net gains / (losses) from derecognition of financial assets and liabilities at amortised cost	5	(9,830)	(22,877)
Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive income	5	80,612	45,198
Net gains / (losses) from insurance activity		5,467	1,655
Other operating income / (losses)	6	(105,612)	(103,423)
TOTAL OPERATING INCOME		1,078,324	1,003,739
Staff costs	7	324,242	289,775
Other administrative costs	8	166,982	182,674
Amortisations and depreciations	9	56,957	28,351
TOTAL OPERATING EXPENSES		548,181	500,800
NET OPERATING INCOME BEFORE PROVISIONS AND IMPAIRMENTS		530,143	502,939
Impairment for financial assets at amortised cost	10	(200,026)	(219,414)
Impairment for financial assets at fair value through other comprehensive income	11	(139)	3,651
Impairment for other assets	12	(41,001)	(41,473)
Other provisions	13	(1,958)	(22,568)
NET OPERATING INCOME		287,019	223,135
Share of profit of associates under the equity method	14	21,191	41,383
Gains / (losses) arising from sales of subsidiaries and other assets	15	24,706	11,654
NET INCOME BEFORE INCOME TAXES		332,916	276,172
Income taxes			
Current	30	(47,437)	(49,905)
Deferred	30	(73,651)	(21,990)
NET INCOME AFTER INCOME TAXES FROM CONTINUING OPERATIONS		211,828	204,277
Income arising from discontinued or discontinuing operations	16	13,413	1,750
NET INCOME AFTER INCOME TAXES		225,241	206,027
Net income for the period attributable to:			
Bank's Shareholders		169,779	150,643
Non-controlling interests	44	55,462	55,384
NET INCOME FOR THE PERIOD		225,241	206,027
Earnings per share (in Euros)			
Basic	17	0.023	0.020
Diluted	17	0.023	0.020

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE THREE MONTHS PERIOD BETWEEN 1 APRIL AND 30 JUNE 2019 AND 2018

(Thousands of euros)

	Second quarter 2019	Second quarter 2018
Interest income	480,860	462,851
Interest expense	(103,496)	(120,001)
NET INTEREST INCOME	377,364	342,850
Dividends from equity instruments	629	551
Net fees and commissions income	175,574	172,398
Net gains / (losses) from financial operations at fair value through profit or loss	(10,030)	25,165
Net gains / (losses) from foreign exchange	12,932	18,823
Net gains / (losses) from hedge accounting operations	2,930	1,324
Net gains / (losses) from derecognition of financial assets and liabilities at amortised cost	(4,066)	(7,267)
Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive income	33,463	4,531
Net gains / (losses) from insurance activity	2,728	1,643
Other operating income / (losses)	(76,075)	(79,427)
TOTAL OPERATING INCOME	515,449	480,591
Staff costs	172,015	147,473
Other administrative costs	86,505	93,138
Amortizations and depreciations	30,128	14,151
TOTAL OPERATING EXPENSES	288,648	254,762
OPERATING NET INCOME BEFORE PROVISIONS AND IMPAIRMENTS	226,801	225,829
Impairment for financial assets at amortised cost	(113,118)	(114,526)
Impairment for financial assets at fair value through other comprehensive income	347	2,280
Impairment for other assets	(20,432)	(24,953)
Other provisions	(5,982)	(12,665)
NET OPERATING INCOME	87,616	75,965
Share of profit of associates under the equity method	2,563	21,585
Gains / (losses) from sales of subsidiaries and other assets	8,540	16,797
NET INCOME BEFORE INCOME TAXES	98,719	114,347
Income taxes		
Current	(16,277)	(26,778)
Deferred	(39,362)	4,198
INCOME AFTER INCOME TAXES FROM CONTINUING OPERATIONS	43,080	91,767
Income arising from discontinued or discontinuing operations	(41)	1,750
NET INCOME AFTER INCOME TAXES	43,039	93,517
Net income for the period attributable to:		
Bank's Shareholders	15,936	65,054
Non-controlling interests	27,103	28,463
NET INCOME FOR THE PERIOD	43,039	93,517

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 2019 AND 2018

(Thousands of euros)

	30 June 2019				
				Attributable to	
	Continuing operations	Discontinued operations	Total	Bank's Shareholders	Non-controlling interests
NET INCOME FOR THE PERIOD	211,828	13,413	225,241	169,779	55,462
ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT					
Debt instruments at fair value through other comprehensive income					
Gains / (losses) for the period	202,527	-	202,527	203,785	(1,258)
Reclassification of (gains) / losses to profit or loss	(80,612)	-	(80,612)	(75,224)	(5,388)
Cash flows hedging					
Gains / (losses) for the period	163,285	-	163,285	158,872	4,413
Other comprehensive income from investments in associates and others	11,847	-	11,847	11,781	66
Exchange differences arising on consolidation	4,489	-	4,489	(6,697)	11,186
IAS 29 application					
Effect on equity of Banco Millennium Atlântico, S.A (note 43)	(2,759)	-	(2,759)	(2,759)	-
Fiscal impact	(90,711)	-	(90,711)	(91,135)	424
	208,066	-	208,066	198,623	9,443
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT					
Equity instruments at fair value through other comprehensive income					
Gains / (losses) for the period	(8,904)	-	(8,904)	(9,242)	338
Changes in credit risk of financial liabilities at					
fair value through profit or loss	(391)	-	(391)	(391)	-
Actuarial gains / (losses) for the period					
BCP Group Pensions Fund	(157,627)	-	(157,627)	(157,627)	-
Pension Fund - other associated companies	(3,207)	-	(3,207)	(3,227)	20
Fiscal impact	11,702	-	11,702	11,770	(68)
	(158,427)	-	(158,427)	(158,717)	290
Other comprehensive income / (loss) for the period	49,639	-	49,639	39,906	9,733
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	261,467	13,413	274,880	209,685	65,195

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

(Thousands of euros)

	30 June 2018				
				Attributable to	
	Continuing operations	Discontinued operations	Total	Bank's Shareholders	Non-controlling interests
NET INCOME FOR THE PERIOD	204,277	1,750	206,027	150,643	55,384
ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT					
Debt instruments at fair value through other comprehensive income					
Gains / (losses) for the period	(8,132)	-	(8,132)	(10,957)	2,825
Reclassification of (gains) / losses to profit or loss	(45,198)	-	(45,198)	(44,183)	(1,015)
Cash flows hedging					
Gains / (losses) for the period	59,440	-	59,440	56,898	2,542
Other comprehensive income from investments in associates and others	1,211	-	1,211	1,313	(102)
Exchange differences arising on consolidation	(118,686)	-	(118,686)	(79,517)	(39,169)
IAS 29 application					
Effect on equity of Banco Millennium Atlântico, S.A (note 43)	10,247	-	10,247	10,247	-
Others	(734)	-	(734)	(734)	-
Fiscal impact	(3,948)	-	(3,948)	(3,123)	(825)
	(105,800)	-	(105,800)	(70,056)	(35,744)
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT					
Equity instruments at fair value through other comprehensive income					
Gains / (losses) for the period	2,575	-	2,575	2,606	(31)
Changes in credit risk of financial liabilities at fair value through profit or loss	1,884	-	1,884	1,884	-
Actuarial gains / (losses) for the period					
BCP Group Pensions Fund	26,732	-	26,732	26,732	-
Pension Fund - other associated companies	818	-	818	818	-
Fiscal impact	(18,179)	-	(18,179)	(18,185)	6
	13,830	-	13,830	13,855	(25)
Other comprehensive income / (loss) for the period	(91,970)	-	(91,970)	(56,201)	(35,769)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	112,307	1,750	114,057	94,442	19,615

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE THREE MONTHS PERIOD BETWEEN 1 APRIL AND 30 JUNE 2019 AND 2018

(Thousands of euros)

	Second quarter 2019				
				Attributable to	
	Continuing operations	Discontinued operations	Total	Bank's Shareholders	Non-controlling interests
NET INCOME FOR THE PERIOD	43,080	(41)	43,039	15,936	27,103
ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT					
Debt instruments at fair value through other comprehensive income					
Gains / (losses) for the period	103,244	-	103,244	97,922	5,322
Reclassification of (gains) / losses to profit or loss	(33,463)	-	(33,463)	(30,925)	(2,538)
Cash flows hedging					
Gains / (losses) for the period	99,955	-	99,955	100,726	(771)
Other comprehensive income from investments in associates and others	6,828	-	6,828	6,796	32
Exchange differences arising on consolidation	13,075	-	13,075	(1,486)	14,561
IAS 29 application					
Effect on equity of Banco Millennium Atlântico, S.A (note 43)	(6,395)	-	(6,395)	(6,395)	-
Fiscal impact	(52,711)	-	(52,711)	(52,328)	(383)
	130,533	-	130,533	114,310	16,223
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT					
Equity instruments at fair value through other comprehensive income					
Gains / (losses) for the period	(9,288)	-	(9,288)	(9,288)	-
Changes in credit risk of financial liabilities at fair value through profit or loss	188	-	188	188	-
Actuarial gains / (losses) for the period					
BCP Group Pensions Fund	(157,627)	-	(157,627)	(157,627)	-
Pension Fund - other associated companies	(1,502)	-	(1,502)	(1,522)	20
Fiscal impact	11,851	-	11,851	11,855	(4)
	(156,378)	-	(156,378)	(156,394)	16
Other comprehensive income / (loss) for the period	(25,845)	-	(25,845)	(42,084)	16,239
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD	17,235	(41)	17,194	(26,148)	43,342

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

(Thousands of euros)

	Second quarter 2018				
				Attributable to	
	Continuing operations	Discontinued operations	Total	Bank's Shareholders	Non-controlling interests
NET INCOME / (LOSS) FOR THE PERIOD	91,767	1,750	93,517	65,054	28,463
ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT					
Available-for-sale financial assets					
Gains / (losses) for the period	(83,347)	-	(83,347)	(80,018)	(3,329)
Reclassification of (gains) / losses to profit or loss	(4,531)	-	(4,531)	(3,895)	(636)
Cash flows hedging					
Gains / (losses) for the period	55,557	-	55,557	54,473	1,084
Other comprehensive income from investments in associates and others	(1,537)	-	(1,537)	(1,441)	(96)
Exchange differences arising on consolidation	(28,145)	-	(28,145)	(6,469)	(21,676)
IAS 29 application					
Effect on equity of Banco Millennium Atlântico, S.A (note 43)	2,246	-	2,246	2,246	-
Others	(175)	-	(175)	(175)	-
Fiscal impact	7,111	-	7,111	6,627	484
	(52,821)	-	(52,821)	(28,652)	(24,169)
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT					
Equity instruments at fair value through other comprehensive income					
Gains / (losses) for the period	(696)	-	(696)	(696)	-
Changes in credit risk of financial liabilities at fair value through profit or loss	1,371	-	1,371	1,371	-
Actuarial gains / (losses) for the period					
BCP Group Pensions Fund	26,732	-	26,732	26,732	-
Pension Fund - other associated companies	818	-	818	818	-
Fiscal impact	(14,512)	-	(14,512)	(14,512)	-
	13,713	-	13,713	13,713	-
Other comprehensive income / (loss) for the period	(39,108)	-	(39,108)	(14,939)	(24,169)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD	52,659	1,750	54,409	50,115	4,294

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2019 AND 31 DECEMBER 2018

(Thousands of euros)

	Notes	30 June 2019	31 December 2018
ASSETS			
Cash and deposits at Central Banks	18	3,586,081	2,753,839
Loans and advances to credit institutions repayable on demand	19	313,410	326,707
Financial assets at amortised cost			
Loans and advances to credit institutions	20	971,191	890,033
Loans and advances to customers	21	49,564,362	45,560,926
Debt securities	22	3,378,140	3,375,014
Financial assets at fair value through profit or loss			
Financial assets held for trading	23	855,686	870,454
Financial assets not held for trading mandatorily at fair value through profit or loss	23	1,417,907	1,404,684
Financial assets designated at fair value through profit or loss	23	31,544	33,034
Financial assets at fair value through other comprehensive income	23	13,385,951	13,845,625
Assets with repurchase agreement		-	58,252
Hedging derivatives	24	207,312	123,054
Investments in associated companies	25	421,964	405,082
Non-current assets held for sale	26	1,582,654	1,868,458
Investment property	27	9,712	11,058
Other tangible assets	28	712,384	461,276
Goodwill and intangible assets	29	214,696	174,395
Current tax assets		52,478	32,712
Deferred tax assets	30	2,798,682	2,916,630
Other assets	31	1,369,084	811,816
TOTAL ASSETS		80,873,238	75,923,049
LIABILITIES			
Financial liabilities at amortised cost			
Resources from credit institutions	32	7,231,450	7,752,796
Resources from customers	33	56,877,433	52,664,687
Non subordinated debt securities issued	34	1,771,788	1,686,087
Subordinated debt	35	1,302,023	1,072,105
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	36	332,002	327,008
Financial liabilities at fair value through profit or loss	37	3,514,497	3,603,647
Hedging derivatives	24	278,927	177,900
Provisions	38	314,422	350,832
Current tax liabilities		9,171	18,547
Deferred tax liabilities	30	10,579	5,460
Other liabilities	39	1,665,824	1,300,074
TOTAL LIABILITIES		73,308,116	68,959,143
EQUITY			
Share capital	40	4,725,000	4,725,000
Share premium	40	16,471	16,471
Other equity instruments	40	402,922	2,922
Legal and statutory reserves	41	240,535	264,608
Treasury shares	42	(88)	(74)
Reserves and retained earnings	43	793,684	470,481
Net income for the period attributable to Bank's Shareholders		169,779	301,065
TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS		6,348,303	5,780,473
Non-controlling interests	44	1,216,819	1,183,433
TOTAL EQUITY		7,565,122	6,963,906
TOTAL LIABILITIES AND EQUITY		80,873,238	75,923,049

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 2019 AND 2018

(Thousands of euros)

	30 June 2019	30 June 2018
CASH FLOWS ARISING FROM OPERATING ACTIVITIES		
Interests received	803,113	833,633
Commissions received	434,312	429,982
Fees received from services rendered	58,366	48,247
Interests paid	(198,379)	(235,216)
Commissions paid	(87,850)	(68,721)
Recoveries on loans previously written off	12,209	6,639
Net earned insurance premiums	10,321	10,230
Claims incurred of insurance activity	(3,339)	(4,788)
Payments (cash) to suppliers and employees (*)	(636,206)	(618,970)
Income taxes (paid) / received	(47,405)	(36,205)
	345,142	364,831
Decrease / (increase) in operating assets:		
Receivables from / (Loans and advances to) credit institutions	(80,933)	134,105
Deposits held with purpose of monetary control	-	50,114
Loans and advances to customers receivable / (granted)	(1,421,971)	12,714
Short term trading account securities	129,207	(218,838)
Increase / (decrease) in operating liabilities:		
Loans and advances to credit institutions repayable on demand	36,504	68,854
Deposits from credit institutions with agreed maturity date	(1,442,694)	(554,737)
Loans and advances to customers repayable on demand	2,323,273	2,410,766
Deposits from customers with agreed maturity date	(496,627)	(153,884)
	(608,099)	2,113,925
CASH FLOWS ARISING FROM INVESTING ACTIVITIES		
Dividends received	10,595	62,140
Interest income from financial assets at fair value through other comprehensive income and at amortised co	148,699	151,481
Sale of financial assets at fair value through other comprehensive income and at amortised cost	13,299,793	3,208,409
Acquisition of financial assets at fair value through other comprehensive income and at amortised cost	(28,829,723)	(35,149,869)
Maturity of financial assets at fair value through other comprehensive income and at amortised cost	16,620,939	29,492,156
Acquisition of tangible and intangible assets	(37,151)	(30,260)
Sale of tangible and intangible assets	11,731	3,636
Decrease / (increase) in other sundry assets	(599,932)	482,747
	624,951	(1,779,560)
CASH FLOWS ARISING FROM FINANCING ACTIVITIES		
Aquisition of shares in subsidiaries companies which does not results loss control	75,373	-
Issuance of subordinated debt	197,377	55
Reimbursement of subordinated debt	(9)	(37,319)
Issuance of debt securities	414,698	193,538
Reimbursement of debt securities	(117,092)	(566,771)
Issuance of commercial paper and other securities	152,741	12,975
Reimbursement of commercial paper and other securities	(78,428)	(21,874)
Issue of Perpetual Subordinated Bonds (Additional Tier 1)	396,420	-
Dividends paid	(30,228)	-
Dividends paid to non-controlling interests	(15,502)	(9,088)
Interest paid of the issue of Perpetual Subordinated Bonds (Additional Tier 1)	(9,250)	-
Increase / (decrease) in other sundry liabilities and non-controlling interests (**)	(188,496)	155,689
	797,604	(272,795)
Exchange differences effect on cash and equivalents	4,489	(118,686)
Net changes in cash and equivalents	818,945	(57,116)
Cash (note 18)	566,202	540,608
Deposits at Central Banks (note 18)	2,187,637	1,627,326
Loans and advances to credit institutions repayable on demand (note 19)	326,707	295,532
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	3,080,546	2,463,466
Cash (note 18)	536,807	485,152
Deposits at Central Banks (note 18)	3,049,274	1,680,622
Loans and advances to credit institutions repayable on demand (note 19)	313,410	240,576
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	3,899,491	2,406,350

(*) In the first semester of 2019, this balance includes the amount of Euros 804,000 related to short-term lease contracts and the amount of Euros 1,018,000 related to lease contrats of low value assets.

(**) In the first semester of 2019, this balance includes the amount of Euros 25.733.000 corresponding to payments of lease liabilities' shares of capital.

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS PERIODS ENDED 30 JUNE 2019 AND 2018

(Thousands of euros)

	Share capital	Share premium	Preference shares	Other equity instruments	Legal and statutory reserves	Treasury shares	Reserves and retained earnings	Net income for the period attributable to Bank's Shareholders	Equity attributable to Bank's Shareholders	Non--controlling interests (note 44)	Total equity
BALANCE AS AT 31 DECEMBER 2017	5,600,738	16,471	59,910	2,922	252,806	(293)	(38,130)	186,391	6,080,815	1,098,921	7,179,736
Transition adjustments IFRS 9											
Gross value	-	-	-	-	-	-	(218,184)	-	(218,184)	(36,999)	(255,183)
Taxes	-	-	-	-	-	-	(155,472)	-	(155,472)	6,888	(148,584)
	-	-	-	-	-	-	(373,656)	-	(373,656)	(30,111)	(403,767)
BALANCES AS AT 1 JANUARY 2018	5,600,738	16,471	59,910	2,922	252,806	(293)	(411,786)	186,391	5,707,159	1,068,810	6,775,969
Net income for the period	-	-	-	-	-	-	-	150,643	150,643	55,384	206,027
Other comprehensive income	-	-	-	-	-	-	(56,201)	-	(56,201)	(35,769)	(91,970)
TOTAL COMPREHENSIVE INCOME	-	-	-	-	-	-	(56,201)	150,643	94,442	19,615	114,057
Results application:											
Legal reserve	-	-	-	-	11,802	-	(11,802)	-	-	-	-
Transfers for reserves and retained earnings	-	-	-	-	-	-	186,391	(186,391)	-	-	-
Constitution and acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	5,111	5,111
Dividends from preference shares	-	-	-	-	-	-	(202)	-	(202)	-	(202)
Dividends from other equity instruments	-	-	-	-	-	-	(74)	-	(74)	-	(74)
Dividends (a)	-	-	-	-	-	-	-	-	-	(9,088)	(9,088)
Treasury shares	-	-	-	-	-	2	-	-	2	-	2
Other reserves	-	-	-	-	-	-	892	-	892	45	937
BALANCE AS AT 30 JUNE 2018	5,600,738	16,471	59,910	2,922	264,608	(291)	(292,782)	150,643	5,802,219	1,084,493	6,886,712
Net income for the period	-	-	-	-	-	-	-	150,422	150,422	62,425	212,847
Other comprehensive income	-	-	-	-	-	-	(113,060)	-	(113,060)	20,260	(92,800)
TOTAL COMPREHENSIVE INCOME	-	-	-	-	-	-	(113,060)	150,422	37,362	82,685	120,047
Share capital decrease (note 40)	(875,738)	-	-	-	-	-	875,738	-	-	-	-
Reimbursement of preference shares (note 40)	-	-	(59,910)	-	-	-	373	-	(59,537)	-	(59,537)
Costs related to the share capital decrease	-	-	-	-	-	-	(41)	-	(41)	-	(41)
Constitution and acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	16,248	16,248
Dividends from preference shares	-	-	-	-	-	-	(520)	-	(520)	-	(520)
Dividends from other equity instruments	-	-	-	-	-	-	(75)	-	(75)	-	(75)
Treasury shares	-	-	-	-	-	217	-	-	217	-	217
Gains arising on sale of 10% of Setelote	-	-	-	-	-	-	252	-	252	-	252
Other reserves	-	-	-	-	-	-	596	-	596	7	603
BALANCE AS AT 31 DECEMBER 2018	4,725,000	16,471	-	2,922	264,608	(74)	470,481	301,065	5,780,473	1,183,433	6,963,906
Net income for the period	-	-	-	-	-	-	-	169,779	169,779	55,462	225,241
Other comprehensive income	-	-	-	-	-	-	39,906	-	39,906	9,733	49,639
TOTAL COMPREHENSIVE INCOME	-	-	-	-	-	-	39,906	169,779	209,685	65,195	274,880
Results application (note 47):											
Statutory reserve (note 41)	-	-	-	-	(30,000)	-	30,000	-	-	-	-
Legal reserve (note 41)	-	-	-	-	5,927	-	(5,927)	-	-	-	-
Transfers for reserves and retained earnings	-	-	-	-	-	-	301,065	(301,065)	-	-	-
Dividends payed (note 47)	-	-	-	-	-	-	(30,228)	-	(30,228)	-	(30,228)
Issue of perpetual subordinated bonds (Additional Tier 1) (note 40)	-	-	-	400,000	-	-	-	-	400,000	-	400,000
Interests of the perpetual bonds (Additional Tier 1) (note 40)	-	-	-	-	-	-	(9,250)	-	(9,250)	-	(9,250)
Costs with the issue of the perpetual subordinated bonds (Additional Tier 1)	-	-	-	-	-	-	(3,580)	-	(3,580)	-	(3,580)
Taxes with the issue of the perpetual subordinated bonds (Additional Tier 1)	-	-	-	-	-	-	1,828	-	1,828	-	1,828
Sale of subsidiaries	-	-	-	-	-	-	-	-	-	(16,296)	(16,296)
Dividends (a)	-	-	-	-	-	-	-	-	-	(15,502)	(15,502)
Treasury shares (note 42)	-	-	-	-	-	(14)	-	-	(14)	-	(14)
Other reserves (note 43)	-	-	-	-	-	-	(611)	-	(611)	(11)	(622)
BALANCE AS AT 30 JUNE 2019	4,725,000	16,471	-	402,922	240,535	(88)	793,684	169,779	6,348,303	1,216,819	7,565,122

(a) Dividends of BIM - Banco Internacional de Moçambique, S.A. and SIM - Seguradora Internacional de Moçambique, S.A.R.L.

CHIEF ACCOUNTANT

THE EXECUTIVE COMMITTEE

1. Accounting Policies

A. Basis of presentation

Banco Comercial Português, S.A. Sociedade Aberta (the 'Bank') is a private capital bank, established in Portugal in 1985. It started operating on 5 May 1986, and these 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 months ended 30 June 2019 and 2018.

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and 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 their predecessor bodies. The interim condensed consolidated financial statements and the accompanying notes were approved on 2 August 2019 by the Bank's Executive Committee, and are presented in thousands of euros, rounded to the nearest thousand.

All the references in this document related to any normative always report to current version.

The interim condensed consolidated financial statements for the six-month period ended 30 June 2019 were prepared in terms of recognition and measurement in accordance with the IAS 34 - Interim Financial Reporting adopted by the EU and therefore it does 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 2018.

These interim condensed consolidated financial statements are a translation of financial statements originally issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.

A1. Comparative information

The Group has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1 January 2019. 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 the following standard with reference to 1 January 2019: IFRS 16 - Leases. This standard replaces IAS 17 – Leases and establishes the new requirements regarding the scope, classification/recognition and measurement of leases.

On 1 January 2019, the Group carried out a review of the existing contracts at this date and applied the practical expedient provided in IFRS 16, i.e., the standard was only applied to contracts previously identified as leases in accordance with IAS 17 – Leases and IFRIC 4.

As proposed in IFRS 16, the Group will apply this standard retrospectively, with its transition impacts being recognised on 1 January 2019. This way, comparative information will not be restated.

By applying the practical expedient provided on the transition to IFRS 16, the Group recognised a lease liability at the present value of the remaining lease payments, discounted at an incremental interest rate at the date of initial application and the underlying assets' right-to-use by the lease liability amount.

The impacts arising from the implementation of IFRS 16 with reference to 1 January 2019, as well as the reconciliation between the balance sheet at 31 December 2018 and the balance sheet at 1 January 2019, in accordance with IFRS 16, are detailed in note 57. Application of IFRS 16 - Leases. The balances included in the financial statements as at 31 December 2018 are presented for comparative purposes only.

The Group's financial statements were prepared under the going concern assumption and under the historical cost convention, as modified by the application of fair value for derivative financial instruments, financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income. Financial assets and liabilities that are covered under hedge accounting are stated at fair value in respect of the risk that is being hedged, if applicable. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount or fair value less costs to sell. The liability for defined benefit obligations is recognised as the present value of the past liabilities with pensions net of the value of the fund's assets.

The preparation of the financial statements in accordance with IFRS requires the Executive Committee to make judgments, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates 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 estimates. The issues, involving a higher degree of judgment or complexity or for which assumptions and estimates are considered to be significant are presented in note 1 Z.

B. Basis of consolidation

As from 1 January 2010, the Group began to apply IFRS 3 (revised) for the accounting of business combinations. The changes in the accounting policies resulting from the application of IFRS 3 (revised) are applied prospectively.

The consolidated financial statements now presented reflect the assets, liabilities, income and expenses of the Bank and its subsidiaries (the Group), and the results attributable to the Group financial investments in associates.

B1. Investments in subsidiaries

Subsidiaries are entities controlled by the Group (including structure entities and investment funds). The Group controls an entity when it holds the power to direct the relevant activities of the entity, and when it is exposed or has rights to variable returns from its involvement with the entity and is able to take possession of those 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 booked against the profit and loss account when goodwill is calculated. On a partial disposal resulting in loss of control over a subsidiary, any participation retained is revaluated at market value on the sale date and the gain or loss resulting from this revaluation is booked against the income statement.

B2. Investments in associates

Investments in associated companies are registered by the equity method from the date that the Group acquires significant influence until the date it ceases to exist. Associates are those entities in which the Group has significant influence but not control over the financial and operating policy decisions of the investee. It is assumed that the Group has significant influence when it holds, directly or indirectly, more than 20% or of the voting rights of the investee. If the Group holds, directly or indirectly less than 20% of the voting rights of the investee, it is presumed that the Group does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence by the Group is usually evidenced in one or more of the following ways:

- representation on the Board of Directors or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the Group and the investee;
- interchange of the management team;
- provision of essential technical information.

The consolidated financial statements include the part that is attributable to the Group of the total reserves and results of associated companies accounted on an equity basis. When the Group's share of losses exceeds its interest in the associate, the carrying amount is reduced to zero and recognition of further losses is discontinued except to the extent that the Group has incurred in a legal obligation to assume those 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 booked directly in the income statement.

Positive goodwill arising from acquisitions is recognised as an asset carried at acquisition cost and is not subject to amortisation. Goodwill arising on 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 on an acquisition is recognised directly in the income statement in the year the business combination occurs.

Goodwill is not adjusted due to changes in the initial estimate of the contingent purchase price and the difference is booked 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 recognized 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 recognized at that date.

During this period, the Group should also recognize additional assets and liabilities in case of obtaining new information about facts and circumstances that existed at the acquisition date and that, if they were known by then, would have resulted in the recognition of that assets and liabilities at that time.

The recoverable amount of the goodwill registered in the Group's asset is assessed annually in the preparation of the accounts with reference at 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 between the assets value in use and the market value deducted of selling costs, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

B4. Purchases and dilution of non-controlling interests

The acquisition of the non-controlling interests that does not impact the control position of a subsidiary is accounted as a transaction with shareholders and, therefore, is not recognised additional goodwill resulting from this transaction. The difference between the acquisition cost and the fair value of non-controlling interests acquired is recognised directly in reserves. On this basis, the gains and losses resulting from the sale of controlling interests, that does not impact the control position of a subsidiary, are always recognised against reserves.

B5. Loss of control

The gains and losses resulting from the dilution or sale of a financial position in a subsidiary, with loss of control, are recognised by the Group in the income statement.

B6. Investments in foreign subsidiaries and associates

The financial statements of the foreign subsidiaries and associates of the Group are prepared in their functional currency, defined as the currency of the primary economic environment in which they operate or the currency in which the subsidiaries obtain their income or finance their activity. In the consolidation process, assets and liabilities, including goodwill, of foreign subsidiaries are converted into euros at the official exchange rate at the balance sheet date.

Regarding the investments in foreign operations that are consolidated under the full consolidation or equity methods, for exchange differences between the conversion to Euros of the opening equity at the beginning of the year and their value in Euros at the exchange rate ruling at the balance sheet date for consolidated accounts are charged against consolidated reserves - exchange differences. The changes in fair value resulting from instruments that are designated and qualified as hedging instruments relatedto foreign operations are registered in equity in "Reserves and retained earnings". Whenever the hedge is not fully effective, the ineffective portion is accounted against profit and loss of the year.

The income and expenses of these subsidiaries are converted to Euros at an approximate rate of the rates ruling at the dates of the transactions, and it is used a monthly average considering the initial and final exchange rate 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 presented 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 were adjusted based on the price index from the date of acquisition or the date of the last revaluation until 31 December 2018. The restated values of assets were 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 recorded against the item "Reserves and retained earnings".

B7. Transactions eliminated on consolidation

The balances and transactions between Group's companies, or 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 those entities.

C. Financial instruments (IFRS 9)

C1. Financial assets

C1.1. Classification, initial recognition and subsequent measurement

At the initial recognition, financial assets are classified into one of the following categories:

i) Financial assets at amortized cost;
ii) Financial assets at fair value through other comprehensive income; or
iii) Financial assets at fair value through profit or loss.

The classification is made taking into consideration the following aspects:

- the Group's business model for the management of the financial asset; and
- the characteristics of the contractual cash flows of the financial asset.

Business Model Evaluation

With reference to 1 January 2018, the Group carried out an evaluation of the business model in which the financial instrument is held at the portfolio level, since this approach reflects the best way in which assets are managed and how that information is available to the management. 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 in 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;
-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 – e.g. in which way the compensation depends on the fair value of the assets under management or contractual cash flows received; and
- the frequency, volume and sales periodicity in previous periods, the reasons for those sales and the expectations about future sales. However, sales information should not be considered singly 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 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, the credit risk associated with the amount owed over a given period of time and for other risks and costs associated with the activity (e.g. liquidity risk and administrative costs), and as 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 that:

- 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 which prevent access to assets in case of default - non-recourse asset); and
- characteristics that may change the time value of money.

In addition, an advanced 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 nominalvalue;
- 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 amortized cost

Classification

A financial asset is classified under the category "Financial assets at amortized 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 contractual cash flows and;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The "Financial assets at amortized 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 amortized cost. In addition, they are subject, from their initial recognition, to the measurement of impairment losses for expected credit losses (note C1.5), which are recorded in "'Impairment of financial assets measured at amortised cost".

Interest on financial assets at amortized 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 recorded in the caption "Gains / (losses) with derecognition of financial assets and liabilities at amortised cost".

C1.1. 2. Financial assets at fair value through other comprehensive income

Classification

A financial asset is classified under the category of "Financial assets at fair value through other comprehensive income" if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to both collect contractual cash flows and sell financial assets and;
- the contractual cash flows occurs on specified dates and are solely payments of principal and interest on the principal amount outstanding (SPPI).

In addition, in the initial recognition of an equity instrument that is not held for trading, nor a contingent retribution is recognised by an acquirer in a business combination which applies IFRS 3, 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 for 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 for 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 recorded 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 "Gains or losses on derecognition of financial assets at fair value through other comprehensive income."

Debt instruments at fair value through other comprehensive income are also subject, from their initial recognition, to the measurement of impairment losses for expected credit losses (note C1.5). Impairment losses are recognised in the income statement under "Impairment for financial assets at fair value through other comprehensive income", against Other comprehensive income, and do not reduce the carrying amount of the financial asset in the balance sheet.

Interest, premiums or discounts on financial assets at fair value through other comprehensive income are recognised in "Interest and similar income" based on the effective interest rate method and in accordance with the criteria described in note C3.

Equity instruments at fair value through other comprehensive income are initially recognised at fair value, plus transaction costs, and are subsequently measured at fair value. The changes in the fair value of these financial assets are recorded against Other comprehensive income. Dividends are recognised in profit or losses 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 recorded 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 Bank for its management or the characteristics of its contractual cash flows does 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 measurement or recognition inconsistency (accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different basis.

The Group classified "Financial assets at fair value through profit and loss" in the following captions:

a) Financial assets held for trading

These financial assets are acquired with the purpose of short term selling; on the initial recognition are part of an identified financial instruments portfolio that are managed together and for which there is evidence of short-term profit-taking; or are a derivative (except for hedging derivative).

b) Financial assets not held for trading mandatorily at fair value through profit or loss

This item classifies debt instruments whose contractual cash flows do not correspond only to repayments of principal and interest on the principal amount outstanding (SPPI).

c) Financial assets designated at fair value through profit or loss

This item includes the financial assets that the Group has chosen to designate at fair value through profit or loss to eliminate accounting mismatch.

Initial recognition and subsequent measurement

Considering that the transactions carried out by the Group in the normal course of its business are in market conditions, financial assets at fair value through profit or loss are initially recognised at their fair value, with the costs or income associated with the transactions recognised in profit or loss at the initial moment, with subsequent changes in fair value recognised in profit or loss.

The accrual of interest and the premium / discount (when applicable) is recognised in "Net interest income" based on the effective interest rate of each transaction, as well as the accrual of interest from derivatives associated with financial instruments classified in this category. Dividends are recognised in profit or losses when the right to receive them is attributed.

Trading derivatives with a positive fair value are included under the heading "Financial assets held for trading", 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 to 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 related to impairment) or interest previously recognised should not be restated.

Reclassifications of investments in equity instruments measured at fair value through other comprehensive income, or financial instruments designated at fair value through profit or loss, are not permitted.

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) bellow 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 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 those cash flows to one or more entities (the 'eventual recipients'), the Group shall treat the transaction as a transfer of a financial asset if all of the following three conditions are met:

- There is no obligation of the Group 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 security to the eventual recipients for the obligation to pay them cash flows.
- The Group has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank 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 to 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 rewards of ownership of the financial asset. In this case:

- if the Group transfers substantially all the risks and rewards of ownership of the financial asset, shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;

- if the Group retains substantially all the risks and rewards of ownership of the financial asset, it shall continue to recognize the financial asset;

- if the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it shall determine whether it has retained control of the financial asset. In this case:

a) if the Group has not retained 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 has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

v) The transfer of risks and rewards (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 has retained control (see note iv above) of 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 is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control. In all other cases, the entity has retained control.

Derecognition criteria

In the context of the general principles listed in the prior section and considering that contract modification processes may lead in some circumstances to the derecognition of the original financial assets and recognition of new ones (subject to POCI identification) the purpose of this section is to set the criteria and circumstances that may lead to the derecognition of a financial asset.

The Group considers that a modification in the terms and conditions of a credit exposure will result in derecognition of the transaction and on recognition of a new transaction when the modification translates into at least one of the following conditions:

- Origination of a new exposure that results from a debt consolidation, without any of the derecognised instruments have a nominal amount higher than 90% of the nominal amount of the new instrument;
- Double extension of residual maturity, provided that the extension is not shorter than 3 years compared with the residual maturity at 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:

a) Change of the currency unless the exchange rate between the old and new currencies is pegged or managed within narrow bounds by law or relevant monetary authorities;
b) Deletion or addition of a substantial equity conversion feature to a debt instrument, unless it is not reasonably possible that it will be the exercised over its term;
c) Transfer of the credit risk of the instrument to another borrower, or a significant change in the structure of borrowers within the instrument.

Loans written-off

The Group write off a loan when it does not have reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This registration occurs after all the recovery actions developed by the Group prove to be fruitless. Loans written off are recorded in off-balance sheet accounts.

C1.4. Purchase or originated credit impaired assets

Purchase or originated credit impaired (POCI) assets are credit-impaired assets on initial recognition. An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset.

The two events that lead to the originations 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, that the existence of a significant discount reflects credit losses incurred at the time of its initial recognition.

On initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime expected credit losses (ECL's) are incorporated into the calculation of the effective interest rate (EIR). Consequently, at initial recognition, the gross book value of POCI (initial balances) is equal to the net book value before being recognised as POCI (difference between the initial balance and the total discounted cash flows).

C1.5. Impairment losses

C1.5.1. Financial instruments subject to impairment losses recognition

The Group recognises impairment losses for expected credit losses on financial instruments recorded 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 balance "Impairment for financial assets at amortised cost" (in statement of income).

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 statement of income under "Impairment for financial assets at fair value through other comprehensive income", against other comprehensive income (do not reduce the balance sheet 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 statement of income).

C1.5.2. Classification of financial instruments by stages

	Changes in credit risk from 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: are classified in this stage the operations in which there is no significant increase in credit risk since its initial recognition. Impairment losses associated with operations classified at 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: are classified in this stage 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). Impairment losses associated with operations classified at 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: are classified in this stage the impaired operations. 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 in accordance with the Bank's Rating Master Scale and 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

Customers who meet at least one of the following criteria are considered to be in default:

a) Customers that are in default or with a limit exceeded for more than 90 days above the materiality applicable;
b) Customers subjected to individual analysis of impairment, for which the amount of impairment represents more than 20% of total exposure;
c) Customers submitted to the individual analysis of impairment and for which impairment value exceeds Euros 5 million;
d) Clients declared insolvent;
e) Customers that are subject to judicial recovery, excluding guarantors;
f) Customers with financial difficulties restructured operations for which it is registered at the time of restructuring a higher economic loss to Euros 5 million or 20% of total exposure;
g) Customers with restructured operations by financial difficulties, due for more than 45 days above the customer applicable materiality considering all its the credit operations;
h) Customers that have a recurrence of operations restructured due to financial difficulties within 24 months from the default resulting from the previous restructuring. If, from the previous restructuring, it did not result in default, the 24 months count from the previous restructuring;
i) Customers whose part or all of their exposure was sold with a loss greater than 20% or Euros 5 million (excluding sales that results from balance sheet management decision and not from disposal of problem loans);
j) Customers taking place a new sale with loss, regardless of the amount, during a period of 24 months as from the triggering of the previous sale;
k) Guarantors of operations overdue with more than 90 days above the defined materiality, since that the respective guarantee has been activated;
l) Cross default at the BCP Group level;
m) Customers with restructured operations at a lower interest rate than the refinancing rate of the European Central Bank (unproductive credit).

Customers are considered to have objective signs of impairment (i.e. Impaired):

i) Customers in default, i.e. marked as grade 15 on the Bank's Rating Master Scale;
ii) Customers who submitted to a questionnaire for analysis of financial difficulties indications are considered with objective signs of impairment;
iii) Customers whose contracts values are due for more than 90 days, represent more than 20% of its total exposure in the balance sheet;
iv) The Non-Retail customers with one or more contracts in default for more than 90 days and whose total overdue amount exceeds Euros 500;
v) The Retail customers contracts in default for more than 90 days and in which the overdue amount exceeds Euros 200;
vi) Contracts restructured due to financial difficulties in default for more than 30 days and in which the overdue amount exceeds Euros 200.

C1.5.5. Estimates of expected credit losses - Individual analysis

1. Clients who are in one of the following conditions are subject to individual analysis:

<table>
<tr><td rowspan="2">Customers in default</td><td>Customers in litigation or insolvency since the total exposure of the group members in these situations exceed Euros 1 million</td></tr>
<tr><td>Customers integrated into groups with an exposure of more than Euros 5 million, since they have a risk grade15</td></tr>
<tr><td rowspan="5">Groups or Customers who are not in default</td><td>Other customers belonging to groups in the above conditions</td></tr>
<tr><td>Groups or Customers with exposure of more than Euros 5 million since a group member has a risk grade14</td></tr>
<tr><td>Groups or customers with exposure of more than 5 million euros, since a member of the Group have a restructured loan and a risk grade 13</td></tr>
<tr><td>Groups or customers with exposure of more than Euros 10 million, since at least one member of the group is in stage 2</td></tr>
<tr><td>Groups or customers, not included in the preceding paragraphs, the exposure exceeds Euros 25 million</td></tr>
</table>

2. Regardless of the criteria described in the previous point, the individual analysis is only performed for customers with a credit exposure in excess of Euros 500,000, not considering customers with exposure below this limit for the purpose of determining the exposure referred to in the previous point.

3. Other customers, that do not meet the criteria above, will also be subject to individual analysis if under the following conditions:

i) Have impairment as a result of the latest individual analysis; or
ii) According to recent information, show a significant deterioration in risk levels; or
iii) are Special Purpose Vehicle (SPV);

4. The individual analysis includes the following procedures:

- For customers 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 the effect 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 managing director of customers and the Credit Department, the latter with respect to the customers managed by the Commercial Networks.

Impairment losses on individually assessed loans were determined by an evaluation of the exposures on a case-by-case basis. For each loan considered individually significant, the Group assessed, at each balance sheet date, the existence of any objective evidence of impairment. In determining such impairment losses on individually assessed loans, the following factors were considered:

- Group's aggregate exposure to the customer and the existence of overdue loans;
- the viability of the customer's business and capability to generate sufficient cash flow to service their debt obligations in the future;
- the existence, nature and estimated value of the collaterals associated to each loan;
- a significant downgrading in the customer's rating;
- the assets available on liquidation or insolvency situations;
- the ranking of all creditors claims;
- the amount and timing of expected receipts and recoveries.

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 estimate 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 as to the expected recovery estimate 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 estimate is based on the realization of the collateral), the impact of the macroeconomic scenario on collaterals should be analysed, for example, to what extent the projected real estate index allows anticipate significant changes to the current valuation values.

10. It is the responsibility of the units referred to in point 5 to consider in their projection macroeconomic expectations that may influence the recoverability of the debt.

11. For the purposes of the preceding paragraphs, the Studies, Planning and ALM Department shall disclose the macroeconomic data that allow the estimates to be made.

12. The decision to consider global impacts related to the going and gone concern scenarios should be made by the Risk Committee, as proposed by the Risk Office.

13. For specific cases with a high degree of uncertainty, the allocation of alternative scenarios should be considered casuistically. Examples of recovery situations with a degree of uncertainty include:

- Recovery of collateral in geographies in which the Bank has no relevant recovery experience;
- Recovery of debt related to geographies in which there is a strong political instability;
- Recovery of non-real estate collateral for which there is no evidence of market liquidity;
- Recovery of related collateral or government guarantees in a currency other than the country's own;
- Recovery of debt related to debtors for whom there is a strong negative public exposure.

14. The Risk Office is responsible for reviewing the information collected and for clarifying all identified inconsistencies, which is the final decision on the Customer's impairment.

15. Customers that have objective signs of impairment, but an individual impairment amount is equal to zero, are included in the collective analysis, assuming a PD 12 months equivalent to the risk grade of the customer.

16. The individual impairment analysis must be carried out at least annually. In case of significant signs of deterioration or improvement in the customer's economic and financial situation are detected, as well as the macroeconomic conditions affecting the customer's ability to accomplish debt, it is the responsibility of the Risk Office to promote the review anticipated impairment of this Customer.

C1.5.6. Estimates of expected credit losses - Collective analysis

Transactions that are not subject to an individual impairment analysis are grouped considering their risk characteristics and subject to a collective impairment analysis. The Group's credit portfolio is divided by internal risk grades and according to the following segments:

a) Segments with a reduced history of defaults, designated "low default": Large corporate exposures, Project finance, Institutions (banks / financial institutions) and Sovereigns;

b) Segments not "low default": - Retail: Mortgages; Overdrafts; Credit cards; Small and medium enterprises - Retail ("SME Retail"); and others. - Corporate: Small and medium enterprises - Corporate ("Large SME"); and Real Estate.

The Group performs statistical tests in order to prove the homogeneity of the segments mentioned above, with a minimum period of one year.

Expected credit losses are estimates of credit losses that are determined as follows:

- Financial assets with no signs of impairment at the reporting date: the present value of the difference between the contractual cash flows and the cash flows that the Group expects to receive;
- Financial assets with impairment at the reporting date: the difference between the gross book value and the present value of the estimated cash flows;
- Unused credit commitments: the present value of the difference between the resulting contractual cash flows if the commitment is made and the cash flows that the Group expects to receive;
- Financial guarantees: the current value of the expected repayments less the amounts that the Group expects to recover.

The main inputs used to measure ECLs on a collective basis should include the following variables:

- Probability of Default – PD;
- Loss Given Default – LGD; and
- Exposure at Default – EAD.

These parameters are obtained through internal statistical models and other relevant historical data, considering the already existing regulatory models adapted to the requirements of IFRS 9.

PDs are estimated based on a certain historical period and will be calculated based on statistical models. These models are based on internal data including both quantitative and qualitative factors. If there is a change in the risk of the counterparty or exposure, the estimate of the associated PD will also vary. The PDs will be calculated considering the contractual maturities of exposures.

The risk grades are a highly relevant input for determining the PD's associated with each exposure.

Group collects performance and default indicators about their credit risk exposures with analysis by types of customers and products.

LGD is the magnitude of the loss that is expected to occur if exposure goes into default. The Group estimates the LGD parameters based on the historical recovery rates after entry into counterparty defaults. The LGD models consider the associated collaterals, the counterparty activity sector, the default time, as well as the recovery costs. In the case of contracts secured by real estate, it is expected that the LTV (loan-to-value) ratios are a parameter of high relevance in the determination of LGD.

The EAD represents the expected exposure if the exposure and / or customer defaults. The Group obtains the EAD values from the counterparty's current exposure and potential changes to its current value as a result of the contractual conditions, including amortizations and prepayments. For commitments and financial guarantees, the value of the EAD will consider both the amount of credit used and the expectation of future potential value that may be used in accordance with the agreement.

As described above, with the exception of financial assets that consider a 12-month PD as they do not present a significant increase in credit risk, the Group will calculate the ECL value considering the risk of default during the maximum contractual maturity period of the contract, even if, for the purpose of risk management, it is considered to be a longer period. The maximum contractual period shall be considered as the period up to the date on which the Group has the right to require payment or end the commitment or guarantee.

The Group adopted as a residual term criterion for renewable operations, when in stage 2, a term of 5 years. This term was determined based on the behavioural models of this type of products applied by the Bank in the liquidity risk and interest rate (ALM) analysis. According to these models, the maximum period of repayment of these operations is the 5 years considered conservatively in the scope of the calculation of credit impairment.

The Group uses models to forecast the evolution of the most relevant parameters to the expected credit losses, namely probability of default, which incorporate forward-looking information. This incorporation of forward-looking information is carried out in the relevant elements considered for the calculation of expected credit losses (ECL).

The PD point in time (PDpit) considered for the determination of the probability of performing exposures at the reference date becoming defaulted exposures considers the expected values (in each scenario considered in the ECL calculation) for a set of macroeconomic variables. These relationships were developed specifically based on the Bank's historical information on the behaviour of this parameter (PDpit) in different economic scenarios and are different by customer segment and risk grade.

C2. Financial liabilities

C2.1. Classification, initial recognition and subsequent measurement

At initial recognition, financial liabilities are classified in one of the following categories:

- Financial liabilities at amortised cost;
- Financial liabilities at fair value through profit or loss.

C2.1.1. Financial liabilities at fair value through profit or loss

Classification

Financial liabilities classified under "Financial liabilities at fair value through profit or loss" include:

a) Financial liabilities held for trading

In this balance are classified the issued liabilities with the purpose of repurchasing it in the near term, the ones that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or is a derivative (except for a derivative classified as hedging instrument).

b) Financial liabilities designated at fair value through profit or loss

The Group may irrevocably assign a financial liability at fair value through profit or loss at the time of its initial recognition if at least one of the following conditions is met:

- the financial liability is managed, evaluated and reported internally at its fair value; or
- the designation eliminates or significantly reduces the accounting mismatch of transactions.

Initial recognition and subsequent measurement

Considering that the transactions carried out by the Group in the normal course of its business are made in market conditions, financial liabilities at fair value through profit or loss are initially recognised at fair value with the costs or income associated with the transactions recognised in profit or loss at the initial moment.

Subsequent changes in the fair value of these financial liabilities are recognized 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 on "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, where appropriate, from the accumulated amount of income recognised according with IFRS 15 - Revenue recognition.

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, Resources from customers and subordinated and non-subordinated debt securities.

Initial recognition and subsequent measurement

Financial liabilities at amortized cost are initially recognised at fair value, plus transaction costs, and are subsequently measured at amortized cost. Interests on financial liabilities at amortized cost are recognised on "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 they are cancelled or extinct.

C3. Interest Recognition

Interest income and expense for 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. The interest at the effective rate related to financial assets at fair value through other comprehensive income are 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 (for example: 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.

Interests 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 amortized cost, before deducting the respective impairment. For financial assets included in stage 3, interests are 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 interests are recognised on the amortized cost (net of impairment) in subsequent periods.

For purchase or originated credit impaired assets (POCIs), 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 set forth in IAS 39.

The Group designates derivatives and other financial instruments to hedge its exposure to interest rate and foreign exchange risk, resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative hedging instruments are stated at fair value and gains and losses on revaluation are recognised in accordance with the hedge accounting model adopted by the Group. A hedge relationship exists when:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is valuable in a continuous basis and highly effective throughout the reporting period; and
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge foreign exchange variations arising from monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated to the derivative is recognised through profit and loss, as well as changes in currency risk of the monetary items.

C4.1. Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments are recognised in profit and loss, together with changes in the fair value attributable to the hedged risk of the asset or liability or group of assets and liabilities. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative gains and losses due to variations of hedged risk linked to the hedge item recognised until the discontinuance of the hedge accounting are amortised through profit and loss over the residual period 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 IFRS 9, effectiveness has to 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 are 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 where 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

The Group has four residential mortgage credit securitizations operations (Magellan Mortgages No.1, No.2, No.3 and No.4) which portfolios were accounted derecognized of the individual balance of the Bank, as the residual notes of the referred operations were sold to institutional investors and consequently, the risks and the benefits were substantially transferred.

With the purchase of a part of the residual note, the Group maintained the control of the assets and the liabilities of Magellan Mortgages No.2 and No.3, these Special Purpose Entities (SPE or SPV) are consolidated in the Group Financial Statements, in accordance with accounting policy referred in note 1 B.

The four operations are traditional securitizations, where each mortgage loan portfolio was sold to a Portuguese Loan Titularization Fund, which has financed this purchase through the sale of titularization units to a SPE with office in Ireland. At the same time this SPE issued and sold in the capital markets a group of different classes of bonds.

D2. Synthetic securitizations

The Group has two synthetic operations. Caravela SME No.3, which operation started on 28 June 2013, based on a medium and long term loans portfolio of current accounts and authorized overdrafts granted by BCP, mainly to small and medium companies.

Caravela SME No.4 is a similar operation, initiated on 5 June 2014, which portfolio contains car, real estate and equipment leasing granted between the Bank and a group of clients that belong to the same segment (small and medium companies).

In both operations, the Group hired a Credit Default Swap (CDS) with a Special Purpose Vehicle (SPV), buying by this way the protection for the total portfolio referred. Both cases, the synthetic securitizations, the same CDS, the risk of the respective portfolios were divided in 3 classes: senior, mezzanine and equity. The mezzanine and part of the equity (20%) were placed in the market through an SPV, and the subscription by investors, the Credit Linked Notes (CLNs). The Group retained the senior risk and part of the equity remaining (80%). The product of the CLNs issue was invested by the SPV in a deposit which total collateral the responsibilities in the presence of the Group, in accordance of the CDS.

E. Equity instruments

A financial instrument is an equity instrument only if i) the instrument includes no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity and ii) if the instrument will or may be settled in the issuer's own equity instruments, it is either a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments or a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

An equity instrument, independently from its legal form, evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instruments' issuance are recognised in equity as a deduction to the amount issued. Amounts paid or received related to sales or acquisitions of equity instruments are recognised in equity, net of transaction costs.

Preference shares issued by the Group are considered as an equity instrument when redemption of the shares is solely at the discretion of the Group and dividends are paid at the discretion of the Group.

Income from equity instruments (dividends) are recognised when the obligation to pay is established and are deducted to equity.

F. Securities borrowing and repurchase agreement transactions

F1. Securities borrowing

Securities lent under securities lending arrangements continue to be recognised in the balance sheet and are measured in accordance with the applicable accounting policy. Cash collateral received in respect of securities lent is recognised as a financial liability. Securities borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense (net interest income).

F2. Repurchase agreements

The Group performs acquisition/sale of securities under reselling/repurchase agreements of securities substantially equivalent in a future date at a predetermined price ('repos'/'reverse repos'). The securities related to reselling agreements in a future date are not recognised on the balance sheet. The amounts paid are recognised in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralised by the related securities. Securities sold through repurchase agreements continue to be recognised in the balance sheet and are revaluated in accordance with the applicable accounting policy. The amounts received from the proceeds of these securities are considered as deposits from customers and deposits from credit institutions. The difference between the acquisition/sale and reselling/repurchase conditions is recognised on an accrual basis over the period of the transaction and is included in interest income or expenses.

G. Non-current assets held for sale and Discontinued or discontinuing operations

Non-current assets, groups of non-current assets held for sale (groups of assets together with related liabilities that include at least a non-current asset) and discontinued operations are classified as held for sale when it is intention to sell the referred assets and liabilities and when the referred assets or group of assets are available for immediate sale, subject to the terms of sale usually applicable to these types of assets, and its sale is highly probable, in accordance with IFRS 5. In order for the sale to be considered highly probable, the Group must be committed to a plan to sell the asset (or disposal group) and must have been initiated an active program to locate a buyer and complete the plan. In addition, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. Furthermore, it should be expected the sale to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9 of IFRS 5, and that the Group remains committed to the asset sales plan and the delay is caused by events or circumstances beyond its control.

The Group also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to its subsequent disposal, which are available for immediate sale and its sale is highly probable. Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and fair value less costs to sell.

Discontinued operations and the subsidiaries acquired exclusively with the purpose to sell in the short term are consolidated until the moment of its sale.

G1. Non-operating real estate (INAE)

The Group also classifies non-current assets held for sale the non-operating real estate (INAE), which include properties acquired by the Group as a result of the resolution of customer credit processes, as well as own properties that are no longer used by the Group's services.

Properties held by real estate companies and real estate investment funds, which are part of the Group's consolidation perimeter, whose capital or units acquired by the Group as a result of the recovery loans are treated as INAE.

At the time of acquisition, real estate classified as INAE is recognised at the lower of the value of the loans existing on the date on which the recovery occurs or the judicial decision is formalised, and the fair value of the property, net of estimated costs for sale. Subsequent measurement of INAE is made at the lower of their book value and the corresponding fair value, net of the estimated costs for their sale and are not subject to amortization. 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 CMVM.

The principles used to determine the net fair value of selling costs of a property apply, whenever possible, to real estate similar to INAE held by Real Estate Companies and Real Estate Investment Funds for the purpose of consolidating Group accounts.

Whenever the net fair value of the selling costs calculated for an INAE is less than the amount by which the same is recognized 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 Bank may reflect that gain up to the maximum of the impairment that has been recorded on that property.

H. Lease transactions (IFRS 16)

As described in note 1 A. Basis of Presentation, the Group adopted IFRS 16 – Lease transactions on 1 January 2019, replacing IAS 17 – Lease transactions, which was in force until 31 December 2018. The Group did not adopt any of the requirements of IFRS 16 in prior periods.

This standard establishes the new requirements regarding the scope, classification/recognition and measurement of leases:

- from the lessor's perspective, leases will continue to be classified as finance leases or operating leases;
- from the lessee's perspective, the standard defines a single model of accounting for lease contracts, which results in the recognition of a right-of-use asset and a lease liability for all leases, except for those which the lease term ends within 12 months or for those which the underlying asset is of low value and, in these cases, the lessee may opt for the exemption from recognition under IFRS 16, and shall recognise the lease payments associated with those leases as an expense.

The Group will choose not to apply this standard to short-term lease contracts, i.e. contracts with a term shorter than or equal to one year, and to lease contracts in which the underlying asset's value is below Euros 5,000. Additionally, this standard won't be applied to leases of intangible assets.

Lease definition

The new lease definition focusses on the control of the identified asset, establishing that a contract constitutes or contains a lease if it carries the right to control the use of an identified asset, i.e. the right to obtain substantially all the economic benefits of using it, and the right to choose how to use the identified asset over a period in exchange of a payment.

Impacts from the lessee's perspective

The Group recognise for all leases, except for those with a term under 12 months or for low value underlying asset leases:

- a right-of-use asset initially measured at cost must consider the Net Present Value (NPV) of the lease liability plus the value of payments made (fixed and/or variable), deducted from any lease incentives received, penalties for terminating the lease (if reasonably certain), as well as any cost estimates to be supported by the lessee with the dismantling and removal of the underlying asset and/or with the recovery of its location. Subsequently, it will be measured according to the cost model (subject to depreciations/amortisations and impairment tests);

- a lease liability initially recorded at the present value of the remaining lease payments (NPV), which includes:
    - fixed payments deducted from any lease incentives receivable;
    - variable lease payments that depend on a rate or an index, initially measured considering the rate or index as at the commencement date;
    - amounts expected to be paid by the lessee under residual values guarantees;
    - the exercise price of a purchase option, if the lessee is reasonably certain to exercise that option;
    - payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to end the lease.

Since it is not possible to easily determine the implicit interest rate in the lease (paragraph 26 of IFRS 16), lease payments are discounted according to the lessee's incremental borrowing rate, which embodies the risk-free rate curve (swap curve) plus the Group's spread of risk, applied over the weighted average term of each lease contract. For contracts with term, that date is considered as the end of lease date, while for contracts without term it is assessed the date in which the contract is enforceable. In the evaluation of enforceability, it is considered the particular clauses of the contracts, as well as the current law on Urban Leases.

Subsequently, lease payments are measured as follows:
- by increasing their carrying amount to reflect interest;
- by reducing their carrying amount to reflect lease payments;
- carrying amount shall be remeasured to reflect any leases' revaluations or changes, as well as to reflect the review of in-substance fixed payments and the review of the lease term.

The Group remeasures the lease liability (and makes a corresponding adjustment to the right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using the revised discount rate;

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used.

- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using the revised discount rate.

The Group did not make any adjustment during the periods presented.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If the lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right -of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The implementation of this standard implies changes in the Group's financial statements, as referred in note 57, 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 "Amortizations and depreciations" the depreciation expenses related to right-to-use assets.
- in the consolidated balance sheet:
  (i) recording in "Financial assets at amortised cost – Loans and advances to customers" the recognition of financial assets related to sublease operations measured accordingly to IFRS 9;
  (ii) recording in "Other tangible assets" the recognition of right-to-use assets; and,
  (iii) recording in "Other liabilities" the amount of recognized lease liabilities.
- in the consolidated statement of cash flows, the balance "Cash flows arising from operating activities – Payments (cash) to suppliers and employees" includes amounts related to short-term lease contracts and to lease contracts of low-value assets, and the balance "Cash flows arising from financing activities - Decrease in other sundry liabilities and non-controlling interests" includes amounts related to payments of lease liabilities' capital portions, as detailed in the Interim condensed consolidated statement of cash flows.

Impact from the lessor's perspective

In accordance with IFRS 16, lessors will continue to classify leases as finance or operational leases, which does not imply significant changes to what is defined in IAS 17.

Subleases

A sublease implies that the lessee establishes a lease contract with a third party, which acts as an intermediary, and the lease contract with the original lessor is kept in force.

IFRS 16 – Leases requires that the lessor evaluates subleases regarding right-to-use and not regarding the underlying asset.

The sublease's lessor, simultaneously lessee regarding the original lease, shall recognize an asset in the financial statement – a right-to-use related to the initial lease (if the lease is classified as operating) or a financial asset, measured according to IFRS 9, related to the sublease (if the lease is classified as financing).

If the initial lease is a short-term lease, the sublease shall be classified as an operating lease.

I. Lease transactions (IAS 17)

Until 31 December 2018, and in accordance with IAS 17, the lease transactions were classified as financial whenever their terms transferred substantially all the risks and rewards associated with the ownership of the property to the lessee. The remaining leases were classified as operational. The classification of the leases was done according to the substance and not the form of the contract.

I1. Finance lease transactions

At the lessee's perspective, finance lease transactions were recorded at the beginning as an asset and liability at fair value of the leased asset, which was equivalent to the present value of the future lease payments. Lease rentals are a combination of the financial charge and the amortisation of the capital outstanding. The financial charge is allocated to the periods during the lease term to produce a constant periodic rate of interest on the remaining liability balance for each period.

At the lessor's perspective, assets held under finance leases were recorded in the balance sheet as a receivable at an amount equal to the net investment in the lease. Lease rentals were a combination of the financial income and amortization of the capital outstanding. Recognition of the financial result reflected a constant periodical return rate over the remaining net investment of the lessor.

Assets received arising from the resolution of leasing contracts and complying with the definition of assets held for sale classified in this category, were measured in accordance with the accounting policy defined in note 1 G.

I2. Operational leases

At the lessee's perspective, the Group had various operating leases for properties and vehicles. The payments under these leases were recognised in Other administrative costs during the life of the contract, and neither the asset nor the liability associated with the contract was evidenced in its balance sheet.

J. Recognition of income from services and commissions

Income from services and commissions are recognised according to the following criteria:

- when are earned as services are provided, are recognised in income over the period in which the service is being provided;
- when are earned on the execution of a significant act, are recognised as income when the service is completed.

Income from services and commissions, that are an integral part of the effective interest rate of a financial instrument, are recognised in net interest income.

K. Net gains / (losses) from financial operations at fair value through profit or loss, Net gains / (losses) from foreign exchange, Net gains / (losses) from hedge accounting, Net gains / (losses) from derecognition of assets and liabilities at amortised cost and Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive income

These balances include gains and losses arising from financial assets and liabilities at fair value through profit and loss, that is, fair value changes and interest on trading derivatives and embedded derivatives, as well as the corresponding dividends received. This balance also includes the gains and losses arising from the sale of financial assets at fair value through other comprehensive income and financial assets and financial liabilities at amortised cost. The changes in fair value of hedging derivatives and hedged items, when fair value hedge is applicable, are also recognised in this balance, as well as the net gains or losses from foreign exchange.

L. Fiduciary activities

Assets held in the scope of fiduciary activities are not recognised in the Group's consolidated financial statements. Fees and commissions arising from this activity are recognised in the income statement in the period in which they occur.

M. Other tangible assets

Other tangible assets are stated at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognised as a separate asset only when it is probable that future economic benefits will result for the Group. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred under the principle of accrual-based accounting.

Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Buildings	50
Expenditure on freehold and leasehold buildings	10
Equipment	4 to 12
Other tangible assets	3

Whenever there is an indication that a fixed tangible asset might be impaired, its recoverable amount is estimated and an impairment loss shall be recognised if the net value of the asset exceeds its recoverable amount. The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use calculated based on the present value of future cash-flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life. The impairment losses of the fixed tangible assets are recognised in profit and loss for the period.

N. Investment property

Real estate properties owned by the Group are recognised as Investment properties considering that the main objective of these buildings is the capital appreciation on a long term basis and not its sale in a short term period, or its maintenance for own use.

These investments are initially recognised at its acquisition cost, including the transaction costs and subsequently revaluated at its fair value. The fair value of the investment property should reflect the market conditions at the balance sheet date. Changes in fair value are recognised in results as "Other operating income / (losses)" (note 6).

The experts responsible for the valuation of the assets are properly certified for that purpose, being registered in CMVM.

O. Intangible assets

O1. Research and development expenditure

The Group does not capitalise any research and development costs. All expenses are recognised as costs in the period in which they occur.

O2. Software

The Group accounts, as intangible assets, the costs associated to software acquired from external entities and depreciates them on a straight line basis by an estimated lifetime of three years. The Group does not capitalise internal costs arising from software development.

P. Cash and equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the balance sheet date, including cash and deposits with Central Banks and loans and advances to credit institutions.

Q. Offsetting

Financial assets and liabilities are offset and recognised at their net book value when: i) the Group has a legal right to offset the amounts recognised and transactions can be settled at their net value; and ii) the Group intends to settle on a net basis or perform the asset and settle the liability simultaneously. Considering the current operations of the Group, no compensation of material amount is made. In case of reclassifications of comparative amounts, the provisions of IAS 1.41 are disclosed: i) the nature of the reclassification; ii) the amount of each item (or class of items) reclassified and iii) the reason for the reclassification.

R. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate at the reporting date. Foreign exchange differences arising on translation are recognised in the profit and loss. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the respective functional currency of the operation at the foreign exchange rate at the date that the fair value was determined against profit and loss, except for financial assets at fair value through other comprehensive income, for which the difference is recognised against equity.

S. Employee benefits

S1. Defined benefit plans

The Group has the responsibility to pay to their employees' retirement pensions and widow and orphan benefits and permanent disability pensions, in accordance with the agreement entered with the two collective labour arrangements. These benefits are estimated in the pension's plans 'Plano ACT' and 'Plano ACTQ' of the Pension Plan of BCP Group.

Until 2011, along with the benefits provided in two planes above, the Group had assumed the responsibility, if certain conditions were verified in each year, of assigning complementary benefits to the Group's employees hired before 21 September 2006 (Complementary Plan). The Group at the end of 2012 decided to extinguish ("cut") the benefit of old age Complementary Plan. As at 14 December 2012, the ISP ("Instituto de Seguros de Portugal" - Portuguese Insurance Institute) formally approved this change to the benefit plan of the Group with effect from 1 January 2012. The cut of the plan was made, having been assigned to the employees, individual rights acquired. On that date, the Group also proceeded to the settlement of the related liability.

From 1 January 2011, banks' 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 those benefits as concern illness, disability and life insurance (Decree-Law No. 1-A/2011, of 3 January).

The contributory rate is 26.6% divided between 23.6% supported by the employer and 3% supported by the employees, replacing the Banking Social Healthcare System which was extinguished by the decree law referred above. As a consequence of this amendment the capability to receive pensions by the actual employees are covered by the General Social Security Scheme regime, considering the service period between 1 January 2011 and the retirement age. The Bank supports the remaining difference for the total pension assured in Collective Labour Agreement.

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 recognized under the heading "Current service costs".

Following the approval by the Government of the Decree-Law no. 127/2011, which was published on 31 December, was established an agreement between the Government, the Portuguese Banking Association and the Banking Labour Unions in order to transfer, to the Social Security, the liabilities related to pensions currently being paid to pensioners and retirees, as at 31 December 2011.

This agreement established that the responsibilities to be transferred related to the pensions in payment as at 31 December 2011 at fixed amounts (discount rate 0%) in the component established in the IRCT - Instrument of Collective Regulation of Work of the retirees and pensioners. The responsibilities related to the increase in pensions as well as any other complements namely, contributions to the Health System (SAMS), death benefit and death before retirement benefit continued to be under the responsibility of the Financial Institutions.

At the end of December 2016, a revision of the Collective Labour Agreement (ACT) was reached between the BCP Group and the two unions that represented the Group's employees, which introduced changes in the Social Security chapter and consequently in the pension plan financed by the BCP Group Pension Fund. The new ACT has already been published by the Ministry of Labour in Bulletin of Labour and Employment on 15 February 2017 and their effects were recorded in the financial statements of 31 December 2016, for employees associated with these two unions.

The negotiation with the " Sindicato dos Bancários do Norte”" ("SBN"), which was also involved in the negotiations of the new ACT, was concluded in April 2017 with the publication of the Bulletin of Labour and Employment, with the effects of this new ACT recorded in the financial statements as at 31December 2017, for employees associates of SBN.

The most relevant changes occurred in the ACT were the change in the retirement age (presumed disability) that changed from 65 years to 66 years and two months in 2016, and the subsequent update of a further month for each year, at the beginning of each calendar year, and cannot, in any case, be higher than which it is in force at any moment in the General Regime of Social Security, the change in the formula for determining the employer's contribution to the SAMS and a new benefit called the End of career premium that replaces the Seniority premium.

These changes described above were framed by the Group as a change to the pension plan under the terms of IAS 19, as such had an impact on the present value of the liabilities with services rendered and were recognised in the income statement for the year under "Staff costs".

In 2017, after the authorization of the Autoridade de Supervisão de Seguros e Fundos de Pensões (“ASF”, the 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 and also to pass to the pension fund, the responsibilities that were directly chargeable to the company's (extra-fund liabilities). The pension fund has a part exclusively affected to the financing of these liabilities, which in the scope of the fund are called Additional Complement. The End of career premium also became the responsibility of the pension fund under the basic pension plan.

The Group’s net obligation in respect of pension plans (defined benefit pensions plan) is calculated on a half year basis at 31 December and 30 June of each year, and whenever there are significant market fluctuations or significant specific events, such as changes in the plan, curtailments or settlements since the last estimate. The responsibilities with past service are calculated using the Projected Unit Credit method and actuarial assumptions considered adequate.

Pension liabilities are calculated by the responsible actuary, who is certified by the ASF.

The Group’s net obligation in respect of defined benefit pension plans and other benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates of high-quality corporate bonds that have maturity dates approximating the terms of the Group’s obligations. The net obligations are determined after the deduction of the fair value of the Pension Plan's assets.

The income / cost of interests with the pension plan is calculated, by the Group, multiplying the net asset / liability with retirement pension (liabilities less the fair value of the plan's assets) by the discount rate used in the determination of the retirement pension liabilities, mentioned before. On this basis, the income / cost net of interests includes the interest costs associated with retirement pension liabilities and the expected return of the plan's assets, both measured based on the discount rate used to calculate the liabilities.

Gains and losses from the re-measurement, namely (i) actuarial gains and losses resulting from differences between actuarial assumptions used and the amounts actually observed (experience gains and losses) and changes in actuarial assumptions and (ii) gains and losses arising from the difference between the expected return of the plan's assets and the amounts obtained, are recognised against equity under "Other comprehensive income".

The Group recognises in its income statement a net total amount that comprises (i) the current service cost, (ii) the income / cost net of interest with the pension plan, (iii) the effect of early retirement, (iv) past service costs and (v) the effects of any settlement or curtailment occurred during the period. The net income / cost with the pension plan is recognised as interest and similar income or interest expense and similar costs depending on their nature. The costs of early retirements correspond to the increase in liabilities due to the employee's retirement before reaching the age of retirement.

Employee benefits, other than pension plans, namely post-retirement health care benefits and benefits for the spouse and descendants for death before retirement are also included in the benefit plan calculation.

The contributions to the funds are made annually by each Group company according to a certain plan contributions to ensure the solvency of the fund. The minimum level required for the funding is 100% regarding the pension payments and 95% regarding the past services of active employees.

S2. Defined contribution plan

For Defined Contribution Plan, the responsibilities related to the benefits attributed to the Group's employees are recognised as expenses when incurred.

As at 30 June 2019, the Group has two defined contribution plans. One plan covers employees who were hired before 1 July 2009. For this plan, called non-contributory, Group's contributions will be made annually and equal to 1% of the annual remuneration paid to employees in the previous year. Contributions shall only be made if the following requirements are met: (i) the Bank's ROE equals or exceeds the rate of government bonds of 10 years plus 5 percentage points, and (ii) distributable profits or reserves exist in the accounts of Banco Comercial Português.

The other plan covers employees who have been hired after 1 July 2009. For this plan, designated contributory, monthly contributions will be made equal to 1.5% of the monthly remuneration received by employees in the current month, either by themselves or by the Group and employees. This contribution has a mandatory character and is defined in the Collective Labour Agreement of the BCP Group and does not have a performance criterion.

S3. Share based compensation plan

As at 30 June 2019 there are no share-based compensation plans in force.

S4. Variable remuneration paid to employees

The Executive Committee decides on the most appropriate criteria of allocation among employees, whenever it is attributed. This variable remuneration is charged to income statement in the period to which it relates.

T. Income taxes

The Group is subject to income tax in several jurisdictions. The Bank is subject, in individual terms, to the regime established by the Corporate Income Tax Code ("CIRC"), the Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014 of 26 August, to which it adhered, and individual legislation. Additionally, deferred taxes resulting from the 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 those 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 goodwill not deductible for tax purposes, differences arising on 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.

Deferred taxes assets are recognised to the extent when it is probable that future taxable profits will be available to absorb deductible temporary differences for taxation purposes (including reportable taxable losses).

The Group, as established in IAS 12, paragraph 74, compensates the deferred tax assets and liabilities if, and only if: (i) has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes released by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In 2016, the Banco Comercial Português, S.A. adhered to the Special Regime for the Taxation of Groups of Companies ("RETGS") for the purposes of IRC taxation, with BCP being the dominant entity. In the first semester of 2019 and in 2018, the RETGS application was maintained.

U. Segmental reporting

The Group adopted the IFRS 8 - Operating Segments for the purpose of disclosure financial information by operating and geographic segments. A business segment is a Group's component: (i) which develops business activities that can obtain revenues or expenses; (ii) whose operating results are regularly reviewed by the management with the aim of taking decisions about allocating resources to the segment and assess its performance, and (iii) for which separate financial information is available.

The Group controls its activity through the following major operating segments:

Portugal activity:

- Retail Banking, also including ActivoBank;
- Companies, Corporate and Investment Banking;
- Private Banking;
- Other.

"Other" (Portugal activity) includes the 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 balance Other (foreign activity) includes the activity developed by subsidiaries in Switzerland and Cayman Islands and also the contribution of the participation in an associate in Angola.

V. Provisions, Contingent liabilities and Contingent assets

V1. Provisions

Provisions are recognised when i) the Group has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain responsibilities), ii) it is probable that a payment will be required to settle and iii) a reliable estimate can be made of the amount of the obligation.

The measurement of provisions considers the principles set in IAS 37 regarding the best estimate of the expected cost, the most likely result of current actions and considering the risks and uncertainties inherent in the process result. On the cases that the discount effect is material, provision corresponds to the actual value of the expected future payments, discounted by 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.

The provisions are derecognised through their use for the obligations for which they were initially accounted or for the cases that the situations were not already observed.

V2. Contingent assets

Contingent assets are not recognised in the financial statements and are disclosed when a future economic inflow of resources is probable.

V3. Contingent liabilities

Contingent liabilities are not recognised in the financial statements, being framed under IAS 37 whenever the possibility of an outflow of resources regarding economic benefits is not remote. The Group registers a contingent liability when:

a) 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 not wholly within the control of the Group; or
b) a present obligation that arises from past events but is not recognised because:
i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
ii) the amount of the obligation cannot be measured with sufficient reliability.

The contingent liabilities identified are subject to disclosure, unless the possibility of an outflow of resources incorporating economic benefits is remote.

W. Earnings per share

Basic earnings per share are calculated by dividing net income attributable to shareholders of the Group by the weighted average number of ordinary shares outstanding, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to consider conversion of all dilutive potential ordinary shares. Potential or contingent share issues are treated as dilutive when their conversion to shares would decrease net earnings per share. If the earnings per share are changed as a result of an issue with premium or discount or other event that changed the potential number of ordinary shares or as a result of changes in the accounting policies, the earnings per share for all presented periods should be adjusted retrospectively.

X. Insurance contracts

X1. Classification

The Group issues contracts that contain insurance risk, financial risk or a combination of both insurance and financial risk. A contract, under which the Group accepts significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract.

A contract issued by the Group without significant insurance risk, but on which financial risk is transferred with discretionary participating features is classified as an investment contract recognised and measured in accordance with the accounting policies applicable to insurance contracts. A contract issued by the Group that transfers only financial risk, without discretionary participating features, is accounted for as a financial instrument.

X2. Recognition and measurement

Premiums of life insurance and investment contracts with discretionary participating features, which are considered as long-term contracts are recognised as income when due from the policyholders. The benefits and other costs are recognised concurrently with the recognition of income over the life of the contracts. This specialization is achieved through the establishment of provisions / liabilities of insurance contracts and investment contracts with discretionary participating features.

The responsibilities correspond to the present value of future benefits payable, net of administrative expenses directly associated with the contracts, less the theoretical premiums that would be required to comply with the established benefits and related expenses. The liabilities are determined based on assumptions of mortality, costs of management or investment at the valuation date.

For contracts where the payment period is significantly shorter than the period of benefit, premiums are deferred and recognised as income in proportion to the duration period of risk coverage. Regarding short-term contracts, including contracts of non-life insurance, premiums are recorded at the time of issue. The award is recognised as income acquired in a pro-rata basis during the term of the contract. The provision for unearned premiums represents the amount of issued premiums on risks not occurred.

X3. Premiums

Gross premiums written are recognised for as income in the period to which they respect independently from the moment of payment or receivable, in accordance with the accrual accounting principle. Reinsurance premiums ceded are accounted for as expense in the period to which they respect in the same way as gross premiums written.

X4. Provision for unearned premiums from direct insurance and reinsurance premiums ceded

The provision for unearned gross premiums is based on the evaluation of the premiums written before the end of the year but for which the risk period continues after the year end. This provision is calculated using the pro-rata temporis method applied to each contract in force.

X5. Liability adequacy test

At each reporting date, the Group evaluates the adequacy of liabilities arising from insurance contracts and investment contracts with discretionary participating features. The evaluation of the adequacy of responsibilities is made based on the projection of future cash flows associated with each contract, discounted at market interest rate without risk. This evaluation is done product by product or aggregate of products when the risks are similar or managed jointly. Any deficiency, if exists, is recorded in the Group's results as determined.

Y. Insurance or reinsurance intermediation services

The Banco Comercial Português and Banco ActivoBank are entities authorized by the 'Autoridade de Supervisão de Seguros e Fundos de Pensões' (Portuguese Insurance Regulation) to practice the activity of insurance intermediation in the category of Online Insurance Broker, in accordance with Article 8., Paragraph a), point i) of Decree-Law No. 144/2006, of July 31, developing the activity of insurance intermediation in life and non-life.

Within the insurance intermediation services, these banks perform the sale of insurance contracts. As compensation for services rendered for insurance intermediation, they receive commissions for arranging contracts of insurance and investment contracts, which are defined in the agreements / protocols established with the Insurance Companies.

Commissions received by insurance intermediation are recognised in accordance with the accrual accounting principle, so the commissions which receipt occurs at different time period to which it relates are subject to registration as an amount receivable in "Other Assets".

Z. Accounting estimates and judgments in applying accounting policies

IFRS set forth a range of accounting treatments that requires that the Board of Directors, on the advice of the Executive Committee, to apply judgments and to make estimates in deciding which treatment is most appropriate. The most significant of these accounting estimates and judgments used in the accounting principles application are discussed in this section in order to improve understanding of how their application affects 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, on the 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 estimates would be more appropriate.

Z1. Entities included in the consolidation perimeter

For the purposes of determining entities to include in the consolidation perimeter, the Group assess whether it is exposed to, or has rights to, the variable returns from its involvement with the entity and it is able to take possession of those 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, estimates and assumptions to determine what extend the Group is exposed to the variable returns and its ability to use its power to affect those returns. Different estimates and assumptions could lead the Group to a different scope of consolidation perimeter with a direct impact in consolidated income.

Z2. Goodwill impairment

The recoverable amount of the goodwill recorded in the Group's asset is assessed annually in the preparation of accounts with reference to the end of the year or whenever there are indications of eventual loss of value. For this purpose, the carrying amount of the business units of the Group for which goodwill has been recognised is compared with the respective recoverable amount. A goodwill impairment loss is recognised when the carrying amount of the business unit exceeds the respective recoverable amount.

In the absence of an available market value, the recoverable amount is determined using cash flows predictions, applying a discount rate that includes a risk premium appropriated to the business unit being tested. Determining the cash flows to discount and the discount rate, involves judgment.

Z3. Income taxes

Interpretations and estimates 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 estimates 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, it was presented at the Assembly of the Republic in 24 January 2019, and meanwhile approved at the Plenary Session no. 108 in 19 July 2019, the Draft Law no. 178/XIII, that establishes the tax regime of credit impairment and of provisions for guarantees for the tax periods beginning on or after 1 January 2019, predicting the approximation between accounting and tax rules for purposes of deductibility of expenses related to the increase of credit impairments. Until the end of 2023, the rules prevailing until 2018 will continue to be applied, except if the option of applying the new regime is exercised earlier.

For the estimation of taxable income, it was considered the maintenance of the tax rules in force until 2018, resulting from not exercising earlier the option of applying the new regime.

In the projections of future taxable income, namely for the analysis of the recoverability of deferred tax assets carried out with reference to 31 December 2018, it was considered the tax rules in force in 2018, which are similar to the ones in force in the years of 2015, 2016 and 2017, and that through Regulatory Decrees published at the end of each of the referred years established that the limits expected in Bank of Portugal's Notice No. 3/95 and other specific standards should be considered to determine maximum amounts of impairment losses accepted for tax purposes.

In the update of the referred analysis of the recoverability of deferred tax assets with reference to 30 June 2019, it was considered the approximation between accounting and tax rules as foreseen by Draft Law no. 178/XIII, resulting from not exercising earlier its application over the adaptation period of 5 years provided by the referred law.

In 2018, the Group adopted IFRS 9 - Financial Instruments. Since there is no transitional regime that establishes the tax treatment to be applied to the transition adjustments to IFRS 9, the treatment given resulted from the interpretation of the application of IRC Code's general rules.

The taxable income or tax loss determined by the Bank or its' subsidiaries that reside in Portugal can be corrected by the Portuguese Tax Authority in the period of four years, except if any deduction was made or if tax credit was used, in which the limitation period corresponds to the same of exercising of that right. The Bank recorded provisions or deferred tax liabilities in the amount that finds appropriate to face the tax amendments or the tax losses of which was object, as well as the contingencies regarding exercises not yet revised by the Tax Authority.

Z4. Non-current assets held for sale (real estate) valuation

The valuation of these assets, and consequently the impairment losses, is supported by valuations carried out by independent experts, which incorporate several assumptions, namely on the evolution of the real estate market, better use of the real estate, and when applicable, expectations regarding the development of real estate projects, and also considers the Bank's intentions regarding the commercialization of these assets. The assumptions used in the valuations of these assets have an impact on their valuation and consequently on the determination of impairment.

Z5. Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors, such as discount rate, pensions and salary growth rates, mortality tables, that could impact the cost and liability of the pension plan.

As defined by IAS 19, the discount rate used to update the responsibilities of the Bank's pension fund is based on an analysis performed over the market yields regarding a bond issues universe – that the Group considers to have high quality (low risk), different maturities (appropriate to the period of liquidation of the fund's liabilities) and denominated in Euros - related to a diverse and representative range of issuers.

Z6. Financial instruments – IFRS 9

Z6.1. Classification and measurement

The classification and measurement of financial assets depends on the results of the SPPI test (analysis of the characteristics of the contractual cash flows to determine if they correspond only to payments of principal and interest on the outstanding capital) and the test of the business model.

The Group determines the business model at a level that reflects how financial asset groups are managed together to achieve a specific business objective. This evaluation requires judgment, since the following aspects, among others, have to 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 amortized 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 those assets. This monitoring is part of a process of continuous evaluation made 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 change classification of these financial assets.

Z6.2. Impairment losses on financial assets at amortized cost and debt instruments at fair value through other comprehensive income

The determination of impairment losses on financial instruments involves judgments and estimates regarding, among others, the following:

Significant increase in credit risk:

Impairment losses correspond to the expected losses on a 12-month for the assets in stage 1 and the expected losses considering the probability of a default event occurring at some point up to the maturity date of the instrument financial assets for assets in stages 2 and 3. An asset is classified in stage 2 whenever there is a significant increase in its credit risk since its initial recognition. In assessing the existence of a significant increase in credit risk, the Group considers qualitative and quantitative information, reasonable and sustainable.

Definition of groups of assets with common credit risk characteristics:

When expected credit losses are measured on a collective basis, the financial instruments are grouped based on common risk characteristics. The Group monitors the adequacy of credit risk characteristics on a regular basis to assess whether it maintains its similarity. This procedure is necessary to ensure that, in the event of a change in the credit risk characteristics, the asset segmentation is reviewed. This review may result in the creation of new portfolios or in transferring assets to existing portfolios that better reflect their credit risk characteristics.

Definition of the number and relative weight of prospective information for each type of product / market and determination of relevant prospective information:

In estimating expected credit losses, the Group uses reasonable and sustainable forecasting information that is based on assumptions about the future evolution of different economic drivers and how each of the drivers impacts the remaining drivers.

Probability of default:

The probability of default represents a determining factor in the measurement of expected credit losses. The probability of default corresponds to an estimate of the probability of default in a given period, which is calculated based on historical data, assumptions and expectations about future conditions.

Loss given default:

It corresponds to a loss estimate 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 calculation of the estimate of loss given default based on, among other aspects, the different recovery scenarios, historical information, the costs involved in the recovery process and the estimation of the valuation of collaterals associated with credit operations.

Z6.3. Fair value of derivative financial instruments

Fair values are based on listed market prices if available, otherwise fair value is determined either by dealer price quotations (either for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which considers the market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgments in estimating their fair values. Consequently, the use of a different model or of different assumptions or judgments in applying a particular model could result in different results from the ones reported.

AA. Subsequent events

The Bank analyses events occurring after the balance sheet date, that is, favorable and / or unfavourable events occurring 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 occurring after the date of the statement of financial position 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 2019	30 June 2018
Interest and similar income		
Interest on loans and advances to credit institutions repayable on demand	265	454
Interest on financial assets at amortised cost		
Loans and advances to credit institutions	19,827	9,890
Loans and advances to customers	704,823	688,592
Debt securities	77,404	84,567
Interest on financial assets at fair value through profit or loss		
Financial assets held for trading		
Debt instruments	2,444	2,960
Derivatives associated to financial instruments at fair value through profit or loss	3,113	12,028
Financial assets not held for trading mandatorily at fair value through profit or loss	12,506	11,090
Financial assets designated at fair value through profit or loss	569	1,622
Interest on financial assets at fair value through other comprehensive income	78,745	78,033
Interest on hedging derivatives	49,987	43,186
Interest on other assets	3,172	3,527
	952,855	935,949
Interest expense and similar charges		
Interest on financial liabilities at amortised cost		
Resources from credit institutions	(9,587)	(2,518)
Resources from customers	(143,236)	(159,282)
Non subordinated debt securities issued	(7,998)	(17,784)
Subordinated debt	(28,100)	(37,910)
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	(1,378)	(1,656)
Financial liabilities at fair value through profit or loss		
Resources from customers	(2,821)	(11,072)
Non subordinated debt securities issued	(997)	(5,031)
Interest on hedging derivatives	(14,893)	(12,210)
Interest on leasing	(2,992)	-
Interest on other liabilities	(780)	(831)
	(212,782)	(248,294)
	740,073	687,655

The balance Interest on financial assets at amortised cost - Loans and advances to customers includes the amount of Euros 20,635,000 (30 June 2018: Euros 23,895,000) related to commissions and other gains accounted for under the effective interest method, as referred in the accounting policy described in note 1 C3.

The balances Interest on non-subordinated debt securities issued and Interest on subordinated debt include the amount of Euros 2,955,000 and Euros 6,284,000, respectively (30 June 2018: Euros 8,154,000 and 5,559,000 respectively) related to commissions and other costs accounted for under the effective interest method, as referred in the accounting policy described in note 1 C3.

The balance Interest on financial assets at amortised cost - Loans and advances to customers includes the amount of Euros 36,775,000 (30 June 2018: Euros 46,147,000) related to interests income arising from customers classified in stage 3. The balances Interest on financial assets at amortised cost - Loans and advances to customers and Debt securities include the amounts of Euros 17,611,000 (30 June 2018: Euros 19,885,000), as referred in note 21 and Euros 81,000 (30 June 2018: Euros 113,000), as referred in note 22, related to the adjustment on interest on loans to customers classified in stage 3, under the scope of application of IFRS 9.

The balance Interest on leasing refers to the interest cost related to the leasing liabilities recognised under IFRS 16, as referred in accounting policy described 1 H and note 57.

3. Dividends from equity instruments

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Dividends from financial assets held for trading	1	1
Dividends from financial assets through other comprehensive income	674	619
	675	620

The balances Dividends from financial assets through other comprehensive income include dividends and income from investment fund units received during the period.

4. Net fees and commissions income

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Fees and commissions received		
Banking services	212,555	205,878
Management and maintenance of accounts	56,891	52,447
Bancassurance	57,995	53,455
Securities operations	37,954	45,261
Guarantees provided	26,933	28,553
Commitments	2,114	2,262
Insurance activity commissions	522	477
Fiduciary and trust activities	335	375
Other commissions	20,807	20,716
	416,106	409,424
Fees and commissions paid		
Banking services	(58,905)	(53,060)
Guarantees received	(2,270)	(2,526)
Securities operations	(4,763)	(5,738)
Insurance activity commissions	(556)	(547)
Other commissions	(7,428)	(7,339)
	(73,922)	(69,210)
	342,184	340,214

5. Net gains / (losses) on financial operations

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Net gains / (losses) from financial operations at fair value through profit or loss		
Net gains / (losses) from financial assets held for trading	112,152	(11,360)
Net gains / (losses) from financial assets not held for trading mandatorily at fair value through profit or loss	474	(2,882)
Net gains / (losses) from financial assets and liabilities designated at fair value through profit or loss	(113,997)	30,746
	(1,371)	16,504
Net gains / (losses) from foreign exchange	30,318	36,792
Net gains / (losses) from hedge accounting	(4,192)	1,401
Net gains / (losses) from derecognition of financial assets and liabilities at amortised cost	(9,830)	(22,877)
Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive income	80,612	45,198
	95,537	77,018

The balances Net gains / (losses) from financial operations at fair value through profit or loss is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Net gains /(losses) from financial assets held for trading		
Gains		
Debt securities portfolio	2,921	12,212
Equity instruments	283	1,351
Derivative financial instruments	261,396	144,658
Other operations	428	858
	265,028	159,079
Losses		
Debt securities portfolio	(2,906)	(9,420)
Equity instruments	(1,222)	(1,749)
Derivative financial instruments	(148,499)	(158,566)
Other operations	(249)	(704)
	(152,876)	(170,439)
	112,152	(11,360)
Net gains /(losses) from financial assets not held for trading mandatorily at fair value through profit or loss		
Gains		
Loans and advances to customers	12,519	13,506
Debt securities portfolio	21,159	25,865
	33,678	39,371
Losses		
Loans and advances to customers	(13,710)	(15,447)
Debt securities portfolio	(19,494)	(26,806)
	(33,204)	(42,253)
	474	(2,882)

(continuation)

(continues)

(Thousands of euros)

	30 June 2019	30 June 2018
Net gains /(losses) from financial assets and liabilities designated at fair value through profit or loss		
Gains		
Resources from customers	-	4,424
Debt securities issued		
Certificates and structured securities issued	17,317	31,727
Other debt securities issued	823	16,815
	18,140	52,966
Losses		
Debt securities portfolio	(941)	(2,825)
Resources from customers	(3,175)	-
Debt securities issued		
Certificates and structured securities issued	(118,317)	(18,613)
Other debt securities issued	(9,704)	(782)
	(132,137)	(22,220)
	(113,997)	30,746

The balances Net gains / (losses) from foreign exchange, Net gains / (losses) from hedge accounting and Net gains / (losses) from derecognition of financial assets and liabilities at amortised cost, are presented as follows:

(Thousands of euros)

	30 June 2019	30 June 2018
Net gains / (losses) from foreign exchange		
Gains	442,720	743,099
Losses	(412,402)	(706,307)
	30,318	36,792
Net gains / (losses) from hedge accounting		
Gains		
Hedging derivatives	23,026	39,273
Hedged items	92,474	14,354
	115,500	53,627
Losses		
Hedging derivatives	(110,641)	(48,314)
Hedged items	(9,051)	(3,912)
	(119,692)	(52,226)
	(4,192)	1,401
Net gains / (losses) from derecognition of financial assets and liabilities at amortised cost		
Gains		
Credit sales	1,408	587
Debt securities portfolio	-	12
Debt securities issued	366	1,642
Others	1,612	91
	3,386	2,332
Losses		
Credit sales	(12,175)	(22,982)
Debt securities issued	(532)	(1,859)
Others	(509)	(369)
	(13,216)	(25,210)
	(9,830)	(22,878)

The balance Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive income is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive income		
Gains		
Debt securities portfolio	86,885	51,192
Equity instruments	9	-
	86,894	51,192
Losses		
Debt securities portfolio	(6,282)	(5,994)
	80,612	45,198

In 2019, the balance Net gains / (losses) arising from financial assets at fair value through other comprehensive income - Gains - Debt securities portfolio includes the amount of Euros 56,012,000 (30 June 2018: Euros 14,899,000) related to gains resulting from the sale of Portuguese Treasury bonds.

6. Other operating income / (losses)

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Operating income		
Gains on leasing operations	1,719	1,836
Income from services	12,642	12,634
Rents	2,363	1,385
Sales of cheques and others	5,401	5,961
Other operating income	12,311	6,054
	34,436	27,870
Operating costs		
Donations and contributions	(2,200)	(1,904)
Contribution over the banking sector	(31,818)	(33,066)
Resolution Funds Contributions	(33,079)	(20,343)
Contribution for the Single Resolution Fund	(18,747)	(21,185)
Contributions to Deposit Guarantee Fund	(5,488)	(8,425)
Tax for the Polish banking sector	(25,688)	(23,820)
Taxes	(9,648)	(8,675)
Losses on financial leasing operations	(47)	(22)
Other operating costs	(13,333)	(13,853)
	(140,048)	(131,293)
	(105,612)	(103,423)

The balance Contribution over the banking sector is estimated according to the terms of the Decree-Law no. 55-A/2010. The determination of the amount payable is based on: (i) the annual average liabilities deducted by core capital (Tier 1) and supplementary capital (Tier 2) and deposits covered by the Deposit Guarantee Fund, and (ii) notional amount of derivatives.

The balance Resolution Fund Contributions includes the periodic contributions that must be paid to the Portuguese Fund, as stipulated in Decree-Law No 24/2013. The periodic contributions are determined by a base rate, established by the Bank of Portugal through regulatory instruments, to be applied in each year and which may be adjusted to the credit institution's risk profile based on the objective incidence of those contributions. The period contributions affect the liabilities of the credit institutions members of the Fund, as per the article 10 of the referred Decree-Law, deducted from the liability elements that are part of the core capital and supplementary and from the deposits covered by the Deposit Guarantee Fund.

The balance Resolution Funds Contributions also includes the mandatory contributions made by Bank Millennium, S.A to the Bank Guarantee Fund in Poland.

The 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 2019 the amount of Euros 18,747,000 (30 June 2018: Euros 21,185,000) to the Single Resolution Fund. The total value of the contribution attributable to the Group amounted to Euros 21,918,000 (30 June 2018: Euros 24,922,000) and the Group opted to constitute an irrevocable commitment, through a constitution of a bailment for this purpose, in the amount of Euros 3,171,000 (30 June 2018: Euros 3,737,000), 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.

7. Staff costs

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Remunerations	254,712	225,922
Mandatory social security charges		
Post-employment benefits (note 49)		
Service cost	(7,619)	(7,907)
Net interest cost / (income) in the liability coverage balance	2,765	1,410
Cost with early retirement programs	5,656	4,452
Amount transferred to the Fund resulting from acquired rights unassigned related to the Complementary Plan	(664)	-
	138	(2,045)
Other mandatory social security charges	55,524	54,122
	55,662	52,077
Voluntary social security charges	6,561	4,193
Other staff costs	7,307	7,583
	324,242	289,775

The balance Remuneration includes the amount of Eurso 12,587,000 related to the distribution of profits to Bank's employees, as described in note 47.

8. Other administrative costs

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Water, electricity and fuel	8,556	7,732
Credit cards and mortgage	914	2,670
Communications	11,981	11,648
Maintenance and related services	8,723	7,640
Legal expenses	2,564	3,104
Travel, hotel and representation costs	4,959	4,672
Advisory services	14,658	9,220
Training costs	1,263	1,535
Information technology services	22,283	17,940
Consumables	2,290	2,112
Outsourcing and independent labour	36,392	37,732
Advertising	12,003	13,480
Rents and leases	11,449	37,009
Insurance	1,739	1,928
Transportation	4,943	4,989
Other specialised services	10,928	9,929
Other supplies and services	11,337	9,334
	166,982	182,674

The balance Rents and leases includes, in the first semester of 2019, the amount of Euros 804.000 related to short-term lease contracts and the amount of Euros 1.018.000 related to lease contracts of low value assets, as described in the accounting policy 1 H and note 57. In 2018, the balance Rents and lease included the amount of Euros 35,711,000 related to rents paid regarding buildings used by the Group as lessee, as described in accounting policy 1I.

9. Amortisations and depreciations

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Amortisations of intangible assets (note 29):		
Software	9,491	6,348
Other intangible assets	782	682
	10,273	7,030
Depreciations of other tangible assets (note 28):		
Properties	8,635	9,298
Equipment		
Computers	6,707	5,345
Security equipment	600	753
Installations	1,291	1,156
Machinery	386	310
Furniture	1,271	1,078
Motor vehicles	2,452	2,335
Other equipment	874	1,046
Right-of-use		
Real estate	24,281	-
Vehicles and equipment	187	-
	46,684	21,321
	56,957	28,351

10. Impairment for financial assets at amortised cost

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Loans and advances to credit institutions (note 20)		
Charge for the period	14	346
Reversals for the period	(627)	(123)
	(613)	223
Loans and advances to customers (note 21)		
Charge for the period	491,487	454,542
Reversals for the period	(279,682)	(223,956)
Recoveries of loans and interest charged-off	(12,209)	(6,639)
	199,596	223,947
Debt securities (note 22)		
Associated to credit operations		
Charge for the period	1,420	722
Reversals for the period	(719)	(4,071)
	701	(3,349)
Not associated to credit operations		
Charge for the period	435	71
Reversals for the period	(93)	(1,478)
	342	(1,407)
	1,043	(4,756)
	200,026	219,414

11. Impairment for financial assets at fair value through other comprehensive income

The detail of these balances is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Impairment for financial assets at fair value through other comprehensive income (note 23)		
Charge for the period	844	267
Reversals for the period	(705)	(3,918)
	139	(3,651)

12. Impairment for other assets

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Impairment for investments in associated companies (note 25)		
Charge for the period	-	6,583
	-	6,583
Impairment for non-current assets held for sale (note 26)		
Charge for the period	42,639	43,677
Reversals for the period	(5,068)	(11,943)
	37,571	31,734
Impairment for other assets (note 31)		
Charge for the period	6,749	4,061
Reversals for the period	(3,319)	(905)
	3,430	3,156
	41,001	41,473

13. Other provisions

This balance is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Provision for guarantees and other commitments (note 38)		
Charge for the period	17,127	25,628
Reversals for the period	(23,163)	(21,057)
	(6,036)	4,571
Other provisions for liabilities and charges (note 38)		
Charge for the period	7,994	18,194
Reversals for the period	-	(197)
	7,994	17,997
	1,958	22,568

14. Share of profit of associates under the equity method

The main contributions of the investments accounted for under the equity method are analysed as follows:

(Thousands of euros)

	30 June 2019	30 June 2018
Banco Millennium Atlântico, S.A. (note 25)		
Appropriation relating to the current period	6,967	8,866
Appropriation relating to the previous period	78	18
Effect of the application of IAS 29:		
Amortization of the effect of the application of IAS 29 calculated as at 31 December 2018 (*)	(724)	-
Revaluation of the net non-monetary assets of the BMA	-	(2,702)
Revaluation of the goodwill associated to the investment in BMA	-	6,583
	(724)	3,881
	6,321	12,765
Banque BCP, S.A.S.	2,026	1,733
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	9,888	17,974
SIBS, S.G.P.S, S.A.	2,980	5,072
Unicre - Instituição Financeira de Crédito, S.A.	295	3,435
Other companies	(319)	404
	21,191	41,383

(*) The Group applied, until 31 December 2018, IAS 29 - Financial reporting in hyperinflationary economies, as described in accounting policy 1 B6. In 2019, based on the requirements of IAS 29, Angola was no longer considered as a high inflation economy, with effects in the Group's financial statements by applying the equity method of accounting on the Banco Millennium Atlântico, S.A. financial statements.

15. Gains / (losses) arising from sales of subsidiaries and other assets

This balance is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Gains arising on sale of associated company Mundotêxtil - Indústrias Têxteis, S.A.	147	-
Losses arising on liquidation of Imábida - Imobiliária da Arrábida, S.A..	(96)	-
Other assets	24,655	11,654
	24,706	11,654

The balance Other assets includes gains / (losses) arising from the sale of assets of the Group classified as non-current assets held for sale (note 26), in the positive amount of Euros 22,307,000 (30 June 2018: positive amount of Euros 5,061,000).

16. Income / (loss) arising from discontinued or discontinuing operations

The amount of this account is comprised of:

(Thousands of euros)

	30 June 2019	30 June 2018
Gain arising on sale of Planfipsa Group	13,454	-
Gains/(losses) arising from the sale of Millennium bcp Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	(41)	1,750
	13,413	1,750

Under the scope of the sale of Planfipsa Group, occurred in February 2019, and in accordance with IFRS 5, this operation was considered as a discontinuing operation, during the 2nd semester of 2018, and the impact on results is shown in a separate line of the income statement called Income / (loss) arising from discontinued or discontinuing operations.

The disposal of 51% held in Planfipsa S.G.P.S. S.A. and of a set of loans granted originated a gain of Euros 13,454,000 (before taxes, gain of Euros 18,186,000 and a tax cost of Euros 4,732,000).

17. Earnings per share

The earnings per share are calculated as follows:

(Thousands of euros)

	30 June 2019	30 June 2018
Continuing operations		
Net income	211,828	204,277
Non-controlling interests	(55,462)	(55,384)
Appropriated net income	156,366	148,893
Discontinued or discontinuing operations		
Appropriated net income	13,413	1,750
Adjusted net income	169,779	150,643
Average number of shares	15,113,989,952	15,113,989,952
Basic earnings per share (Euros):		
from continuing operations	0.021	0.020
from discontinued or discontinuing operations	0.002	0.000
	0.023	0.020
Diluted earnings per share (Euros):		
from continuing operations	0.021	0.020
from discontinued or discontinuing operations	0.002	0.000
	0.023	0.020

The Bank's share capital, as at 30 June 2019, amounts to Euros 4,725,000,000 and is represented by 15,113,989,952 nominative book-entry without nominal value, fully subscribed and paid up.

Pursuant the resolutions of the General Meeting of the Bank of 5 November 2018, the share capital of the Bank was reduced from Euros 5,600,738,053.72 to Euros 4,725,000,000, maintaining the number of shares.

There were not identified another dilution effects of the earnings per share as at 30 June 2019 and 2018, so the diluted result is equivalent to the basic result.

18. Cash and deposits at Central Banks

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Cash	536,807	566,202
Central Banks		
Bank of Portugal	1,952,484	1,315,682
Central Banks abroad	1,096,790	871,955
	3,586,081	2,753,839

The balance Central Banks includes deposits at Central Banks of the countries where the Group operates to satisfy the legal requirements to maintain a cash reserve calculated based on the value of deposits and other effective liabilities. According to the European Central Bank System for Euro Zone, the cash reserve requirements establishes the maintenance of a deposit with the Central Bank equivalent to 1% of the average value of deposits and other liabilities, during each reserve requirement period. The rate is different for countries outside the Euro Zone.

19. Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Credit institutions in Portugal	40,872	960
Credit institutions abroad	155,827	238,932
Amounts due for collection	116,711	86,815
	313,410	326,707

The balance Amounts due for collection represents essentially cheques due for collection on other financial institutions. These balances are settled in the first days of the following month.

20. Loans and advances to credit institutions

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Loans and advances to credit institutions in Portugal		
Loans	36,152	47,911
Applications to collateralise CIRS and IRS operations (*)	390	430
Other applications	5,141	1,123
	41,683	49,464
Loans and advances to credit institutions abroad		
Very short-term applications	-	78,030
Short-term applications	587,764	498,856
Applications to collateralise CIRS and IRS operations (*)	309,051	256,177
Other applications	33,260	8,690
	930,075	841,753
	971,758	891,217
Overdue loans - Over 90 days	-	669
	971,758	891,886
Impairment for loans and advances to credit institutions	(567)	(1,853)
	971,191	890,033

(*) Under the scope of derivative financial instruments operations (IRS and CIRS) with institutional counterparties, and as defined in the respective contracts ("Cash collateral"). These deposits are held by the counterparties and are given as collateral of the referred operations (IRS and CIRS), whose revaluation is negative for the Group.

The changes occurred in impairment for Loans and advances to credit institutions are analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Balance on 1 January	1,853	-
Adjustments due to the implementation of IFRS 9	-	703
Impairment charge for the period (note 10)	14	1,387
Reversals for the period (note 10)	(627)	(128)
Loans charged-off	(673)	(109)
Balance at the end of the period	567	1,853

21. Loans and advances to customers

The analysis of loans and advances to customers, by type of credit, is as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Mortgage loans	25,508,931	23,691,928
Loans	14,787,805	13,047,108
Finance leases	4,031,168	3,955,451
Factoring operations	2,532,653	2,463,503
Current account credits	1,719,226	1,731,445
Overdrafts	1,388,551	1,258,634
Discounted bills	240,335	249,710
	50,208,669	46,397,779
Overdue loans - less than 90 days	167,148	118,475
Overdue loans - Over 90 days	1,808,923	1,896,578
	52,184,740	48,412,832
Impairment for credit risk	(2,620,378)	(2,851,906)
	49,564,362	45,560,926

As at 30 June 2019, the balance Loans and advances to customers includes the amount of Euros 11,625,934,000 (31 December 2018: Euros 12,315,731,000) regarding credits related to mortgage loans issued by the Group.

As part of the liquidity risk management, the Group holds a pool of eligible assets that can serve as collateral in funding operations with the European Central Bank and other Central Banks in countries where the Group operates, which include loans and advances to customers.

As referred in note 50, the Group provides loans and/or guarantees to qualifying shareholders holding individually or together with their affiliates, 2% or more of the share capital identified in the Board of Directors report and in note 40.

As at 30 June 2019, the Group granted credit to qualifying shareholders and entities controlled by them, in the amount of Euros 95,422,000 (31 December 2018: Euros 101,350,000), as referred in note 50 a). The amount of impairment recognised for these contracts amounts to Euros 420,000 (31 December 2018: Euros 650,000).

The business conducted between the company and qualifying shareholders or natural or legal persons related to them, pursuant to article 20 of the Securities Code, regardless of the amount, is always subject to appraisal and deliberation by the Board of Directors, through a proposal by the Credit Committee and the Executive Committee, supported by an analysis and technical opinion issued by the Internal Audit Division, and after a prior opinion has been obtained from the Audit Committee.

As at 30 June 2019, the balance Finance leases includes the amount of Euros 9,875,000 related to sublease operations, as referred in accounting policy described 1 H and note 57.

The balance Loans and advances to customers, as at 30 June 2019, is analysed as follows:

(Thousands of euros)

	30 June 2019				
	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Public sector	732,632	2	732,634	(3,858)	728,776
Asset-backed loans	29,560,250	1,116,453	30,676,703	(1,642,275)	29,034,428
Other guaranteed loans	3,623,557	169,425	3,792,982	(277,411)	3,515,571
Unsecured loans	7,621,251	444,281	8,065,532	(354,512)	7,711,020
Foreign loans	2,107,158	124,494	2,231,652	(181,086)	2,050,566
Factoring operations	2,532,653	21,190	2,553,843	(44,515)	2,509,328
Finance leases	4,031,168	100,226	4,131,394	(116,721)	4,014,673
	50,208,669	1,976,071	52,184,740	(2,620,378)	49,564,362

The balance Loans and advances to customers, as at 31 December 2018, is analysed as follows:

(Thousands of euros)

	31 December 2018				
	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Public sector	721,519	1,062	722,581	(3,981)	718,600
Asset-backed loans	28,000,766	1,164,703	29,165,469	(1,706,849)	27,458,620
Other guaranteed loans	3,526,035	170,305	3,696,340	(332,468)	3,363,872
Unsecured loans	5,658,748	455,439	6,114,187	(450,549)	5,663,638
Foreign loans	2,071,757	114,496	2,186,253	(178,146)	2,008,107
Factoring operations	2,463,503	15,205	2,478,708	(42,219)	2,436,489
Finance leases	3,955,451	93,843	4,049,294	(137,694)	3,911,600
	46,397,779	2,015,053	48,412,832	(2,851,906)	45,560,926

The Outstanding loans related to finance leases contracts are analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Amount of future minimum payments	4,383,412	4,424,029
Interest not yet due	(352,244)	(468,578)
Present value	4,031,168	3,955,451

Regarding operational leasing, the Group does not present relevant contracts as lessee.

The analysis of loans and advances to customers, as at 30 June 2019, by sector of activity, is as follows:

(Thousands of euros)

	30 June 2019					
	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount	% Gross amount
Agriculture and forestry	300,102	10,233	310,335	(10,331)	300,004	0.60%
Fisheries	33,534	31	33,565	(715)	32,850	0.06%
Mining	57,637	1,660	59,297	(7,166)	52,131	0.11%
Food, beverage and tobacco	679,511	21,975	701,486	(22,427)	679,059	1.34%
Textiles	373,224	16,307	389,531	(26,682)	362,849	0.75%
Wood and cork	243,179	5,754	248,933	(7,906)	241,027	0.48%
Paper, printing and publishing	177,342	3,929	181,271	(16,735)	164,536	0.35%
Chemicals	737,923	42,168	780,091	(50,681)	729,410	1.50%
Machinery, equipment and basic metallurgical	1,231,208	39,504	1,270,712	(40,790)	1,229,922	2.44%
Electricity and gas	365,290	271	365,561	(1,770)	363,791	0.70%
Water	174,818	963	175,781	(10,434)	165,347	0.34%
Construction	1,636,136	272,320	1,908,456	(389,394)	1,519,062	3.66%
Retail business	1,141,780	66,336	1,208,116	(68,141)	1,139,975	2.32%
Wholesale business	2,159,520	74,605	2,234,125	(109,594)	2,124,531	4.28%
Restaurants and hotels	1,139,737	55,462	1,195,199	(88,557)	1,106,642	2.29%
Transports	1,296,940	21,815	1,318,755	(32,824)	1,285,931	2.53%
Post offices	10,311	278	10,589	(364)	10,225	0.02%
Telecommunications	294,346	6,688	301,034	(21,958)	279,076	0.58%
Services						
Financial intermediation	1,564,209	111,797	1,676,006	(422,914)	1,253,092	3.21%
Real estate activities	1,448,441	204,477	1,652,918	(148,680)	1,504,238	3.17%
Consulting, scientific and technical activities	1,174,826	29,685	1,204,511	(210,058)	994,453	2.31%
Administrative and support services activities	557,294	18,752	576,046	(83,344)	492,702	1.10%
Public sector	1,220,573	2	1,220,575	(5,861)	1,214,714	2.34%
Education	123,470	1,978	125,448	(7,207)	118,241	0.24%
Health and collective service activities	280,418	1,662	282,080	(4,013)	278,067	0.54%
Artistic, sports and recreational activities	277,803	8,032	285,835	(76,095)	209,740	0.55%
Other services	198,288	271,949	470,237	(196,058)	274,179	0.90%
Consumer loans	5,114,338	337,265	5,451,603	(280,395)	5,171,208	10.45%
Mortgage credit	25,332,341	231,028	25,563,369	(188,496)	25,374,873	48.99%
Other domestic activities	1,159	396	1,555	(109)	1,446	0.00%
Other international activities	862,971	118,749	981,720	(90,679)	891,041	1.88%
	50,208,669	1,976,071	52,184,740	(2,620,378)	49,564,362	100%

The analysis of loans and advances to customers, as at 31 December 2018, by sector of activity, is as follows:

(Thousands of euros)

	31 December 2018					
	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount	% Gross amount
Agriculture and forestry	294,808	10,093	304,901	(9,704)	295,197	0.63%
Fisheries	31,515	43	31,558	(883)	30,675	0.07%
Mining	59,058	2,877	61,935	(9,744)	52,191	0.13%
Food, beverage and tobacco	683,830	15,670	699,500	(17,615)	681,885	1.45%
Textiles	363,277	14,540	377,817	(22,566)	355,251	0.78%
Wood and cork	237,191	6,312	243,503	(8,564)	234,939	0.50%
Paper, printing and publishing	193,611	4,985	198,596	(18,134)	180,462	0.41%
Chemicals	664,652	40,598	705,250	(50,057)	655,193	1.46%
Machinery, equipment and basic metallurgical	1,171,768	46,249	1,218,017	(50,160)	1,167,857	2.52%
Electricity and gas	371,518	611	372,129	(2,027)	370,102	0.77%
Water	188,221	1,132	189,353	(11,461)	177,892	0.39%
Construction	1,595,783	358,006	1,953,789	(433,006)	1,520,783	4.04%
Retail business	1,089,590	80,331	1,169,921	(89,031)	1,080,890	2.42%
Wholesale business	2,093,318	79,300	2,172,618	(103,523)	2,069,095	4.49%
Restaurants and hotels	1,150,604	55,508	1,206,112	(91,657)	1,114,455	2.49%
Transports	1,293,631	18,180	1,311,811	(31,328)	1,280,483	2.71%
Post offices	10,631	351	10,982	(644)	10,338	0.02%
Telecommunications	306,844	6,333	313,177	(15,882)	297,295	0.65%
Services						
Financial intermediation	1,476,828	116,446	1,593,274	(380,196)	1,213,078	3.29%
Real estate activities	1,336,226	218,978	1,555,204	(158,998)	1,396,206	3.21%
Consulting, scientific and technical activities	1,339,659	30,038	1,369,697	(371,352)	998,345	2.83%
Administrative and support services activities	553,539	31,448	584,987	(79,567)	505,420	1.21%
Public sector	1,128,520	1,247	1,129,767	(7,743)	1,122,024	2.33%
Education	131,840	1,719	133,559	(7,713)	125,846	0.28%
Health and collective service activities	282,231	2,012	284,243	(4,286)	279,957	0.59%
Artistic, sports and recreational activities	287,865	6,161	294,026	(76,296)	217,730	0.61%
Other services	209,752	264,796	474,548	(194,401)	280,147	0.98%
Consumer loans	3,432,425	281,567	3,713,992	(302,840)	3,411,152	7.67%
Mortgage credit	23,555,628	225,084	23,780,712	(212,505)	23,568,207	49.12%
Other domestic activities	1,124	499	1,623	(302)	1,321	0.00%
Other international activities	862,292	93,939	956,231	(89,721)	866,510	1.98%
	46,397,779	2,015,053	48,412,832	(2,851,906)	45,560,926	100%

The balance Total credit portfolio, which includes further than loans and advances to customers, the guarantees granted, split by stage according with IFRS 9, is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Total credit	56,955,454	53,239,630
Stage 1		
Gross amount	43,211,604	38,353,853
Impairment	(120,143)	(98,344)
	43,091,461	38,255,509
Stage 2		
Gross amount	8,363,580	8,726,840
Impairment	(179,664)	(185,063)
	8,183,916	8,541,777
Stage 3		
Gross amount	5,380,270	6,158,937
Impairment	(2,429,113)	(2,739,559)
	2,951,157	3,419,378
	54,226,534	50,216,664

The total credit portfolio includes, as at 30 June 2019, loans and advances to customers in the amount of Euros 52,184,740,000 (31 December 2018: Euros: 48,412,832,000) and guarantees granted and commitments to third parties balance (note 45), in the amount of Euros 4,770,714,000 (31 December 2018: Euros 4,826,798,000).

The balances of Impairment were determined in accordance with the accounting policy described in note 1 C1.5, including the provision for guarantees and other commitments to third parties (note 38), associated to Guarantees granted, in the amount of Euros 108,542,000 (31 December 2018: Euros 171,060,000).

The analysis of the exposure covered by collateral associated with loans and advances to customers' portfolio, by stage according with IFRS 9, considering its fair value, is as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Stage 1		
Securities and other financial assets	1,895,792	1,879,568
Residential real estate	20,328,015	18,656,116
Other real estate	3,107,514	3,032,719
Other guarantees	4,164,818	3,512,140
	29,496,139	27,080,543
Stage 2		
Securities and other financial assets	277,883	286,629
Residential real estate	2,914,729	2,894,058
Other real estate	1,255,665	1,083,323
Other guarantees	839,859	659,328
	5,288,136	4,923,338
Stage 3		
Securities and other financial assets	308,648	380,083
Residential real estate	1,062,084	1,121,101
Other real estate	906,653	1,024,062
Other guarantees	539,084	459,632
	2,816,469	2,984,878
	37,600,744	34,988,759

The balance Other guarantees include debtors, assets subject to leasing transactions 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. Considering the current real estate and financial markets conditions, the Group continued to negotiate additional physical and financial collaterals with its customers.

The loan to customers' portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent establishment of a new funding to replace the previous. The restructuring may result in a reinforce of guarantees and / or liquidation of part of the credit and involve an extension of maturities or a different interest rate. The analysis of the non-performing restructured loans, by sector of activity, is as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Agriculture and forestry	4,835	4,782
Fisheries	8	18
Mining	8,072	5,112
Food, beverage and tobacco	7,520	3,501
Textiles	1,163	1,277
Wood and cork	2,800	3,027
Paper, printing and publishing	346	371
Chemicals	4,230	2,208
Machinery, equipment and basic metallurgical	29,090	30,006
Electricity and gas	94	450
Water	446	117
Construction	24,856	37,171
Retail business	14,292	17,222
Wholesale business	82,253	88,365
Restaurants and hotels	10,118	13,302
Transports	7,747	4,519
Post offices	139	29
Telecommunications	18,673	20,145
Services		
Financial intermediation	257	350
Real estate activities	2,261	5,116
Consulting, scientific and technical activities	4,227	15,518
Administrative and support services activities	7,363	7,233
Public sector	64,810	65,360
Education	335	217
Health and collective service activities	832	862
Artistic, sports and recreational activities	311	317
Other services	838	647
Consumer loans	123,747	136,811
Mortgage credit	99,232	95,260
Other international activities	9,412	12,263
	530,307	571,576

The restructured loans are subject to an impairment analysis resulting from the revaluation of expectation to meet new cash flows inherent to the new contract terms, discounted at the original effective interest rate and considering new collaterals.

Regarding the restructured loans, the impairment associated to these operations amounts to Euros 151,104,000 (31 December 2018: Euros 176,476,000).

The Group has implemented a process for marking operations restructured due to clients' financial difficulties. This marking is part of the credit analysis process, being in charge of the respective decision-making bodies, according to the corresponding competencies, established in the regulations in force.

The information on operations restructured due to financial difficulties is available in the Group's information systems, having a relevant role in the processes of credit analysis, in the marking of customers in default and in the process of determining impairment. In particular:

- there are several default triggers related to restructurings due to financial difficulties (restructuring with loss of value, recidivism of restructuring, unproductive credit, default on customers with restructured operations);
- in the process of individual impairment analysis, in addition to the existence of operations restructured due to financial difficulties, is a reason for customer selection, the loss inherent to the change in the conditions resulting from the restructuring is determined;

The demarcation of an operation can only take place at least 2 years after the date of marking, provided that a set of conditions exist that allow to conclude by the improvement of the financial condition of the client.

The definition of Non-Performing Loans for more than 90 days (NPL> 90) incorporates total credit (past due + outstanding) associated with past due operations for more than 90 days. As at 30 June 2019, the amount calculated is Euros 2,799,312,000 (31 December 2018: Euros 3,049,747,000).

Every client or operation that meet the following conditions is marked and identified as Non Performing Exposures (NPE):

a) Total exposure of defaulted customers;
b) Total exposure of customers with signs of impairment;
c) Total exposure of customers whose overdue operations for more than 90 days represents more than 20% of their total on-balance sheet exposure;
d) Total exposure of non-retail customers with at least one overdue operation for more than 90 days;
e) Retail operations overdue for more than 90 days;
f) Operations restructured due to financial difficulties overdue for more than 30 days.

As at 30 June 2019, the NPE amounts to Euros 4,969,964,000 (31 December 2018: Euros 5,547,454,000).

The changes occurred in impairment for credit risks are analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Balance on 1 January	2,851,906	3,279,046
Adjustments due to the implementation of IFRS 9		
Remeasurement under IFRS 9	-	235,548
Reclassification under IFRS 9	-	8,508
Charge for the period in net income interest (note 2)	17,611	37,281
Transfers resulting from changes in the Group's structure	-	754
Other transfers	57,826	(56,345)
Impairment charge for the period (note 10)	491,487	926,054
Reversals for the period (note 10)	(279,682)	(442,082)
Loans charged-off	(524,029)	(1,129,834)
Exchange rate differences	5,259	(7,024)
Balance at the end of the period	2,620,378	2,851,906

As at 30 June 2019, the balance Other transfers includes the amount of Euros 56,726,000 related to provisions for guarantees and other commitments, which were transferred to impairment for credit risks due to the fact that the guarantees granted were converted into loans and advances to customers.

In 2018, the balance Other transfers refered to impairments that, as at 31 December 2017, were accounted in loans to customers. In the context of the financial restructuring of a group of customers occurred in 2018, the associated credits were liquidated, and the Group received a set of assets in kind and the related impairment of these assets.

The analysis of loans charged-off, by sector of activity, is as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Agriculture and forestry	463	4,964
Fisheries	-	152
Mining	1,300	3,403
Food, beverage and tobacco	6,959	2,138
Textiles	2,348	15,631
Wood and cork	819	16,981
Paper, printing and publishing	1,492	1,976
Chemicals	4,096	5,389
Machinery, equipment and basic metallurgical	15,880	29,123
Electricity and gas	26	5
Water	353	4,949
Construction	122,641	257,356
Retail business	51,027	29,939
Wholesale business	12,407	67,318
Restaurants and hotels	2,003	27,817
Transports	7,100	17,243
Post offices	224	70
Telecommunications	758	1,822
Services		
Financial intermediation	2,959	244,728
Real estate activities	8,529	80,496
Consulting, scientific and technical activities	173,812	89,357
Administrative and support services activities	2,045	11,185
Public sector	-	3
Education	196	807
Health and collective service activities	446	603
Artistic, sports and recreational activities	922	919
Other services	3,375	10,668
Consumer loans	93,972	185,758
Mortgage credit	5,293	13,979
Other domestic activities	545	1,132
Other international activities	2,039	3,923
	524,029	1,129,834

In compliance with the accounting policy described in note 1 C1.3, loans and advances to customers are charged-off when there are no feasible expectations, of recovering the loan amount and for collateralised loans, the charge-off occurs when the funds arising from the execution of the respective collaterals are effectively received. This charge-off is carried out by the utilization of impairment losses when they refer to 100% of the loans that are considered unrecoverable.

The analysis of loans charged-off, by type of credit, is as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Public sector	-	3
Asset-backed loans	10,070	15,786
Other guaranteed loans	28,524	43,181
Unsecured loans	464,666	1,040,765
Foreign loans	28	-
Factoring operations	7,705	7,058
Finance leases	13,036	23,041
	524,029	1,129,834

The analysis of recovered loans and interest occurred during the first semester of 2019 and 2018 by sector of activity, is as follows:

(Thousands of euros)

	30 June 2019	30 June 2018
Agriculture and forestry	57	33
Food, beverage and tobacco	188	115
Textiles	29	56
Wood and cork	3	13
Paper, printing and publishing	111	152
Chemicals	444	118
Machinery, equipment and basic metallurgical	83	42
Electricity and gas	-	1
Construction	1,310	731
Retail business	1,153	262
Wholesale business	606	105
Restaurants and hotels	12	18
Transports	2,771	180
Post offices	10	6
Telecommunications	2	1
Services		
Financial intermediation	592	2,240
Real estate activities	432	88
Consulting, scientific and technical activities	9	23
Administrative and support services activities	78	25
Health and collective service activities	2	-
Artistic, sports and recreational activities	257	4
Other services	341	88
Consumer loans	3,475	1,642
Mortgage credit	78	17
Other domestic activities	159	21
Other international activities	7	658
	12,209	6,639

The analysis of recovered loans and interest occurred during the first semester of 2019 and 2018, by type of credit, is as follows:

(Thousands of euros)

	30 June 2019	30 June 2018
Asset-backed loans	88	17
Other guaranteed loans	3,632	820
Unsecured loans	8,139	4,809
Foreign loans	6	668
Finance leases	344	325
	12,209	6,639

The caption Loans and advances to customers includes the effect of traditional securitization transactions made through Special Purpose Entities (SPEs) consolidated following the application of IFRS 10, in accordance with accounting policy 1 B and synthetic securitization. The characterization of these operations is described in note 1 D.

Traditional securitizations

Securitization transactions engaged by the Group and still ongoing, refer to mortgage loans portfolios and are set through securitization funds and special purpose entities (SPEs). As at 30 June 2019, the loans and advances referred to these operations amounts to Euros 380,374,000 (31 December 2018: Euros 405,439,000) As referred in accounting policy 1 B, when the substance of the relationships with the referred SPEs indicates that the Group holds control of its activities, those are consolidated by the full method.

Magellan Mortgages No. 2

On 20 October 2003, the Group sold a mortgage loans portfolio owned by Banco Comercial Português, S.A. and by Banco de Investimento Imobiliário, S.A. to the SPE "Magellan Mortgages No. 2 PLC". Considering that, by having acquired the total subordinated tranches issued by the SPE, the Group 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 2019, the SPE's credit portfolio associated with this operation amounts to Euros 93,877,000, and the bonds issued with different subordination levels amount to Euros 84,348,000 (this amount excludes bonds hold by the Group in the amount of Euros 10,680,000 and Euros 14,000,000 of the most subordinated tranche fully acquired).

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 2019, the SPE's credit portfolio associated with this operation amounts to Euros 286,498,000, and bonds issued with different subordination levels amount to Euros 210,333,000 (this amount excludes bonds hold by the Group in the amount of Euros 94,633,000) and the most subordinated tranche amounts to Euros 44,000 (this amount excludes bonds already acquired by the Group in the amount Euros 206,000).

Synthetic securitizations

The Group has two operations in progress which form structures of synthetic securitization.

Caravela SME No. 3

Caravela SME No.3, supports an operation started on 28 June 2013, based on a medium and long term loans portfolio of current accounts and authorized overdrafts granted by Bank, mainly to small and medium companies. The legal maturity date of the operation is 25 March of 2036 and the operation amounts to Euros 973,511,000 as at 30 June 2019. The fair value of the relative Credit Default Swap (CDS) is recorded as a positive amount of Euros 198,877,000 and the registered cost in the first semester of 2019 amounts to Euros 3,106,000.

Caravela SME No. 4

Caravela SME No.4 is a similar operation, initiated on 5 June 2014, which portfolio contains car, real estate and equipment leasing granted between the Bank and a group of clients that belong to the same segment (small and medium companies). The legal maturity date is 21 September of 2043 and as at 30 June 2019, the operation amounts to Euros 990,607,000. The fair value of the relative CDS is recorded as a positive amount of Euros 64,034,000 and their registered cost in in the first semester of 2019 amounts to Euros 666,000.

In both operations, the Bank hired a CDS with a Special Purpose Vehicle (SPV), buying by this way the protection for part of the credit risk inherent to the referenced portfolio. Both cases, the synthetic securitizations, the same CDS, the risk of the respective portfolios were divided in 3 classes: senior, mezzanine and equity. The total of mezzanine and part of the equity (20%) were placed in the market through an SPE, and the subscription by investors, the Credit Linked Notes (CLN). The Bank retained the senior risk and part of the equity remaining (80%). In both strutures, the correspondent product of the CLN issue was invested by the referred SPE the constitution of a deposit that collateralizes, in full, their responsibilities towards its creditors under the operation, including the Bank under the CDS context.

These operations involve the Bank's to reduce the risk-weighted assets associated with the credit portfolios supporting the operations, but it did not transfer to third parties most of the rights and obligations arising from the credits included in them, thus not meeting the derecognition criteria in the accounting policy presented in note 1 C1.3.

22. Debt securities

The balance Debt securities is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Debt securities held associated with credit operations		
Portuguese issuers		
Bonds	164,260	176,751
Commercial paper	1,922,054	2,024,762
Foreign issuers		
Bonds	33,388	34,671
Commercial paper	18,704	19,704
	2,138,406	2,255,888
Overdue securities - less 90 days	1,759	-
Overdue securities - over 90 days	41,453	55,353
	2,181,618	2,311,241
Impairment	(26,803)	(39,921)
	2,154,815	2,271,320
Debt securities held not associated with credit operations		
Bonds issued by public entities		
Portuguese issuers	137,063	47,377
Foreign issuers	334,715	740,118
Bonds issued by other entities		
Portuguese issuers	256,238	254,661
Foreign issuers	56,789	63,326
Treasury bills (Public Issuers and Central Banks)		
Foreign issuers	440,645	-
	1,225,450	1,105,482
Impairment	(2,125)	(1,788)
	1,223,325	1,103,694
	3,378,140	3,375,014

As at 30 June 2019, the balance Debt securities held not associated with credit operations - Bonds issued by other entities includes the amount of Euros 215,681,000 (31 December 2018: Euros 213,772,000) related to public sector companies.

The analysis of debt securities portfolio, net of impairment, by sector of activity, is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Debt securities held associated with credit operations		
Mining	23,397	24,996
Food, beverage and tobacco	85,061	80,074
Textiles	70,890	69,346
Wood and cork	9,115	10,820
Paper, printing and publishing	12,516	17,163
Chemicals	212,496	222,101
Machinery, equipment and basic metallurgical	78,781	56,775
Electricity and gas	193,848	190,338
Water	9,956	9,957
Construction	8,948	6,937
Retail business	89,100	86,042
Wholesale business	64,992	73,388
Restaurants and hotels	7,507	8,518
Transports	46,289	49,144
Telecommunications	7,845	8,932
Services		
Financial intermediation	237,863	249,231
Real estate activities	33,322	39,115
Consulting, scientific and technical activities	888,550	991,948
Administrative and support services activities	13,651	13,653
Health and collective service activities	4,999	4,999
Other services	3,597	3,596
Other international activities	52,092	54,247
	2,154,815	2,271,320
Debt securities held not associated with credit operations		
Chemicals	25,255	25,562
Water	39,275	39,229
Transports and communications	176,340	174,480
Services		
Financial intermediation	497,435	63,325
Consulting, scientific and technical activities	15,151	15,149
	753,456	317,745
Government and Public securities	469,869	785,949
	1,223,325	1,103,694
	3,378,140	3,375,014

The changes occurred in impairment for debt securities are analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Debt securities held associated with credit operations		
Balance on 1 January	39,921	42,886
Adjustments due to the implementation of IFRS 9	-	2,946
Charge for the period in net income interest (note 2)	81	211
Charge for the period (note 10)	1,420	-
Reversals for the period (note 10)	(719)	(6,121)
Loans charged-off	(13,900)	-
Exchange rate differences	-	(1)
Balance at the end of the period	26,803	39,921
Debt securities held not associated with credit operations		
Balance on 1 January	1,788	n.a.
Adjustments due to the implementation of IFRS 9	-	2,217
Charge for the period (note 10)	435	1,184
Reversals for the period (note 10)	(93)	(1,616)
Exchange rate differences	(5)	3
Balance at the end of the period	2,125	1,788

23. Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income

The balances Financial assets at fair value through profit or loss and Financial assets at fair value through other comprehensive income are analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Debt instruments	219,182	220,047
Equity instruments	4,077	5,410
Trading derivatives	632,427	644,997
	855,686	870,454
Financial assets not held for trading mandatorily at fair value through profit or loss		
Loans and advances to customers at fair value	315,889	291,050
Debt instruments	1,096,929	1,108,605
Equity instruments	5,089	5,029
	1,417,907	1,404,684
Financial assets designated at fair value through profit or loss		
Debt instruments	31,544	33,034
	31,544	33,034
Financial assets at fair value through other comprehensive income		
Debt instruments	13,347,581	13,797,971
Equity instruments	38,370	47,654
	13,385,951	13,845,625
	15,691,088	16,153,797

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 2019, is analysed as follows:

(Thousands of euros)

	30 June 2019				
	At fair valuethrough profit or loss				
	Held for trading	Not held for trading mandatorily at fair value through profit or loss	Designated at fair value through profit or loss	At fair value through other comprehensive income	Total
Debt instruments					
Bonds issued by public entities					
Portuguese issuers	3,289	-	31,544	5,392,153	5,426,986
Foreign issuers	164,515	-	-	4,979,394	5,143,909
Bonds issued by other entities					
Portuguese issuers	6,062	16,778	-	723,057	745,897
Foreign issuers	45,316	-	-	437,908	483,224
Treasury bills (Public Issuers and Central Banks)					
Portuguese issuers	-	-	-	1,664,847	1,664,847
Foreign issuers	-	-	-	150,222	150,222
Shares of foreign companies (*)	-	29,853	-	-	29,853
Investment fund units	-	1,050,298	-	-	1,050,298
	219,182	1,096,929	31,544	13,347,581	14,695,236
Equity instruments					
Shares					
Portuguese companies	3,352	-	-	18,647	21,999
Foreign companies	68	5,089	-	19,723	24,880
Other securities	657	-	-	-	657
	4,077	5,089	-	38,370	47,536
Trading derivatives	632,427	-	-	-	632,427
	855,686	1,102,018	31,544	13,385,951	15,375,199
Level 1	213,577	-	31,544	12,939,481	13,184,602
Level 2	308,462	-	-	342,108	650,570
Level 3	333,647	1,102,018	-	104,362	1,540,027

(*) Under IFRS 9, and as detailed in note 56, these shares were considered as debt instruments because they not fall within the definition of SPPI.

As at 30 June 2019, the balance Trading derivatives includes the valuation of the embedded derivatives separated in accordance with the accounting policy 1C.5. in the amount of Euros 1,205,000 (31 December 2018: Euros 920,000).

As at 30 June 2019, 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 2019, the balances Financial assets at fair value through other comprehensive income and Financial assets held for trading include bonds issued with different levels of subordination associated with the traditional securitization transactions Magellan Mortgages No.1 and No. 4, referred in note 1 E in the amount of Euros 347,000 and Euros 109,000, respectively.

The Group, as part of the management process of the liquidity risk (note 53), holds a pool of eligible assets that can serve as collateral in funding operations in the European Central Bank and other Central Banks in countries were the Group operates, which includes debt instruments. As at 30 June 2019, this balance included Euros 38,778,000 (31 December 2018: Euros 39,612,000) of securities included in the ECB's monetary policy pool.

As at 30 June 2019, the balance Finantial assets at fair value through other comprehensive income - Bonds issued by other entities includes the amount of Euros 307,830,000 related to public sector companies.

The portfolio of Financial assets at fair value through profit or loss (excluding Loans and advances to customers at fair value) and Financial assets at fair value through other comprehensive income, net of impairment, by type of asset, as at 31 December 2018, is analysed as follows:

(Thousands of euros)

	31 December 2018				
	At fair valuethrough profit or loss				
	Held for trading	Not held for trading mandatorily at fair value through profit or loss	Designated at fair value through profit or loss	At fair value through other comprehensive income	Total
Debt instruments					
Bonds issued by public entities					
Portuguese issuers	3,666	-	33,034	5,671,092	5,707,792
Foreign issuers	161,347	-	-	4,904,357	5,065,704
Bonds issued by other entities					
Portuguese issuers	9,852	16,778	-	1,217,482	1,244,112
Foreign issuers	45,182	-	-	479,347	524,529
Treasury bills (Public Issuers and Central Banks)					
Portuguese issuers	-	-	-	853,492	853,492
Foreign issuers	-	-	-	675,923	675,923
Shares of foreign companies (*)	-	19,085	-	-	19,085
Investment fund units	-	1,072,742	-	-	1,072,742
	220,047	1,108,605	33,034	13,801,693	15,163,379
Impairment for overdue securities	-	-	-	(3,722)	(3,722)
	220,047	1,108,605	33,034	13,797,971	15,159,657
Equity instruments					
Shares					
Portuguese companies	4,939	-	-	23,270	28,209
Foreign companies	24	5,029	-	24,382	29,435
Investment fund units	12	-	-	2	14
Other securities	435	-	-	-	435
	5,410	5,029	-	47,654	58,093
Trading derivatives	644,997	-	-	-	644,997
	870,454	1,113,634	33,034	13,845,625	15,862,747
Level 1	214,531	-	33,034	12,986,573	13,234,138
Level 2	347,770	-	-	831,266	1,179,036
Level 3	308,153	1,113,634	-	27,786	1,449,573

(*) Under IFRS 9, and as detailed in note 56, these shares were considered as debt instruments because they not fall within the definition of SPPI.

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 2019	31 December 2018
Public sector	44	20
Asset-backed loans	11	5
Unsecured loans	311,352	287,028
	311,407	287,053
Overdue loans - less than 90 days	1,149	1,023
Overdue loans - Over 90 days	3,333	2,974
	315,889	291,050

The balance Loans to customers at fair value correspond essentially to consumer loans.

The portfolio of financial assets at fair value through other comprehensive income, as at 30 June 2019, is analysed as follows:

(Thousands of euros)

	30 June 2019			
	Amortised cost (a)	Fair value hedge adjustments	Fair value adjustments	Total
Debt instruments				
Bonds issued by public entities				
Portuguese issuers	5,106,052	204,861	81,240	5,392,153
Foreign issuers	4,961,149	4,175	14,070	4,979,394
Bonds issued by other entities				
Portuguese issuers (*)	683,966	19,996	19,095	723,057
Foreign issuers	428,070	6,387	3,451	437,908
Treasury bills (Public Issuers and Central Banks)				
Portuguese issuers	1,664,549	-	298	1,664,847
Foreign issuers	150,158	-	64	150,222
	12,993,944	235,419	118,218	13,347,581
Equity instruments				
Shares				
Portuguese companies	56,145	-	(37,498)	18,647
Foreign companies	21,007	-	(1,284)	19,723
	77,152	-	(38,782)	38,370
	13,071,096	235,419	79,436	13,385,951

(*) Includes impairment for overdue securities

(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 2018, is analysed as follows:

(Thousands of euros)

	31 December 2018			
	Amortised cost (a)	Fair value hedge adjustments	Fair value adjustments	Total
Debt instruments				
Bonds issued by public entities				
Portuguese issuers	5,547,657	165,986	(42,551)	5,671,092
Foreign issuers	4,889,654	981	13,722	4,904,357
Bonds issued by other entities				
Portuguese issuers (*)	1,188,586	6,750	18,424	1,213,760
Foreign issuers	479,719	(1)	(371)	479,347
Treasury bills (Public Issuers and Central Banks)				
Portuguese issuers	853,339	-	153	853,492
Foreign issuers	675,643	-	280	675,923
	13,634,598	173,716	(10,343)	13,797,971
Equity instruments				
Shares				
Portuguese companies	57,033	-	(33,763)	23,270
Foreign companies	20,816	-	3,566	24,382
Investment fund units	2	-	-	2
	77,851	-	(30,197)	47,654
	13,712,449	173,716	(40,540)	13,845,625

(*) Includes impairment for overdue securities

(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 analysis of trading derivatives, by maturity, as at 30 June 2019, is as follows:

(Thousands of euros)

	30 June 2019					
	Notional (remaining term)				Fair value	
	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities (note 36)
Interest rate derivatives:						
OTC Market:						
Interest rate swaps	494,539	909,893	6,608,576	8,013,008	318,219	263,563
Interest rate options (purchase)	1,010	83,417	174,024	258,451	1	-
Interest rate options (sale)	1,010	2,473	164,457	167,940	-	135
Other interest rate contracts	-	10,000	165,549	175,549	5,384	4,502
	496,559	1,005,783	7,112,606	8,614,948	323,604	268,200
Stock Exchange transactions:						
Interest rate futures	216,668	-	-	216,668	-	-
Currency derivatives:						
OTC Market:						
Forward exchange contract	272,790	161,505	11,935	446,230	1,892	2,925
Currency swaps	1,843,204	747,996	54,040	2,645,240	6,320	24,438
Currency options (purchase)	-	42,771	-	42,771	869	-
Currency options (sale)	-	42,771	-	42,771	-	866
	2,115,994	995,043	65,975	3,177,012	9,081	28,229
Currency and interest rate swaps:						
OTC Market:						
Currency and interest rate swaps:	-	9,538	50,142	59,680	178	990
Shares/indexes:						
OTC Market:						
Shares/indexes swaps	204,996	952,334	1,643,022	2,800,352	6,113	1,274
Shares/indexes options (sale)	490,162	-	19,821	509,983	-	-
Others shares/indexes options (purchase)	-	16,864	-	16,864	16,207	-
Others shares/indexes options (sale)	-	16,864	-	16,864	-	-
	695,158	986,062	1,662,843	3,344,063	22,320	1,274
Stock exchange transactions:						
Shares futures	727,118	-	-	727,118	-	-
Shares/indexes options (purchase)	78,810	286,347	185,552	550,709	12,767	-
Shares/indexes options (sale)	32,810	25,460	1,022	59,292	-	430
	838,738	311,807	186,574	1,337,119	12,767	430
Commodity derivatives:						
Stock Exchange transactions:						
Commodities futures	39	-	-	39	-	-
Credit derivatives:						
OTC Market:						
Credit default swaps (CDS)	-	-	284,501	284,501	263,272	-
Other credit derivatives (sale)	-	-	79,693	79,693	-	-
	-	-	364,194	364,194	263,272	-
Total derivatives traded in:						
OTC Market	3,307,711	2,996,426	9,255,760	15,559,897	618,455	298,693
Stock Exchange	1,055,445	311,807	186,574	1,553,826	12,767	430
Embedded derivatives					1,205	12,724
	4,363,156	3,308,233	9,442,334	17,113,723	632,427	311,847

The analysis of trading derivatives, by maturity, as at 31 December 2018, is as follows:

(Thousands of euros)

	31 December 2018					
	Notional (remaining term)				Fair value	
	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities (note 36)
Interest rate Derivatives:						
OTC Market:						
Interest rate swaps	462,745	1,389,124	6,857,859	8,709,728	335,697	258,391
Interest rate options (purchase)	-	108,630	151,683	260,313	9	-
Interest rate options (sale)	-	12,692	144,472	157,164	-	21
Other interest rate contracts	-	19,174	121,588	140,762	2,031	1,147
	462,745	1,529,620	7,275,602	9,267,967	337,737	259,559
Stock Exchange transactions:						
Interest rate futures	107,277	-	-	107,277	-	-
Currency derivatives:						
OTC Market:						
Forward exchange contract	212,020	223,111	17,529	452,660	1,592	3,024
Currency swaps	2,623,052	621,812	41,564	3,286,428	8,639	12,403
Currency options (purchase)	34,075	25,126	27,253	86,454	3,357	-
Currency options (sale)	34,075	25,126	27,253	86,454	-	3,349
	2,903,222	895,175	113,599	3,911,996	13,588	18,776
Currency and interest rate swaps:						
OTC Market:						
Currency and interest rate swaps:	-	-	59,264	59,264	480	1,826
Shares/indexes:						
OTC Market:						
Shares/indexes swaps	411,029	950,649	1,604,819	2,966,497	666	8,816
Shares/indexes options (sale)	459,994	-	19,730	479,724	-	-
Other shares/indexes options (purchase)	-	-	16,864	16,864	15,622	-
Other shares/indexes options (sale)	-	-	16,864	16,864	-	-
	871,023	950,649	1,658,277	3,479,949	16,288	8,816
Stock Exchange transactions:						
Shares futures	686,519	-	-	686,519	-	-
Shares/indexes options (purchase)	119,023	234,521	164,466	518,010	8,843	-
Shares/indexes options (sale)	57,212	10,402	1,724	69,338	-	597
	862,754	244,923	166,190	1,273,867	8,843	597
Commodity derivatives:						
Stock exchange transactions:						
Commodities futures	35	-	-	35	-	-
Credit derivatives:						
OTC Market:						
Credit default swaps (CDS)	123,531	-	294,137	417,668	267,141	287
Other credit derivatives (sale)	-	-	81,016	81,016	-	-
	123,531	-	375,153	498,684	267,141	287
Total derivatives traded in:						
OTC Market	4,360,521	3,375,444	9,481,895	17,217,860	635,234	289,264
Stock Exchange	970,066	244,923	166,190	1,381,179	8,843	597
Embedded derivatives					920	8,344
	5,330,587	3,620,367	9,648,085	18,599,039	644,997	298,205

24. Hedging derivatives

This balance is analysed, by hedging instruments, as follows:

(Thousands of euros)

	30 June 2019		31 December 2018	
	Assets	Liabilities	Assets	Liabilities
Swaps	207,312	278,927	123,054	177,900

Hedging derivatives are measured in accordance with internal valuation techniques considering observable market inputs and, when not available, on information prepared by the Group by extrapolation of market data. In accordance with the hierarchy of the valuation sources, as referred in IFRS 13, these derivatives are classified in level 2. The Group resources to derivatives to hedge interest and exchange rate exposure risks. The accounting method depends on the nature of the hedged risk, namely if the Group is exposed to fair value changes, variability in cash flows or highly probable forecast transactions.

As allowed by IFRS 9, the Group opted to continue to apply the hedge accounting requirements in accordance with IAS 39, using mainly interest rate and exchange rate derivatives. The fair value hedge model is adopted for debt securities, loans granted at fixed rate and money market loans and deposits, securities and combined hedge of variable rate financial assets and fixed rate financial liabilities. The cash flows hedge model is adopted for future transactions in foreign currency to cover dynamic changes in cash flows from loans granted and variable rate deposits in foreign currency and foreign currency mortgage loans.

During the first semester of 2019, the relationships that follow the fair value hedge model recorded ineffectiveness of a negative amount of Euros 169,000 (31 December 2018: positive amount of Euros 3,187,000) and the hedging relationships that follow the cash flows model recorded ineffectiveness of a negative amount of Euros 2,283,000 (31 December 2018: negative amount of Euros 4,636,000).

During the first semester of 2019, reclassifications were made from fair value reserves to results, related to cash flow hedge relationships, in a positive amount of Euros 16,314,000 (31 December 2018: positive amount Euros 23,004,000). 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 2019, is as follows:

(Thousands of euros)

	30 June 2019					
	Notional (remaining period)				Fair value	
	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities
Fair value hedging derivatives related to interest rate risk changes						
OTC Market						
Interest rate swaps	7,500	-	4,385,835	4,393,335	28,170	167,297
Cash flow hedging derivatives related to interest rate risk changes						
OTC Market						
Interest rate swaps	57,224	346,167	12,427,209	12,830,600	156,488	23,589
Cash flow hedging derivatives related to currency risk changes						
OTC Market						
Currency swaps	62,551	114,062	-	176,613	99	858
Other currency contracts (CIRS)	178,787	816,149	1,828,233	2,823,169	22,555	77,544
	241,338	930,211	1,828,233	2,999,782	22,654	78,402
Hedging derivatives related to net investment in foreign operations						
OTC Market						
Currency and interest rate swap	-	67,287	531,508	598,795	-	9,639
Total derivatives traded by						
OTC Market	306,062	1,343,665	19,172,785	20,822,512	207,312	278,927

The analysis of hedging derivatives portfolio, by maturity, as at 31 December 2018, is as follows:

(Thousands of euros)

	31 December 2018					
	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	-	24,500	3,976,674	4,001,174	12,662	77,787
Cash flow hedging derivatives related to interest rate risk changes						
OTC Market						
Interest rate swaps	52,367	205,511	12,467,208	12,725,086	81,677	7,604
Cash flow hedging derivatives related to currency risk changes						
OTC Market						
Other currency contracts	336,794	570,475	2,609,407	3,516,676	28,051	87,700
Hedging derivatives related to net investment in foreign operations						
OTC Market						
Currency and interest rate swap	58,059	76,034	462,072	596,165	664	4,809
Total derivatives traded by						
OTC Market	447,220	876,520	19,515,361	20,839,101	123,054	177,900

25. Investments in associated companies

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Portuguese credit institutions	34,763	42,486
Foreign credit institutions	225,518	237,991
Other Portuguese companies	216,206	180,832
Other foreign companies	21,842	21,785
	498,329	483,094
Impairment	(76,365)	(78,012)
	421,964	405,082

The balance Investments in associated companies is analysed as follows:

(Thousands of euros)

	30 June 2019				31 December 2018
	Ownership on equity	Goodwill	Impairment for investments in associated companies	Total	Total
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	163,448	-	-	163,448	138,460
Banco Millennium Atlântico, S.A.	98,415	88,796	(55,500)	131,711	141,188
Banque BCP, S.A.S.	38,307	-	-	38,307	36,802
Mundotêxtil - Indústrias Têxteis, S.A.	-	-	-	-	6,762
SIBS, S.G.P.S, S.A.	31,924	-	-	31,924	32,629
Unicre - Instituição Financeira de Crédito, S.A.	27,328	7,435	-	34,763	42,486
Webspectator Corporation	92	18,011	(18,011)	92	92
Cold River's Homestead, S.A.	18,896	-	(2,854)	16,042	-
Others	5,677	-	-	5,677	6,663
	384,087	114,242	(76,365)	421,964	405,082

These investments correspond to unquoted companies. According to the accounting policy described in note 1 B), these investments are measured at the equity method.

The Group's companies included in the consolidation perimeter are presented in note 59.

The main indicators of the principal associated companies, as at 30 June, 2019, are analysed as follows:

(Thousands of euros)

	30 June 2019 (a)					
	Country	% held	Total Assets	Total Liabilities	Total Income	Net income for the year
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Portugal	49.0	11,883,111	11,239,904	704,764	15,009
Banco Millennium Atlântico, S.A. (*)	Angola	22.7	3,594,612	3,223,110	191,036	30,644
Banque BCP, S.A.S.	France	19.9	3,929,444	3,736,592	61,654	10,186
SIBS, S.G.P.S, S.A. (**)	Portugal	23.3	243,883	134,308	97,809	12,391
Unicre - Instituição Financeira de Crédito, S.A. (**)	Portugal	32.0	367,629	282,609	71,926	6,808

(a) Non audited accounts

(*) These indicators correspond to the statutory financial statements that do not include the effects of applying IAS 29 (note 14).

(**) Provisional values.

The main indicators of the principal associated companies, as at 31 December 2018 are analysed as follows:

(Thousands of euros)

	31 December 2018					
	Country	% held	Total Assets	Total Liabilities	Total Income	Net income for the period
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Portugal	49.0	11,111,215	10,514,100	1,149,380	60,894
Banco Millennium Atlântico, S.A. (*)	Angola	22.7	3,952,382	3,570,117	539,337	90,872
Banque BCP, S.A.S.	France	19.9	3,867,689	3,682,412	123,017	18,375
SIBS, S.G.P.S, S.A.	Portugal	23.3	243,883	134,308	195,618	24,782
Unicre - Instituição Financeira de Crédito, S.A.	Portugal	32.0	349,749	247,358	162,383	15,343

(*) - These indicators correspond to the statutory financial statements that do not include the effects of applying IAS 29 (note 14).

In accordance with the requirements of IFRS 12 and considering their relevance, the movements occurred in the investment held in Banco Millennium Atlântico, S.A., is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Ownership held by BCP on equity of the associated company as at 1 January	141,188	212,797
Application of IFRS 9 - Effect on 1 January 2018	-	(4,184)
Application of IAS 29 for the period:		
Net non-monetary assets of the BMA		
Effect on BMA's equity (note 43)	-	18,250
Effect of exchange rate variations (note 43)	(4,345)	(21,267)
Amortization of the effect of the application of IAS 29 calculated as at 31 December 2018 (note 14)	(724)	-
Revaluation in net income (note 14)	-	759
Goodwill of the merger operation of the BMA		
Effect of exchange rate variations (note 43)	(2,915)	(17,426)
Revaluation in net income (note 14)	-	12,623
Impairment for investments in associated companies	-	(12,623)
Appropriation of the net income of the associated companies (note 14)	6,967	20,659
Appropriation of the net income of previous periods (note 14)	78	19
Other comprehensive income attributable to BCP	(1,208)	885
Exchange differences		
Effect on BMA's equity	(8,591)	(62,304)
Goodwill associated with BMA investment	(3,547)	(28,866)
Impairment for investments in associated companies	4,501	36,623
Dividends received	-	(14,757)
Others	307	-
Investment held at the end of the period	131,711	141,188

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 2019	31 December 2018
Income	191,036	539,337
Net profit for the period	30,644	90,872
Comprehensive income	(5,316)	3,889
Total comprehensive income attributable to Shareholders of the associated company	25,328	94,761
Application of IAS 29 (*)	(3,182)	3,339
Attributable to Shareholders of the associated companies adjusted to BCP GAAP	22,146	98,100
Attributable to the BCP Group	5,035	22,303
Financial assets	2,940,734	3,258,359
Non-financial assets	653,878	694,023
Financial liabilities	(3,155,442)	(3,494,473)
Non-financial liabilities	(67,668)	(75,644)
Attributable to Shareholders of the associated companies	371,502	382,265
Application of IAS 29 (*)	181,153	203,445
Attributable to Shareholders of the associated companies adjusted to BCP GAAP	552,655	585,710
Attributable to the BCP Group	125,644	133,159
Goodwill of the merge	61,567	68,030
Impairment for investments in associated companies	(55,500)	(60,001)
Attributable to the BCP Group adjusted of consolidation items	131,711	141,188

(*) 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 apply 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:

(Milhares de euros)

	30 June 2019	31 December 2018
Ownership held by BCP on equity of the associated company as at 1 January	138,460	252,577
Appropriation of the net income of the associated company (note 14) (*)	9,888	35,361
Other comprehensive income attributable to BCP	15,100	(6,398)
Capital reimbursement	-	(98,000)
Dividends received	-	(45,080)
Investment held at the end of the period	163,448	138,460

(*) Includes adjustments according to BCP GAAP.

The following table presents the financial statements of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A., prepared in accordance with IFRS, modified by the consolidation adjustments:

(Thousands of euros)

	30 June 2019	31 December 2018
Income	704,764	1,149,380
Net profit for the period	15,009	60,894
Comprehensive income	30,816	(13,057)
Total comprehensive income attributable to Shareholders of the associated company	45,825	47,837
Adjustments of intra-group transactions (reverse of the VOBA annual amortisation (*)	5,171	11,272
Attributable to Shareholders of the associated company adjusted to BCP GAAP	50,996	59,109
Attributable to the BCP Group	24,988	28,963
Financial assets	11,424,471	10,672,105
Non-financial assets	458,640	439,110
Financial liabilities	(11,140,860)	(10,384,696)
Non-financial liabilities	(99,044)	(129,404)
Total equity	643,207	597,115
Attributable to non-controlling interests	11,482	11,215
Attributable to Shareholders of the associated companies	631,725	585,900
Adjustments of intra-group transactions (reverse of the VOBA annual amortisation (*)	332,745	327,574
Attributable to Shareholders of the associated company adjusted to BCP GAAP	964,470	913,474
Attributable to the BCP Group	472,590	447,602
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	163,448	138,460

(*) VOBA corresponds to the estimated current value of the future cash flows of the contracts in force at the date of acquisition. The value of the acquired business (VOBA) is recognised in the consolidated accounts of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. as intangible assets and is amortised over the period of recognition of the income associated with the policies acquired.

26. Non-current assets held for sale

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019			31 December 2018		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Real estate						
Assets arising from recovered loans	1,378,662	(215,475)	1,163,187	1,516,604	(209,622)	1,306,982
Assets belong to investments funds and real estate companies	385,644	(55,360)	330,284	431,565	(62,571)	368,994
Assets for own use (closed branches)	31,987	(6,868)	25,119	45,658	(10,871)	34,787
Equipment and other	42,045	(4,976)	37,069	72,216	(13,635)	58,581
Subsidiaries acquired exclusively with the purpose of short-term sale	-	-	-	69,338	-	69,338
Other assets	26,995	-	26,995	29,776	-	29,776
	1,865,333	(282,679)	1,582,654	2,165,157	(296,699)	1,868,458

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 54.

These assets are available for sale in a period less than one year and the Group has a strategy for its sale, according to the characteristic of each asset. However, considering the formal constraints, it was not possible in all instances to conclude the sales in the expected time. The sale strategy is based in an active search of buyers, with the Group having a website where advertises these properties and through partnerships with the mediation of companies having more ability for the product that each time the Bank has for sale. Prices are periodically reviewed and adjusted for continuous adaptation to the market.

The Group requests, regularly, to the Bank of Portugal, following the Article 114º of the General Regime of Credit Institutions and Financial Companies, the extension of the period of holding these properties.

The referred balance includes real estate for which the Group has already established contracts for the sale in the amount of Euros 24,858,000 (31 December 2018: Euros 43,460,000), of which Euros 2,288,000 (31 December 2018: Euros 4,688,000) relate to properties held by investment funds. The impairment associated with all the established contracts is Euros 3,444,000 (31 December 2018: Euros 5,091,000), of which Euros 290,000 (31 December 2018: Euros 982,000) relate to properties held by investment funds which was calculated considering the value of the respective contracts.

The changes occurred in impairment for non-current assets held for sale are analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Balance on 1 January	296,699	318,155
Transfers resulting from changes in the Group's structure	(5,707)	-
Transfers	2,947	4,383
Charge for the period (note 12)	42,639	78,612
Reversals for the period (note 12)	(5,067)	(18,018)
Amounts charged-off	(48,832)	(86,431)
Exchange rate differences	-	(2)
Balance at the end of the period	282,679	296,699

As at 31December 2018, Planfipsa Group was registered in the balance Subsidiaries acquired with the purpose of short-term sale. In February 2019, the Group sold the Planfipsa Group and the operation generated a gain of Euros 13,454,000, as referred in note 16.

27. Investment property

As at 30 June 2019, 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 229,000 (31 December 2018: Euros 547,000), and the maintenance expenses related to rented or not rented real estate, amount to Euros 198,000 (31 December 2018: Euros 253,000).

The changes occurred in this balance are analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Balance on 1 January	11,058	12,400
Revaluations	(525)	(168)
Disposals	(821)	(1,174)
Balance at the end of the period	9,712	11,058

28. Other tangible assets

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Real estate	772,376	780,726
Equipment:		
Computer equipment	321,145	306,699
Security equipment	71,698	71,703
Interior installations	142,960	143,114
Machinery	47,252	45,871
Furniture	84,993	84,363
Motor vehicles	28,699	32,948
Other equipment	32,126	32,663
Right of use		
Real estate	284,565	-
Vehicles and equipment	671	-
Work in progress	17,435	21,719
Other tangible assets	239	236
	1,804,159	1,520,042
Accumulated depreciation		
Relative to the current period (note 9)	(46,684)	(42,819)
Relative to the previous periods	(1,045,091)	(1,015,947)
	(1,091,775)	(1,058,766)
	712,384	461,276

The balance Right-of-use essentially corresponds to real estate (branches and central buildings) and to a residual number of vehicles, which are amortized according to the lease term of each contract, as described in the accounting policy 1 H and note 57.

The changes occurred in Other tangible assets balances during the first semester of 2019 are analysed as follows:

(Thousands of euros)

	Initial balance	Acquisitions / Charge	Disposals / Charged-off	Euro Bank	Transfers	Exchange differences	Balance on 30 June
Real estate	780,726	210	(12,915)	3,749	(123)	729	772,376
Equipment:							
Computer equipment	306,699	9,348	(2,791)	5,340	2,255	294	321,145
Security equipment	71,703	482	(411)	-	(62)	(14)	71,698
Interior installations	143,114	474	(722)	-	128	(34)	142,960
Machinery	45,871	979	(804)	944	2	260	47,252
Furniture	84,363	1,319	(621)	-	(54)	(14)	84,993
Motor vehicles	32,948	1,684	(6,579)	573	-	73	28,699
Other equipment	32,663	10	(266)	361	(982)	340	32,126
Right of use (*)							
Real estate	245,503	10,922	(101)	18,378	8,786	1,077	284,565
Vehicles and equipment	663	-	-	-	-	8	671
Work in progress	21,719	8,362	(190)	356	(12,869)	57	17,435
Other tangible assets	236	4	-	-	-	(1)	239
	1,766,208	33,794	(25,400)	29,701	(2,919)	2,775	1,804,159
Accumulated depreciation							
Real estate	(431,078)	(8,635)	6,635	-	1,399	(693)	(432,372)
Equipment:							
Computer equipment	(278,202)	(6,707)	2,654	-	(877)	(165)	(283,297)
Security equipment	(66,409)	(600)	403	-	62	9	(66,535)
Interior installations	(127,455)	(1,291)	54	-	662	17	(128,013)
Machinery	(41,873)	(386)	750	-	(288)	(227)	(42,024)
Furniture	(75,600)	(1,271)	614	-	325	7	(75,925)
Motor vehicles	(14,294)	(2,452)	1,165	-	154	(22)	(15,449)
Other equipment	(23,819)	(874)	258	-	1,107	(238)	(23,566)
Right of use							
Real estate	-	(24,281)	-	-	-	(88)	(24,369)
Vehicles and equipment	-	(187)	-	-	-	(2)	(189)
Other tangible assets	(36)	-	-	-	-	-	(36)
	(1,058,766)	(46,684)	12,533	-	2,544	(1,402)	(1,091,775)
	707,442	(12,890)	(12,867)	29,701	(375)	1,373	712,384

(*) The Initial balance of Right of use corresponds to the IFRS 16 adjustment

The changes occurred in Other tangible assets balances during 2018 are analysed as follows:

(Thousands of euros)

	Balance on 1 January	Acquisitions / Charge	Disposals / Charged-off	Transfers and changes in perimeter	Exchange differences	Balance on 31 December
Real estate	830,989	5,186	(61,969)	8,617	(2,097)	780,726
Equipment:						
Computer equipment	300,310	9,896	(7,542)	4,670	(635)	306,699
Security equipment	70,960	1,385	(692)	49	1	71,703
Interior installations	140,628	1,983	(3,209)	3,705	7	143,114
Machinery	45,279	1,149	(573)	580	(564)	45,871
Furniture	83,202	1,962	(1,439)	635	3	84,363
Motor vehicles	30,597	7,092	(4,667)	231	(305)	32,948
Other equipment	31,394	27	(1,356)	3,408	(810)	32,663
Work in progress	20,288	29,676	(355)	(27,794)	(96)	21,719
Other tangible assets	230	2	-	4	-	236
	1,553,877	58,358	(81,802)	(5,895)	(4,496)	1,520,042
Accumulated depreciation						
Real estate	(442,632)	(18,321)	26,361	1,924	1,590	(431,078)
Equipment:						
Computer equipment	(274,652)	(11,149)	7,179	4	416	(278,202)
Security equipment	(65,726)	(1,453)	692	81	(3)	(66,409)
Interior installations	(128,313)	(2,394)	3,163	99	(10)	(127,455)
Machinery	(42,093)	(648)	557	(213)	524	(41,873)
Furniture	(74,571)	(2,235)	1,436	(224)	(6)	(75,600)
Motor vehicles	(12,876)	(4,649)	3,304	(130)	57	(14,294)
Other equipment	(22,555)	(1,970)	1,356	(1,207)	557	(23,819)
Other tangible assets	(36)	-	-	-	-	(36)
	(1,063,454)	(42,819)	44,048	334	3,125	(1,058,766)
	490,423	15,539	(37,754)	(5,561)	(1,371)	461,276

29. Goodwill and intangible assets

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Goodwill - Differences arising on consolidation		
Bank Millennium, S.A. (Poland)	113,173	111,853
Real estate and mortgage credit	40,859	40,859
Euro Bank, S.A. (Poland) (*)	32,002	-
Others	14,031	17,781
	200,065	170,493
Impairment		
Real estate and mortgage credit	(40,859)	(40,859)
Others	(13,278)	(13,278)
	(54,137)	(54,137)
	145,928	116,356
Intangible assets		
Software	155,529	142,229
Other intangible assets	67,222	56,765
	222,751	198,994
Accumulated amortisation		
Charge for the period (note 9)	(10,273)	(14,926)
Charge for the previous periods	(143,710)	(126,029)
	(153,983)	(140,955)
	68,768	58,039
	214,696	174,395

(*) detailed in note 58.

According to the accounting policy described in note 1 B), the recoverable amount of the Goodwill is annually assessed in the second semester of each year or whenever there are indications of eventual loss of value.

In accordance with IAS 36 the recoverable amount of goodwill resulting from the consolidation of the subsidiaries, should be the greater between its value in use (the present value of the future cash flows expected from its use) and its fair value less costs to sell. Based on these criteria, the Group made in 2018, valuations of their investments for which there is goodwill recognised considering among other factors:
(i) an estimate of future cash flows generated by each cash generating unit;
(ii) an expectation of potential changes in the amounts and timing of cash flows;
(iii) the time value of money;
(iv) a risk premium associated with the uncertainty by holding the asset; and
(v) other factors associated with the current situation of financial markets.

The valuations are based on reasonable and sustainable assumptions representing the best estimate of the Executive Committee on the economic conditions that affect each subsidiary, the budgets and the latest projections approved for those subsidiaries and their extrapolation to future periods. The assumptions made for these valuations might vary with the change in economic conditions and in the market.

During the first semester of 2019, there were no factors pointing to the deterioration of the value of those financial participations that could lead to impairment charges in respect of goodwill, nor the improvement of the value of those financial participations that could lead to a reversion of previously booked impairments to the goodwill.

Bank Millennium, S.A. (Poland)

The estimated cash flows of the business were projected based on current operating results and assuming the business plan and projections approved by the Executive Committee up to 2023. After that date, perpetuity was considered based on the average long-term expected rate of return for this activity in the Polish market. Additionally it was taken into consideration the market performance of the Bank Millennium, S.A. in the Polish capital market and the direct percentage of shareholding. Based on this analysis and the expectations of future development, the Group concluded for the absence of impairment indicators related to the goodwill of this participation.

The business plan of Bank Millennium, S.A. comprises a five-year period, from 2019 to 2023, considering, along this period, a compound annual growth rate of 6.5% for Total Assets and of 11.7% for Total Equity, while considering a ROE evolution from 9.3% in 2019 to 10.4% by the end of the period. The exchange rate EUR/PLN considered was 4.2966 as at 31 December 2018 and 4.2465 as at 30 June 2019. The Cost of Equity considered was 9.25% for the period 2019-2023 and in perpetuity. The annual growth rate in perpetuity (g) was 2.6%.

The business plan and projections approved for Bank Millennium at the end of 2018 do not include the acquisition of Euro Bank that occurred at the end of May 2019, the Bank considers that: i) the performance of Bank Millennium during the first semester of 2019, on a standalone basis, is practically aligned with its business plan, and ii) although the acquisition of Euro Bank is, under the Bank's perspective, value accretive, the Bank has decided to adopt a conservative approach as at 30 June 2019 by maintaining its analysis based on the approved business plan.

The changes occurred in Goodwill and intangible assets balances during the first semester of 2019 are analysed as follows:

(Thousands of euros)

	Balance on 1 January	Acquisitions / Charge	Disposals / Charged-off	Euro Bank	Transfers	Exchange differences	Balance on 30 June
Goodwill - Differences arising on consolidation	170,493	32,002	(3,750)	-	-	1,320	200,065
Impairment for goodwill	(54,137)	-	-	-	-	-	(54,137)
	116,356	32,002	(3,750)	-	-	1,320	145,928
Intangible assets							
Software	142,229	9,049	(5,081)	8,542	(145)	935	155,529
Other intangible assets	56,765	5,230	(6)	2,910	1,584	739	67,222
	198,994	14,279	(5,087)	11,452	1,439	1,674	222,751
Accumulated depreciation							
Software	(87,126)	(9,491)	11	-	223	(682)	(97,065)
Other intangible assets	(53,829)	(782)	-	-	(1,662)	(645)	(56,918)
	(140,955)	(10,273)	11	-	(1,439)	(1,327)	(153,983)
	58,039	4,006	(5,076)	11,452	-	347	68,768
	174,395	36,008	(8,826)	11,452	-	1,667	214,696

The changes occurred in Goodwill and intangible assets balances during 2018 are analysed as follows:

(Thousands of euros)

	Balance on 1 January	Acquisitions / Charge	Disposals / Charged-off	Transfers and changes in perimeter	Exchange differences	Balance on 31 December
Goodwill - Differences arising on consolidation	176,929	-	(3,195)	-	(3,241)	170,493
Impairment for goodwill	(57,332)	-	3,195	-	-	(54,137)
	119,597	-	-	-	(3,241)	116,356
Intangible assets						
Software	122,124	28,697	(5,801)	(884)	(1,907)	142,229
Other intangible assets	56,731	1,505	-	137	(1,608)	56,765
	178,855	30,202	(5,801)	(747)	(3,515)	198,994
Accumulated depreciation:						
Software	(80,286)	(13,307)	5,755	(749)	1,461	(87,126)
Other intangible assets	(53,760)	(1,619)	-	31	1,519	(53,829)
	(134,046)	(14,926)	5,755	(718)	2,980	(140,955)
	44,809	15,276	(46)	(1,465)	(535)	58,039
	164,406	15,276	(46)	(1,465)	(3,776)	174,395

30. Income tax

The deferred income tax assets and liabilities are analysed as follows:

(Thousands of euros)

	30 June 2019			31 December 2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred taxes not depending on the future profits (a)						
Impairment losses	966,276	-	966,276	973,317	-	973,317
Employee benefits	836,522	-	836,522	836,580	-	836,580
	1,802,798	-	1,802,798	1,809,897	-	1,809,897
Deferred taxes depending on the future profits						
Impairment losses	899,235	(50,303)	848,932	800,003	(50,303)	749,700
Tax losses carried forward	220,085	-	220,085	328,229	-	328,229
Employee benefits	42,324	(982)	41,342	43,659	(222)	43,437
Financial assets at fair value through other comprehensive income	89,147	(210,034)	(120,887)	157,957	(188,577)	(30,620)
Derivatives	-	(5,919)	(5,919)	-	(6,071)	(6,071)
Intangible assets	39	(678)	(639)	39	-	39
Other tangible assets	9,471	(3,556)	5,915	8,759	(3,184)	5,575
Others	18,654	(22,178)	(3,524)	24,069	(13,085)	10,984
	1,278,955	(293,650)	985,305	1,362,715	(261,442)	1,101,273
Total deferred taxes	3,081,753	(293,650)	2,788,103	3,172,612	(261,442)	2,911,170
Offset between deferred tax assets and deferred tax liabilities	(283,071)	283,071	-	(255,982)	255,982	-
Net deferred taxes	2,798,682	(10,579)	2,788,103	2,916,630	(5,460)	2,911,170

(a) Special Regime applicable to deferred tax assets

Special regime applicable to deferred tax assets

The Extraordinary General Meeting of the Bank, held on 15 October 2014, approved the Bank's adherence to the special regime applicable to deferred tax assets, approved by Law no. 61/2014, of August 26, applicable to expenses and negative equity variations recorded in taxable periods beginning on or after 1 January 2015, as well as to the deferred tax assets that are recorded in the annual accounts of the taxpayer related to the last taxable period prior to that date and to the expenses and negative equity variations that are associated with them. Pursuant to Law no. 23/2016, of 19 August, this special regime is not applied to expenses and negative equity changes recorded in the taxable periods beginning on or after 1 January 2016, nor to deferred tax assets associated with them.

The Special Regime applicable to the deferred tax assets provides an optional framework with the possibility of subsequent resignation, according to which, in certain situations (those of negative net result in individual annual accounts or liquidation by voluntary dissolution, insolvency decreed in court or revocation of the respective authorization), there will be a conversion into tax credits of the deferred tax assets that have resulted from the non-deduction of expenses and reductions in the value of assets resulting from impairment losses on credits and from post-employment or long-term employee benefits. In this case, it should be constituted a special reserve corresponding to 110% of its amount, which implies the simultaneous constitution of conversion rights attributable to the State of equivalent value, which rights can be acquired by the shareholders through payment to the State of that same amount. Tax credits can be offset against tax debts of the beneficiaries (or from an entity with headquarters in Portugal from the same prudential consolidation perimeter) or reimbursable by the State. Under 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 Ordenance no. 259/2016, of 4 October, about the control and use of tax credits, and by the Ordenance 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. 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 10 years after the date of their creation, and the issuing bank shall deposit in favour of the State the amount of the price corresponding to all the rights issued, within 3 months beginning from the date of the confirmation of the conversion of the deferred tax asset into tax credit. Such deposit shall be redeemed when and to the extent that the rights of the State are acquired by the shareholders or exercised by the State.

Deferred taxes are calculated based on the tax rates expected to be in force when the temporary differences are reversed, which correspond to the approved rates or substantially approved at the balance sheet date. The deferred tax assets and liabilities are presented on a net basis whenever, in accordance with applicable law, current tax assets and current tax liabilities can be offset with each other and when the deferred taxes are related to the same tax.

The current tax rate for Banco Comercial Português, S.A. is analysed as follows:

	30 June 2019	31 December 2018
Income tax	21%	21%
Municipal surtax rate (on taxable net income)	1.5%	1.5%
State tax rate (on taxable net income)		
More than 1,500,000 to 7,500,000	3%	3%
From more than 7,500,000 to 35,000,000	5%	5%
More than 35,000,000 (a)	9%	9%

The deferred tax rate related to the Bank's tax losses is 21% (31 December 2018: 21%).

The average deferred tax rate associated with temporary differences of Banco Comercial Português, S.A. is 31.30% (31 December 2018: 31.30%). The income tax rate in the other main countries where the Group operates is 19% in Poland, 32% in Mozambique, 0% (exemption) in the Cayman Islands and 24.24% in Switzerland.

The reporting period of tax losses in Portugal is 12 years for the losses of 2014, 2015 and 2016 and 5 years for the losses of 2017 and following years. In Poland, the term is 5 years, in Mozambique it is 5 years and in Switzerland it is 7 years.

Banco Comercial Português, S.A. applies the Special Tax Regime for Groups of Companies (RETGS) since 2016 for taxation purposes under IRC, in which it's the dominant company.

The balance of Deferred tax assets not depending on the future profits (covered by the regime approved by Law no. 61/2014, of 26 August) includes the amounts of Euros 210,686,000 and Euros 4,020,000 recorded in 2015 and 2016, respectively, related to expenses and negative equity variations with post-employment or long-term employee benefits and to impairment losses in loans accounted until 31 December 2014.

The deferred income tax assets associated to tax losses, by expiry date, are presented as follows:

(Thousands of euros)

Expiry date	30 June 2019	31 December 2018
2019-2025	8,325	8,437
2026	374	10,297
2028 and following	211,386	309,495
	220,085	328,229

Following the publication of the Notice of Bank of Portugal No. 5/2015, the entities that presented their financial statements in Adjusted Accounting Standards issued by the Bank of Portugal (NCA), since 1 January 2016 began to apply the International Financial Reporting Standards as adopted in the European Union, including, among others, the Bank's individual financial statements.

As a result of this change, in the Bank's individual financial statements, the loans portfolio, guarantees provided and other operations of a similar nature became subject to impairment losses calculated in accordance with the requirements of International Accounting Standards (IAS 39 until 31 December 2017 and IFRS 9 since 1 January 2018), replacing the registration of provisions for specific risk, for general credit risks and for country risk, in accordance with Bank of Portugal's Notice No. 3/95.

The Regulatory Decree No. 5/2016, of 18 November, established the maximum limits of impairment losses and other corrections of value for specific credit risk that are deductible to the purpose of calculating the taxable profit under IRC in 2016. This Decree declares that Bank of Portugal Notice No. 3/95 (Notice that was relevant to the determination of provisions for credit in the financial statements presented in the NCA basis) should be considered for the purposes of calculating the maximum limits for impairment losses accepted for tax purposes in 2016. This methodology was also applied for the treatment of the transition adjustments related to credit impairment of entities that previously presented their financial statements on an NCA basis.

This Regulatory Decree includes a transitional rule that provides for the possibility of the positive difference between the value of the provisions for credit created on 1 January 2016 under the Notice of Bank of Portugal No. 3/95 and the impairment losses recorded on 1 January 2016 referring to the same credits, which are considered in the calculation of the taxable income of 2016 only in the part that exceeds the tax losses generated in periods of taxation started on or after 1 January 2012 and not used. The Bank opted to apply this transitional standard.

The Regulatory Decrees No. 11/2017, of 28 December, and No. 13/2018, of 28 December, established the maximum limits of impairment losses and other corrections of value for specific credit risk deductible for the purposes of calculating taxable income in 2017 and 2018, respectively. These Regulatory Decrees establish that the Notice of Bank of Portugal No. 3/95 (Notice that was relevant to determine the provisions for credit in the financial statements presented in the NCA basis) should be considered for the purposes of calculating the maximum limits of impairment losses accepted for tax purposes in 2017 and 2018, respectively.

The Draft Law no. 178/XIII, presented at the Assembly of the Republic in 24 January 2019, and meanwhile approved at the Plenary Session no. 108 in 19 July 2019, the Draft Law no. 178/XIII, establishes the tax regime of credit impairment and of provisions for guarantees for the tax periods beginning on or after 1 January 2019, predicting the approximation between accounting and tax rules for purposes of deductibility of expenses related to the increase of credit impairments. Until the end of 2023, the rules prevailing until 2018 will continue to be applied, except if the option of applying the new regime is exercised earlier.

Regardless the previously referred option, the new regime's application will be mandatory in the financial years of 2022 and/or 2013 in the following circumstances:

- In the financial year of 2022, if, since 1 January 2022, the Group distributes dividends regarding that financial year or acquires own shares, without occurring a decrease of the deferred tax assets covered by the Special Regime in, at least, 10% comparatively to the amount recorded on 31 December 2018;

- In the financial year of 2023, if, since 1 January 2023, the Group distributes dividends regarding that financial year or acquires own shares, without occurring a decrease of the deferred tax assets covered by the Special Regime in, at least, 20% comparatively to the amount recorded on 31 December 2018.

For the estimation of taxable income, it was considered the maintenance of the tax rules in force until 2018, resulting from not exercising earlier the option of applying the new regime

In 2018, the Bank adopted IFRS 9 - Financial Instruments. Since there is no transitional regime that establishes the tax treatment to be applied to the transition adjustments to IFRS 9, the treatment given resulted from the Bank's interpretation of the application of IRC Code's general rules.

Analysis of the recoverability of deferred tax assets

In accordance with the accounting policy 1 Z.3) and with the requirements of IAS 12, the deferred tax assets were recognised based on the Group's expectation of their recoverability. The recoverability of deferred taxes depends on the implementation of the strategy of the Bank's Board of Directors, namely the generation of estimated taxable income and its interpretation of tax legislation. Any changes in the assumptions used in estimating future profits or tax legislation may have material impacts on deferred tax assets.

The assessment of the recoverability of deferred tax assets was carried based on the respective estimated financial statements, prepared under the budgetary process for 2019 and adjusted according to the strategic plan approved by the elected governing bodies, which support the estimated future taxable net income, considering the macroeconomic and competitive environment.

To estimate taxable net income for the periods of 2019 and following, the following main assumptions were considered:

- It was considered the approximation between accounting and tax rules predicted by Law no. 178/XIII, assuming that the Group will not exercise its early application over the adaptation period of 5 years that the referred Law predicts. In applying these rules, the following assumptions were considered, in general terms:

a) non-deductible expenses related to increase of credit impairments for the years between 2019 and 2023 were estimated based on the average percentage of non-deducted amounts for tax purposes in the last accounting periods, compared to the amounts of net impairment increases recorded in these years;

b) the expenses with credit impairment's increases beginning in 2014 were considered deductible for tax purposes according to the new fiscal regime;

c) impairment reversals not accepted for tax purposes were estimated based on the Reduction Plan of Non-Performing Assets 2019-2021 submitted to the supervisory authority in March 2019, and also on the average reversal percentage observed in the last years;

d) the referred average percentages were calculated separately, according to the presence or not of a mortgage security, the eligibility for the special regime applicable to deferred tax assets and according to the clients' rating as Non-Performing Exposures.

-The deductions related to impairment of financial assets were projected based on the destination (sale or settlement) and the estimated date of the respective operations;

- The deductions related to employee benefits were projected based on their estimated payments or deduction plans, in accordance with information provided by the actuary of the pension fund.

The projections made consider the Group's strategic priorities, essentially reflecting the projection of the Bank's medium-term business in Portugal in terms of results generation, and are globally consistent with the Reduction Plan of Non-Performing Assets 2019-2021, submitted to the supervisory authority in March 2019, emphasising:

- Improvement of the net interest income, considering interest rate curves used under the scope of the projections of net interest income aligned with the market forecasts;

- Evolution of the credit-to-deposit ratio in the balance sheet by approximately 100% in Portugal;

- Decrease in the cost of risk, supported by the expectation of a gradual recovery of economic activity, strengthening a stabilization of the business risk, as well as the reduction of the non-core portfolio. In this way, the gradual convergence of the cost of credit risk (up to 2023) is estimated to be close to those currently observed in other European countries, including in the Iberian Peninsula.

- Control of the operating expenses, notwithstanding the investments planned by the Bank in the context of the expected deepening of the digitization and expansion of its commercial activities;

- Positive net income, projecting the favourable evolution of the ROE and maintenance of the CET1 ratio fully implemented at appropriate levels in accordance to the requirements and benchmarks. From 2024 onwards, it is estimated an annual growth of the Net income before income taxes, which reflects a partial convergence to the expected level of ROE stabilized over the medium-term.

- With reference to 30 June 2019, the Bank updated the analysis of the recoverability of deferred tax assets that had been prepared with reference to 31 December 2018, considering namely the following aspects: (i) application of Draft Law no. 178/XIII as mentioned above; (ii) update of projections of Net income before income taxes resulting from decrease of the market interest rates; and (iii) update of tax effects following actuarial deviations recorded in the first semester of 2019.

- Following the update on the analysis of the recoverability of deferred tax assets with reference to 30 June 2019, the Bank derecognised net deferred tax assets of Euros 43.684.000, by reversing the deferred tax assets related to tax losses of Euros 108.407.000 and recognised deferred tax assets related to credit impairment losses of Euros 64.723.000. Regarding the referred net value, Euros 33.498.000 were reversed through profit and loss and the remaining Euros 10.186.000 were reversed through reserves.

After these adjustments, the performed analyses allow the conclusion of total recoverability of the deferred tax assets recognised as at 30 June 2019 and 31 December 2018.

In accordance with these assessments, the amount of unrecognised deferred tax related to tax losses, by expiry year, is as follows:

(Thousands of euros)

Tax losses carried forward	30 June 2019	31 December 2018
2018	-	1,595
2019-2025	168,009	149,694
2026	213,644	203,349
2027 and following	307,506	209,397
	689,159	564,035

The impact of income taxes in Net income and in other balances of Group's equity, as at 30 June 2019, is analysed as follows:

(Thousands of euros)

	30 June 2019				
	Net income for the period	retained earnings	Exchange differences	Euro Bank	Transfers (b)
Deferred taxes					
Deferred taxes not depending on the future profits					
Impairment losses	(7,041)	-	-	-	-
Employee benefits	(43)	(15)	-	-	-
	(7,084)	(15)	-	-	-
Deferred taxes depending on the future profits					
Impairment losses	56,110	-	1,584	41,538	-
Tax losses carried forward (a)	(96,442)	(6,885)	(85)	-	(4,732)
Employee benefits	(18,584)	15,931	47	511	-
Financial assets at fair value through other comprehensive income	-	(92,700)	174	2,259	-
Derivatives	-	-	152	-	-
Intangible assets	37	-	(5)	(710)	-
Other tangible assets	198	-	12	130	-
Others	(7,886)	6,060	(1,924)	(10,758)	-
	(66,567)	(77,594)	(45)	32,970	(4,732)
	(73,651)	(77,609)	(45)	32,970	(4,732)
Current taxes					
Current period	(60,445)	428	-	639	-
Correction of previous periods	13,008	-	-	-	-
	(47,437)	428	-	639	-
	(121,088)	(77,181)	(45)	33,609	(4,732)

(a) The tax on reserves and retained earnings refers to realities recognised in reserves and retained earnings considered for taxable net income purposes.

(b) Refers to que sale of Planfipsa

The impact of income taxes in Net income / (loss) and in other balances of Group's equity, as at 30 June 2018, is analysed as follows:

(Thousands of euros)

	30 June 2018			
		Reserves and retained earnings		
	Net income / (loss) for the period	Impact of adoption of IFRS 9	Movement of the period	Exchange differences
Deferred taxes				
Deferred taxes not depending on the future profits (a)				
Impairment losses	(3,495)	276	-	-
Employee benefits	(2,189)	-	-	-
	(5,684)	276	-	-
Deferred taxes depending on the future profits				
Impairment losses	(6,978)	(182,551)	6,834	(5,047)
Tax losses carried forward	(8,267)	-	7,147	54
Employee benefits	4,307	-	(1,124)	(170)
Financial assets at fair value through other comprehensive income	(10,075)	40,038	(48,615)	110
Financial assets available for sale	n.a.	(7,070)	n.a.	n.a.
Derivatives	220	-	-	299
Other tangible assets	1,039	-	-	(2)
Others	3,448	(324)	14,700	(619)
	(16,306)	(149,907)	(21,058)	(5,375)
	(21,990)	(149,631)	(21,058)	(5,375)
Current taxes				
Current period	(51,384)	1,047	(1,069)	-
Correction of previous periods	1,479	-	-	-
	(49,905)	1,047	(1,069)	-
	(71,895)	(148,584)	(22,127)	(5,375)

(a) Deferred tax related to expenses and negative equity variations covered by the special arrangements for deferred tax assets (Law No. 61/2014 of 26 August). Under the Law No. 23/2016 of 19 August, this special scheme is not applicable to expenses and negative equity variations accounted in the taxable periods beginning on or after 1 January 2016, neither to deferred tax assets associated with them.

The reconciliation between the nominal tax rate and the effective tax rate is analysed as follows:

(Thousands of euros)

	30 June 2019	30 June 2018
Net income / (loss) before income taxes	332,916	276,172
Current tax rate (%)	31.5%	31.5%
Expected tax	(104,869)	(86,994)
Tax benefits	6,783	7,358
Derecognition of deferred tax associated with tax losses	10,868	507
Effect of the difference between the tax rate and deferred tax recognised / not recognised	(23,425)	25,246
Non-deductible costs and other corrections	380	578
Non-deductible impairment and provisions	1,776	(11,177)
Results of companies accounted by the equity method	6,903	11,813
Autonomous tax	(461)	(1,153)
Contribution to the banking sector	(19,043)	(18,072)
Total	(121,088)	(71,895)
Effective rate (%)	36.37%	26.03%

31. Other assets

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Deposit account applications	216,812	53,417
Associated companies	3,964	1,644
Subsidies receivables	6,490	8,767
Prepaid expenses	32,598	29,307
Debtors for futures and options transactions	116,541	109,445
Insurance activity	5,534	6,297
Debtors		
Residents		
Advances to suppliers	284	962
Prosecution cases / agreements with the Bank	13,381	11,713
SIBS	6,827	6,005
Receivables from real estate, transfers of assets and other securities	34,557	36,760
Others	75,419	72,897
Non-residents	36,704	43,150
Interest and other amounts receivable	48,479	43,969
Amounts receivable on trading activity	413,406	33,792
Gold and other precious metals	3,700	3,617
Other financial investments	165	165
Other recoverable tax	20,066	22,026
Artistic patrimony	28,875	28,811
Reinsurance technical provision	24,968	5,243
Obligations with post-employment benefits	-	12,707
Capital supplies	235,443	227,295
Amounts due for collection	39,943	45,501
Amounts due from customers	214,038	217,483
Sundry assets	81,977	75,984
	1,660,171	1,096,957
Impairment for other assets	(291,087)	(285,141)
	1,369,084	811,816

As referred in note 46, as at 30 June 2019, the balances Capital supplies include the amount of Euros 228,193,000 (31 December 2018: Euros 226,049,000) arising from the transfers of assets to Specialized recovery funds which have impairment in the same amount.

As at at 30 June 2019, the balance Deposit account applications includes the amount of Euros 175,410,000 (31 December 2018: Euros 16,307,000) on the Clearing houses / Clearing derivatives.

The balance Amounts receivable on trading activity includes amounts receivable within 3 business days of stock exchange operations.

Considering the nature of these transactions and the age of the amounts of these items, the Group's procedure is to periodically assess the collectability of these amounts and whenever impairment is identified, an impairment loss is registered in the income statement.

The changes occurred in impairment for other assets are analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Balance on 1 January	285,141	282,646
Transfers	3,442	51,842
Charge for the period (note 12)	6,749	7,234
Reversals for the period (note 12)	(3,319)	(1,414)
Amounts charged-off	(925)	(55,164)
Exchange rate differences	(1)	(3)
Balance at the end of the period	291,087	285,141

32. Resources from credit institutions

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Resources and other financing from Central Banks		
Bank of Portugal	3,945,618	3,950,657
Central Banks abroad	119,005	805,264
	4,064,623	4,755,921
Resources from credit institutions in Portugal		
Very short-term deposits	-	8,134
Sight deposits	148,235	119,634
Term Deposits	162,449	190,825
Loans obtained	1,413	1,154
CIRS and IRS operations collateralised by deposits (*)	1,010	2,560
	313,107	322,307
Resources from credit institutions abroad		
Very short-term deposits	-	700
Sight deposits	127,131	184,543
Term Deposits	198,666	196,906
Loans obtained	1,802,759	1,818,677
CIRS and IRS operations collateralised by deposits (*)	25,979	21,174
Sales operations with repurchase agreement	690,270	451,712
Other resources	8,915	856
	2,853,720	2,674,568
	7,231,450	7,752,796

(*) Under the scope of transactions involving derivative financial instruments (IRS and CIRS) with institutional counterparties, and in accordance with the terms of their respective agreements ("Cash collateral"). These deposits are held by the Group and are reported as collateral for the referred operations (IRS and CIRS), whose revaluation is positive.

The balance Resources from credit institutions - Resources from credit institutions abroad - Sales operations with repurchase agreement, corresponds to repo operations carried out in the money market and is a tool for the Bank's treasury management.

33. Resources from customers and other loans

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Deposits from customers		
Repayable on demand	33,962,858	30,592,203
Term deposits	18,452,286	18,231,848
Saving accounts	3,851,889	3,512,313
Treasury bills and other assets sold under repurchase agreement	19,600	15,958
Cheques and orders to pay	530,618	312,365
Others	60,182	-
	56,877,433	52,664,687

In the terms of the Law, the Deposit Guarantee Fund was established to guarantee the reimbursement of funds deposited in Credit Institutions. The criteria to calculate the annual contributions to the Portuguese fund are defined in the Regulation no. 11/94 of the Bank of Portugal.

34. Non subordinated debt securities issued

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Bonds	404,961	310,164
Covered bonds	995,153	994,347
Medium term notes (MTNs)	89,512	77,488
Securitisations	279,350	298,395
	1,768,976	1,680,394
Accruals	2,812	5,693
	1,771,788	1,686,087

This balance as at 30 June 2019, excluding accruals, is analysed by the remaining period, as follows:

(Thousands of euros)

	30 June 2019					
	Up to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
Bonds	10,987	85,677	94,371	213,926	-	404,961
Covered bonds	-	-	-	995,153	-	995,153
MTNs	-	-	-	89,512	-	89,512
Securitisations	-	-	-	-	279,350	279,350
	10,987	85,677	94,371	1,298,591	279,350	1,768,976

This balance as at 31 December 2018, excluding accruals, is analysed by the remaining period, as follows:

(Thousands of euros)

	31 December 2018					
	Up to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
Bonds	74,027	15,466	39,561	181,110	-	310,164
Covered bonds	-	-	-	994,347	-	994,347
MTNs	-	-	-	77,182	306	77,488
Securitisations	-	-	-	-	298,395	298,395
	74,027	15,466	39,561	1,252,639	298,701	1,680,394

35. Subordinated debt

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Bonds		
Non Perpetual	1,250,406	1,036,785
Perpetual	27,021	27,021
	1,277,427	1,063,806
Accruals	24,596	8,299
	1,302,023	1,072,105

As at 30 June 2019, the subordinated debt issues are analysed as follows:

(Thousands of euros)

Issue	Issue date	Maturity date	Interest rate	Nominal value	Book value	Own funds value (*)
Non Perpetual Bonds						
Banco Comercial Português						
Bcp Ob Sub Mar 2021 - Emtn 804	March, 2011	March, 2021	Euribor 3M+3.75%	114,000	114,000	39,773
Bcp Ob Sub Apr 2021 - Emtn 809	April, 2011	April, 2021	Euribor 3M+3.75%	64,100	64,100	22,471
Bcp Ob Sub 3S Apr 2021 - Emtn 812	April, 2011	April, 2021	Euribor 3M+3.75%	35,000	35,000	12,658
Bcp Sub 11/25.08.2019 - Emtn 823	August, 2011	August, 2019	Fixed rate 6.383%	7,500	7,535	229
Bcp Subord Sep 2019 - Emtn 826	October, 2011	September, 2019	Fixed rate 9.31%	50,000	51,166	2,444
Bcp Subord Nov 2019 - Emtn 830	November, 2011	November, 2019	Fixed rate 8.519%	40,000	41,360	2,844
Mbcp Subord Dec 2019 - Emtn 833	December, 2011	December, 2019	Fixed rate 7.15%	26,600	27,857	2,350
Mbcp Subord Jan 2020 - Emtn 834	January, 2012	January, 2020	Fixed rate 7.01%	14,000	14,685	1,501
Mbcp Subord Feb 2020 - Vm Sr. 173	April, 2012	February, 2020	Fixed rate 9%	23,000	23,883	3,041
Bcp Subord Apr 2020 - Vm Sr 187	April, 2012	April, 2020	Fixed rate 9.15%	51,000	52,853	7,735
Bcp Subord 2 Serie Apr 2020 - Vm 194	April, 2012	April, 2020	Fixed rate 9%	25,000	25,931	3,917
Bcp Subordinadas Jul 20-Emtn 844	July, 2012	July, 2020	Fixed rate 9%	26,250	27,111	5,279
Bcp Fix Rate Reset Sub Notes-Emtn 854	December, 2017	December, 2027	See reference (iii)	300,000	298,680	300,000
Grupo Bank Millennium						
Bank Millennium - BKMO_071227R	December, 2017	December, 2027	Wibor 6M 1,81% + 2,3%	164,842	164,842	54,357
Bank Millennium - BKMO_300129W	January, 2019	January, 2029	Wibor 6M 2,30%	195,455	195,455	64,452
Eurobank_PP5	November, 2017	November, 2027	Wibor 3M 1,44%	23,549	23,549	-
BCP Finance Bank						
BCP Fin Bank Ltd EMTN - 828	October, 2011	October, 2021	Fixed rate 13%	94,436	82,355	13,124
Magellan No. 3:						
Magellan No. 3 Series 3 Class F	June, 2005	May, 2058	-	44	44	-
					1,250,406	536,175
Perpetual Bonds						
Banco Comercial Português						
TOPS BPSM 1997	December, 1997	See reference (i)	Euribor 6M+0,9%	22,035	22,035	-
BCP Leasing 2001	December, 2001	See reference (ii)	Euribor 3M+2,25%	4,986	4,986	1,496
					27,021	1,496
Accruals					24,596	-
					1,302,023	537,671

(*) 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:

<u>Date of exercise of the next call option</u> - The dates of the next call options are the dates provided in the Issues Terms and Conditions.

(i) December 2019; (ii) September 2019.

<u>Interest rate</u>

(iii) 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%.

As at 31 December 2018, the subordinated debt issues are analysed as follows:

(Thousands of euros)

Issue	Issue date	Maturity date	Interest rate	Nominal value	Book value	Own funds value (*)
Non Perpetual Bonds						
Banco Comercial Português						
Bcp Ob Sub Mar 2021 - Emtn 804	March, 2011	March, 2021	Euribor 3M + 3.75%	114,000	114,000	51,173
Bcp Ob Sub Apr 2021 - Emtn 809	April, 2011	April, 2021	Euribor 3M + 3.75%	64,100	64,100	28,881
Bcp Ob Sub 3S Apr 2021 - Emtn 812	April, 2011	April, 2021	Euribor 3M + 3.75%	35,000	35,000	16,158
Bcp Sub 11/25.08.2019 - Emtn 823	August, 2011	August, 2019	Fixed rate 6.383%	7,500	7,637	979
Bcp Subord Sep 2019 - Emtn 826	October, 2011	September, 2019	Fixed rate 9.31%	50,000	53,541	7,444
Bcp Subord Nov 2019 - Emtn 830	November, 2011	November, 2019	Fixed rate 8.519%	40,000	43,234	6,844
Mbcp Subord Dec 2019 - Emtn 833	December, 2011	December, 2019	Fixed rate 7.15%	26,600	29,297	5,010
Mbcp Subord Jan 2020 - Emtn 834	January, 2012	January, 2020	Fixed rate 7.01%	14,000	15,334	2,901
Mbcp Subord Feb 2020 - Vm Sr. 173	April, 2012	February, 2020	Fixed rate 9%	23,000	24,543	5,341
Bcp Subord Apr 2020 - Vm Sr 187	April, 2012	April, 2020	Fixed rate 9.15%	51,000	54,102	12,835
Bcp Subord 2 Serie Apr 2020 - Vm 194	April, 2012	April, 2020	Fixed rate 9%	25,000	26,522	6,417
Bcp Subordinadas Jul 20-Emtn 844	July, 2012	July, 2020	Fixed rate 9%	26,250	27,560	7,904
Bcp Fix Rate Reset Sub Notes-Emtn 854	December, 2017	December, 2027	See reference (iii)	300,000	298,620	300,000
Bank Millennium						
Bank Millennium - BKMO_071227R	December, 2017	December, 2027	Wibor 6M 1,81% + 2,3%	162,920	162,920	42,409
BCP Finance Bank						
BCP Fin Bank Ltd EMTN - 828	October, 2011	October, 2021	Fixed rate 13%	94,445	80,331	14,978
Magellan No. 3:						
Magellan No. 3 Series 3 Class F	June, 2005	May, 2058	-	44	44	-
					1,036,785	509,274
Perpetual Bonds						
Banco Comercial Português						
TOPS BPSM 1997	December, 1997	See reference (i)	Euribor 6M+0,9%	22,035	22,035	8,814
BCP Leasing 2001	December, 2001	See reference (ii)	Euribor 3M+2,25%	4,986	4,986	1,994
					27,021	10,808
Accruals					8,299	-
					1,072,105	520,082

(*) Amount of subordinated loans, eligible as Level 2 own funds, in accordance with Articles 62 a), 63 to 65, 66 a) and 67 of the CRR.

References:

Date of exercise of the next call option - It is considered the first date after the end of the restructuring period (31 December 2017). Subject to prior approval of the Supervisory Authorities.

(i) June 2019; (ii) - March 2019.

Interest rate

(iii) 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%.

36. Financial liabilities held for trading

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Short selling securities	20,155	28,803
Trading derivatives (note 23):		
Swaps	290,264	281,724
Options	1,431	3,966
Embedded derivatives	12,724	8,344
Forwards	2,925	3,024
Others	4,503	1,147
	311,847	298,205
	332,002	327,008
Level 1	75	266
Level 2	298,697	289,039
Level 3	33,230	37,703

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 2019, the embedded derivatives valuation separated from the host contracts in accordance with the accounting policy presented in note 1 C.5. in the amount of Euros 12,724,000 (31 December 2018: Euros 8,344,000). This note should be analysed together with note 23.

37. Financial liabilities designated at fair value through profit or loss

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Deposits from customers	2,142,256	2,583,549
Debt securities at fair value through profit and loss		
Bonds	878	826
Medium term notes (MTNs)	618,717	340,274
	619,595	341,100
Accruals	141	806
	619,736	341,906
Certificates	752,505	678,192
	3,514,497	3,603,647

38. Provisions

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Provision for guarantees and other commitments (note 21)	125,262	187,710
Technical provisions for the insurance activity - For direct insurance and reinsurance accepted:		
Unearned premiums	8,913	7,801
Life insurance	4,282	4,736
For participation in profit and loss	130	184
Other technical provisions	33,541	13,918
Other provisions for liabilities and charges	142,294	136,483
	314,422	350,832

Changes in Provisions for guarantees and other commitments are analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Balance on 1 January	187,710	130,875
Transfers resulting from changes in the Group's structure	172	-
Adjustments due to the implementation of IFRS 9 (note 56)	-	14,714
Transfers (note 21)	(56,726)	(2,122)
Charge for the period (note 13)	17,127	86,255
Reversals for the period (note 13)	(23,163)	(41,802)
Exchange rate differences	142	(210)
Balance at the end of the period	125,262	187,710

Changes in Other provisions for liabilities and charges are analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Balance on 1 January	136,483	135,249
Other transfers	2,296	733
Charge for the period (note 13)	7,994	13,537
Reversals for the period (note 13)	-	(301)
Amounts charged-off	(4,637)	(12,427)
Exchange rate differences	158	(308)
Balance at the end of the period	142,294	136,483

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 caption includes provisions for contingencies in the sale of Millennium Bank (Greece) (Euros 23,507,000), lawsuits, fraud and tax contingencies. The provisions constituted to cover tax contingencies totalled Euros 67,891,000 (31 December 2018: Euros 65,539,000) and are associated, essentially, to contingencies related to VAT and Stamp Duty.

39. Other liabilities

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Creditors:		
Associated companies	2	44
Suppliers	33,284	46,144
From factoring operations	31,544	26,323
For futures and options transactions	10,977	13,731
For direct insurance and reinsurance operations	3,990	3,614
Deposit account and other applications	61,199	75,453
Obligations not covered by the Group Pension Fund - amounts payable by the Group	14,406	13,431
Rents to pay	268,658	-
Other creditors		
Residents	27,920	27,915
Non-residents	49,988	257,902
Holiday pay and subsidies	58,434	58,609
Interests and other amounts payable	59,318	46,685
Operations to be settled - foreign, transfers and deposits	317,451	277,452
Amounts payable on trading activity	153,873	10,603
Other administrative costs payable	7,345	5,194
Deferred income	84,727	71,329
Loans insurance received and to amortised	74,183	59,641
Public sector	38,722	35,791
Obligations with post-employment benefits (note 49)	145,058	-
Other liabilities	224,745	270,213
	1,665,824	1,300,074

As at 31 December 2018, the balance Other creditors - Non-residents includes the amount of Euros 207,531,000 related to the acquisition of securities for BCP's portfolio, which were settled in 2019.

The balance Obligations not covered by the Group Pension Fund - amounts payable by the Group includes the amount of Euros 6,075,000 (31 December 2018: Euros 6,363,000) related to the actual value of benefits attributed associated with mortgage loans to employees, retirees and former employees and the amount of Euros 3,733,000 (31 December 2018: Euros 3,733,000), related to the obligations with retirement benefits already recognised in Staff costs, to be paid to former members of the Executive Board of Directors, as referred in note 49.

The balance Amounts payable on trading activity includes amounts payable within 3 business days of stock exchange operations.

In the first semester of 2019, the balance Rents to pay corresponds to the amount of lease liabilities recognized under IFRS 16, according to the accounting policy 1 H and note 57. As at 30 June 2019, the Group has several operating leases for properties. The minimum future payments relating to operating leases not revocable, by maturity, are as follows:

(Thousands of euros)

	30 June 2019
Until 1 year	26,729
1 to 5 years	88,963
Over 5 years	164,850
	280,542
Accrued costs recognised in Net interest income	(11,884)
	268,658

40. Share capital, Preference shares and Other equity instruments

The Bank's share capital, as at 30 June 2019, amounts to Euros 4,725,000,000 and is represented by 15,113,989,952 nominative book-entry without nominal value, fully subscribed and paid up.

Pursuant the resolutions of the General Meeting of the Bank of 5 November 2018, the share capital of the Bank was reduced from Euros 5,600,738,053.72 to Euros 4,725,000,000 maintaining the number of shares. The reduction in share capital of Euros 875,738,053.72 was made by incorporation of reserves including actuarial differences.

As at 30 June 2019, the share premium amounts to Euros 16,470,667.11, corresponding to the difference between the issue price (Euros 0.0834 per share) and the issue value (Euros 0.08 per share) determined under the scope of the Exchange Offer occurred in June 2015.

As at 30 June 2019, the balance Other equity instruments, in the amount of Euros 402,922,000 corresponds to:

-2,922 perpetual subordinated debt securities with conditional coupons, issued on 29 June 2009, with a nominal value of Euros 1,000 each.
- 2,000 subordinated perpetual bonds (Additional Tier 1), issued on 31 January 2019, with a nominal value of Euros 200,000 each.

As described in note 47, Banco Comercial Português, S.A. proceeded, on 31 January 2019, to an issue of perpetual bonds, representing subordinated debt, classified as Additional Tier 1 core capital instrument, in the amount of Euros 400,000,000. This issue was classified as a equity instrument in accordance with the specific rules of IAS 32 and accounting policy 1E.

The operation, in the amount of Euros 400 million and with no fixed term, has the option of early repayment by the Bank as of the end of the 5th year, and an interest rate of 9.25% per annum 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 2019, the shareholders who individually or jointly hold 2% or more of the capital of the Bank, are the following:

Shareholder	number of shares	% share capital	% voting rights
Fosun Group - Chiado (Luxembourg) S.a.r.l. held by Fosun International Holdings Ltd	4,118,502,618	27.25%	27.25%
Sonangol - Sociedade Nacional de Combustíveis de Angola, EP, directly	2,946,353,914	19.49%	19.49%
BlackRock, Inc. (*)	512,328,512	3.39%	3.39%
EDP Pension Fund (**)	314,018,677	2.08%	2.08%
Total Qualified Shareholdings	7,891,203,721	52.21%	52.21%

(*) In accordance with the announcement on 5 March 2018 (last information available).

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

41. Legal and statutory reserves

Under Portuguese legislation, the Bank is required to annually set-up a legal reserve equal to a minimum of 10 percent of annual profits until the reserve equals the share capital, or until the sum of the free reserves constituted and the retained earnings, if higher. Such reserve is not normally distributable. In accordance with the proposal for the appropriation of net income for the 2018 financial year approved at the General Shareholders' Meeting held on 22 May 2019, the Bank increased its legal reserve in the amount of Euros 5,927,000. Thus as at 30 June 2019, the amount of Legal reserves amounts to Euros 240,535,000 (31 December 2018: Euros 234,608,000).

In accordance with current Portuguese legislation, the Group companies must set-up annually a reserve with a minimum percentage between 5 and 20 percent of their net annual profits depending on the nature of their economic activity and are recorded in Other reserves and retained earnings in the Bank's consolidated financial statements (note 43).

As described in note 47, under the appropriation of net income for the 2018 financial year, the Bank distributed the Statutory reserves in the amount of Euros 30,000,000.

42. Treasury shares

This balance is analysed as follows:

	Banco Comercial Português, S.A. shares		Other treasury stock	Total
30 June 2019				
Net book value (Euros '000)	88		-	88
Number of securities	323,738	(*)		
Average book value (Euros)	0.27			
31 December 2018				
Net book value (Euros '000)	74		-	74
Number of securities	323,738	(*)		
Average book value (Euros)	0.23			

(*) As at 30 June 2019, Banco Comercial Português, S.A. does not hold treasury shares and did not purchased or sold own shares during the period. However, this balance includes 323,738 shares (31 December 2018: 323,738 shares) owned by clients. Since for some of these clients there is evidence of impairment, the shares of the Bank owned by these clients were considered as treasury shares, and, in accordance with the accounting policies, deducted to equity.

The own shares held by the companies included in the consolidation perimeter are within the limits established by the Bank's by-laws and by "Código das Sociedades Comerciais". Regarding treasury shares owned by associated companies of the BCP Group, as referred in note 50, as at 30 June 2019, the Millenniumbcp Ageas Group owned 142,601,002 BCP shares (31 December 2018: 142,601,002 shares) in the amount of Euros 38,745,000 (31 December 2018: Euros 32,727,000).

43. Reserves and retained earnings

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Fair value changes - Gross amount		
Financial assets at fair value through other comprehensive income (note 23)		
Debt instruments (*)	118,218	(10,343)
Equity instruments	(38,782)	(30,197)
Of associated companies and other changes	37,456	25,675
Cash-flow hedge	264,577	105,705
From financial liabilities designated at fair value through profit or loss related to changes in own credit risk	3,760	4,151
	385,229	94,991
Fair value changes - Tax		
Financial assets at fair value through other comprehensive income		
Debt instruments	(33,965)	7,988
Equity instruments	3,367	1,880
Cash-flow hedge	(83,251)	(34,069)
From financial liabilities designated at fair value through profit or loss related to changes in own credit risk	(1,177)	(1,299)
	(115,026)	(25,500)
	270,203	69,491
Exchange differences arising on consolidation:		
Bank Millennium, S.A.	(32,815)	(38,841)
BIM - Banco International de Moçambique, S.A.	(153,310)	(152,287)
Banco Millennium Atlântico, S.A.	(112,080)	(100,382)
Others	2,452	2,454
	(295,753)	(289,056)
Application of IAS 29		
Effect on equity of Banco Millennium Atlântico, S.A.	40,583	43,342
Others	(3,965)	(3,965)
	36,618	39,377
Other reserves and retained earnings	782,616	650,669
	793,684	470,481

(*) Includes the effects arising from the application of hedge accounting.

The fair value changes correspond to the accumulated changes of the Financial assets at fair value through other comprehensive income and Cash flow hedge, in accordance with the accounting policy presented in note 1 C).

During the first semester of 2019, the changes occurred in Fair value changes - Gross amount, excluding the effect of hedge accounting and changes in own credit risk associated with financial liabilities at fair value through profit or loss, are analysed as follows:

(Thousands of euros)

	Balance as at 31 December 2018	Fair value changes	Fair value hedge adjustment	Impairment in profit or loss	Disposals	Balance as at 30 June 2019
Financial assets at fair value through other comprehensive income						
Debt instruments						
Debt securities - Portuguese public issuers	(72,484)	248,603	(38,875)	-	(55,706)	81,538
Others	62,141	16,746	(22,828)	139	(19,518)	36,680
	(10,343)	265,349	(61,703)	139	(75,224)	118,218
Equity instruments	(30,197)	(9,242)	-	-	657	(38,782)
Associated companies and others						
Millenniumbcp Ageas	18,774	15,099	-	-	-	33,873
Others	6,901	(3,318)	-	-	-	3,583
	25,675	11,781	-	-	-	37,456
	(14,865)	267,888	(61,703)	139	(74,567)	116,892

The changes occurred, during 2018, in Fair value changes - Gross amount, excluding the effect of hedge accounting and changes in own credit risk associated with financial liabilities at fair value through profit or loss, are analysed as follows:

(Thousands of euros)

	Balance as at 31 December 2017	Adjustments - implementation of IFRS 9	Fair value changes	Fair value hedge adjustment	Impairment in profit or loss	Disposals	Balance as at 31 December 2018
Financial assets at fair value through other comprehensive income							
Debt instruments							
Debt securities - Portuguese public issuers	-	(58,155)	25,299	(19,605)	(3,329)	(16,694)	(72,484)
Others	-	87,904	12,622	(10,094)	2,237	(30,528)	62,141
	-	29,749	37,921	(29,699)	(1,092)	(47,222)	(10,343)
Equity instruments	-	(67,149)	176	-	-	36,776	(30,197)
Financial assets available for sale							
Debt instruments							
Debt securities - Portuguese public issuers	(57,774)	57,774	-	-	-	-	-
Others	85,101	(85,101)	-	-	-	-	-
	27,327	(27,327)	-	-	-	-	-
Equity instruments							
Visa Inc.	2,927	(2,927)	-	-	-	-	-
Others	26,629	(26,629)	-	-	-	-	-
	29,556	(29,556)	-	-	-	-	-
Financial assets held to maturity	(3,049)	3,049	-	-	-	-	-
Associated companies and others							
Millenniumbcp Ageas	25,032	-	(6,258)	-	-	-	18,774
Others	4,167	(843)	3,577	-	-	-	6,901
	29,199	(843)	(2,681)	-	-	-	25,675
	83,033	(92,077)	35,416	(29,699)	(1,092)	(10,446)	(14,865)

The negative amount of Euros 92,077,000 of adjustments due to the implementation of IFRS 9 corresponds, in 2018, as described in note 56, to the impact arising from the adoption of IFRS 9 in the balance Investments in associated companies and other changes due to changes in the classification of securities.

The Disposals occurred in 2018, regards 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 2019	31 December 2018
Fair value changes		
Debt instruments	9,244	15,890
Equity instruments	3,276	2,938
Cash-flow hedge	(3,551)	(7,964)
Other	95	29
	9,064	10,893
Deferred taxes		
Debt instruments	(1,757)	(3,019)
Equity instruments	(622)	(558)
Cash-flow hedge	675	1,513
	(1,704)	(2,064)
	7,360	8,829
Exchange differences arising on consolidation	(102,231)	(113,417)
Actuarial losses (net of taxes)	264	248
Other reserves and retained earnings	1,311,426	1,287,773
	1,216,819	1,183,433

The balance Non-controlling interests is analysed as follows:

(Thousands of euros)

	Balance Sheet		Income Statement	
	30 June 2019	31 December 2018	30 June 2019	30 June 2018
Bank Millennium, S.A.	1,022,817	973,749	38,874	41,088
BIM - Banco International de Moçambique, SA (*)	161,740	160,776	16,939	18,543
Other subsidiaries	32,262	48,908	(351)	(4,247)
	1,216,819	1,183,433	55,462	55,384

(*) Includes the non-controlling interests of BIM Group related to SIM - Seguradora International de Moçambique, S.A.R.L.

The following table presents a summary of financial information for the main subsidiaries included in this balance, prepared in accordance with IFRS. The information is presented before inter-company eliminations:

(Thousands of euros)

	Bank Millennium, S.A.		BIM - Banco International de Moçambique, S.A.	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Total income	482,037	417,522	161,823	182,894
Net profit for the period	77,904	82,341	47,956	51,061
Net profit for the period attributable to the shareholders	39,030	41,253	31,980	34,050
Net profit for the period attributable to non-controlling interests	38,874	41,088	15,976	17,011
Other comprehensive income attributable to the shareholders	10,223	(38,621)	(923)	5,461
Other comprehensive income attributable to non-controlling interests	10,182	(38,467)	(462)	2,728
Total comprehensive income	98,309	5,253	46,571	59,250
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Balance sheet				
Financial assets	21,620,571	18,457,170	1,922,839	1,955,494
Non-financial assets	437,083	268,047	214,839	183,010
Financial liabilities	(19,414,203)	(16,338,222)	(1,551,019)	(1,583,802)
Non-financial liabilities	(593,717)	(435,595)	(108,913)	(78,588)
Equity	2,049,734	1,951,400	477,746	476,114
Equity attributed to the shareholders	1,026,917	977,651	318,587	317,499
Equity attributed to the non-controlling interests	1,022,817	973,749	159,159	158,615
Cash flows arising from:				
operating activities	(722,397)	990,383	(30,747)	48,387
investing activities	539,598	(1,863,011)	34,951	(8,587)
financing activities	203,775	(32,172)	(45,296)	(18,217)
Net increase / (decrease) in cash and equivalents	20,976	(904,800)	(41,092)	21,583
Dividends paid during the period:				
attributed to the shareholders	-	-	29,834	17,192
attributed to the non-controlling interests	-	-	14,905	8,589
	-	-	44,739	25,781

45. Guarantees and other commitments

This balance is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Guarantees granted		
Guarantees	4,263,735	4,306,184
Stand-by letter of credit	71,395	81,249
Open documentary credits	297,432	300,020
Bails and indemnities	138,152	139,345
	4,770,714	4,826,798
Commitments to third parties		
Irrevocable commitments		
Term deposits contracts	15,155	-
Irrevocable credit lines	3,526,126	3,267,453
Securities subscription	86,629	97,159
Other irrevocable commitments	114,975	114,829
Revocable commitments		
Revocable credit lines	4,332,486	4,077,379
Bank overdraft facilities	540,011	552,307
Other revocable commitments	122,610	109,535
	8,737,992	8,218,662
Guarantees received	26,787,108	24,061,727
Commitments from third parties	10,603,593	9,411,635
Securities and other items held for safekeeping	66,052,965	64,887,064
Securities and other items held under custody by the Securities Depository Authority	66,527,647	65,566,396
Other off balance sheet accounts	123,296,223	126,252,374

The guarantees granted by the Group may be related to loans transactions, where the Group grants a guarantee in connection with a loan granted to a client by a third entity. According to its specific characteristics it is expected that some of these guarantees expire without being executed and therefore these transactions do not necessarily represent a cash-outflow. The estimated liabilities are recorded under provisions (note 38).

Stand-by letters and open documentary credits aim to ensure the payment to third parties from commercial deals with foreign entities and therefore financing the shipment of the goods. Therefore, the credit risk of these transactions is limited since they are collateralised by the shipped goods and are generally short term operations.

Irrevocable commitments are non-used parts of credit facilities granted to corporate or retail customers. Many of these transactions have a fixed term and a variable interest rate and therefore the credit and interest rate risk are limited.

The financial instruments accounted as Guarantees and other commitments are subject to the same approval and control procedures applied to the credit portfolio, namely regarding the analysis of objective evidence of impairment, as described in the accounting policy in note 1 C). The maximum credit exposure is represented by the nominal value that could be lost related to guarantees and commitments undertaken by the Group in the event of default by the respective counterparties, without considering potential recoveries or collaterals.

46. Transfers of assets

The Group performed a set of transactions of sale of financial assets (namely loans and advances to customers) for Funds specialized in the recovery of loans. These funds take the responsibility for management of the borrower companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of the companies/assets.

The specialized funds in credit recovery that acquired the financial assets are closed funds, in which the holders of the participation units have no possibility to request the reimbursement of its participation units throughout the useful life of the Fund. These participation units are held by several banks, which are the sellers of the loans, in percentages that vary through the useful life of the Funds, ensuring however that, separately, none of the banks hold more than 50% of the capital of the Fund.

The Funds have a specific management structure (General Partner), fully independent from the assignor banks and that is selected on the date of establishment of the Fund. The management structure of the Fund has as main responsibilities to: (i) determine the objective of the Fund and (ii) administrate and manage exclusively the Fund, determining the objectives and investment policy and the conduct in management and business of the Fund. The management structure is remunerated through management commissions charged to the Funds.

These funds (in which the Group holds minority positions) establish companies in order to acquire the loans to the banks, which are financed through the issuance of senior and junior securities. The value of the senior securities fully subscribed by the Funds that hold the share capital match the fair value of the asset sold, determined in accordance with a negotiation based on valuations performed by both parties.

The value of the junior securities is equivalent to the difference between the fair value based on the valuation of the senior securities and the value of the transfer of credits. These junior securities, when subscribed by the Group, provide the right to a contingent positive value if the recovered amount for the assets transferred is above the nominal value amount of senior securities plus it related interest. Thus, considering these junior assets reflect a difference between the valuations of the assets sold based on the appraisals performed by independent entities and the negotiation between the parties, the Group performs the constitution of impairment losses for all of them.

Therefore, as a result of the transfer of assets occurred operations, the Group subscribed:

- Senior securities (participation units) of the funds, for which the cash-flows arise mainly from a set of assets transferred from the participant banks. These securities are booked in Financial assets not held for trading mandatorily at fair value through profit or loss portfolio and are accounted for at fair value based on the last available Net assets value (NAV), as disclosed by the Management companies and audited at year end, still being analysed by the Bank;
- Junior securities (with higher subordination degree) issued by the Portuguese law companies held by the funds and which are fully provided to reflect the best estimate of impairment of the financial assets transferred.

Within this context, not withholding control but maintaining an exposure to certain risks and rewards, the Group, in accordance with IFRS 9 3.2 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the transaction, having concluded that it does not hold substantially all the risks and rewards. Considering that it does not hold control and does not exercise significant influence on the funds or companies' management, the Group performed, under the scope of IAS IFRS 9 3.2, the derecognition of the assets transferred and the recognition of the assets received.

The results are calculated on the date of transfer of the assets. During the first semester of 2019 and the year 2018, no credits were sold to specialized funds in credit recovery.

The amounts accumulated as at 30 June 2019 and 31 December 2018, related to these operations are analysed as follows:

(Thousands of euros)

	30 June 2019			
	Assets transferred	Net assets transferred	Received value	Net gains / (losses)
Fundo Recuperação Turismo FCR (a)	304,400	268,318	294,883	26,565
Fundo Reestruturação Empresarial FCR (b)	84,112	82,566	83,212	646
FLIT-PTREL (c)	577,803	399,900	383,821	(16,079)
Fundo Recuperação FCR (b)	343,266	243,062	232,267	(10,795)
Fundo Aquarius FCR (c)	132,635	124,723	132,635	7,912
Discovery Real Estate Fund (c)	211,388	152,155	138,187	(13,968)
Fundo Vega FCR (d)	113,665	113,653	109,599	(4,054)
	1,767,269	1,384,377	1,374,604	(9,773)

The activity segments are as follows: a) Tourism; b) Diversified; c) Real estate and tourism; and d) Property.

As at 30 June 2019, the assets received under the scope of these operations are comprised of:

(Thousands of euros)

	30 June 2019			
	Senior securities	Junior securities		
	Participation units (note 23)	Capital supplies (note 31)	Capital supplementary contributions (*)	Total
Fundo Recuperação Turismo FCR				
Gross value	287,929	32,436	-	320,365
Impairment and other fair value adjustments	(49,831)	(32,436)	-	(82,267)
	238,098	-	-	238,098
Fundo Reestruturação Empresarial FCR				
Gross value	69,053	-	33,280	102,333
Impairment and other fair value adjustments	(13,025)	-	(33,280)	(46,305)
	56,028	-	-	56,028
FLIT-PTREL				
Gross value	263,577	38,154	-	301,731
Impairment and other fair value adjustments	1,208	(38,154)	-	(36,946)
	264,785	-	-	264,785
Fundo Recuperação FCR				
Gross value	194,164	81,933	-	276,097
Impairment and other fair value adjustments	(89,157)	(81,933)	-	(171,090)
	105,007	-	-	105,007
Fundo Aquarius FCR				
Gross value	139,148	-	-	139,148
Impairment and other fair value adjustments	(8,998)	-	-	(8,998)
	130,150	-	-	130,150
Discovery Real Estate Fund				
Gross value	154,516	-	-	154,516
Impairment and other fair value adjustments	(656)	-	-	(656)
	153,860	-	-	153,860
Fundo Vega FCR				
Gross value	47,694	75,670	-	123,364
Impairment and other fair value adjustments	(6,077)	(75,670)	-	(81,747)
	41,617	-	-	41,617
Total Gross value	1,156,081	228,193	33,280	1,417,554
Total impairment and other fair value adjustments	(166,536)	(228,193)	(33,280)	(428,009)
	989,545	-	-	989,545

(*) Corresponds to supplementary capital contributions initially recorded for the amount of Euros 33,280,000, and was made a negative fair value adjustment of the same amount.

As at 30 June 2019, the book value of these assets resulted from the last communication by the respective management company of the NAV of the Fund which corresponds to the NAV as at 30 June 2019 for 1 fund, 31 March 2019 for 5 funds and 31 December 2018. In addition, the valuation of these funds includes, among others, the following aspects: (i) these are funds whose latest Audit Reports available with reference to 31 December 2018, do not present any reservations; (ii) the funds are subject to supervision by the competent authorities.

Within the scope of the transfer of assets, the junior securities subscribed which carry a subordinated nature and are directly linked to the transferred assets, are fully provided for. Although the junior securities are fully provisioned, the Group still holds an indirect exposure to financial assets transferred, under the minority investment that holds in the pool of all assets transferred by financial institutions involved, through the holding of participation units of the funds (denominated in the table as senior securities).

As at 31 December 2018, the assets received under the scope of these operations are comprised of:

(Thousands of euros)

	31 December 2018			
	Senior securities	Junior securities		
	Participation units (note 23)	Capital supplies (note 31)	Capital supplementary contributions (*)	Total
Fundo Recuperação Turismo FCR				
Gross value	287,930	32,206	-	320,136
Impairment and other fair value adjustments	(49,074)	(32,206)	-	(81,280)
	238,856	-	-	238,856
Fundo Reestruturação Empresarial FCR				
Gross value	86,669	-	33,280	119,949
Impairment and other fair value adjustments	(11,315)	-	(33,280)	(44,595)
	75,354	-	-	75,354
FLIT-PTREL				
Gross value	262,920	38,154	-	301,074
Impairment and other fair value adjustments	1,826	(38,154)	-	(36,328)
	264,746	-	-	264,746
Fundo Recuperação FCR				
Gross value	193,730	80,938	-	274,668
Impairment and other fair value adjustments	(89,971)	(80,938)	-	(170,909)
	103,759	-	-	103,759
Fundo Aquarius FCR				
Gross value	139,148	-	-	139,148
Impairment and other fair value adjustments	(10,974)	-	-	(10,974)
	128,174	-	-	128,174
Discovery Real Estate Fund				
Gross value	152,938	-	-	152,938
Impairment and other fair value adjustments	1,001	-	-	1,001
	153,939	-	-	153,939
Fundo Vega FCR				
Gross value	47,694	74,751	-	122,445
Impairment and other fair value adjustments	(5,534)	(74,751)	-	(80,285)
	42,160	-	-	42,160
Total Gross value	1,171,029	226,049	33,280	1,430,358
Total impairment and other fair value adjustments	(164,041)	(226,049)	(33,280)	(423,370)
	1,006,988	-	-	1,006,988

(*) Corresponds to supplementary capital contributions initially recorded for the amount of Euros 33,280,000, and was made a negative fair value adjustment of the same amount.

47. Relevant events occurred during the first semester of 2019

Issue of perpetual subordinated notes by Banco Comercial Português, S.A.

Banco Comercial Português, S.A. proceeded, on 31 January 2019, to an issue of perpetual bonds, representing subordinated debt, classified as additional Tier 1 core capital instrument ("Additional Tier 1" or "AT1").

The operation, in the amount of Euros 400 million and with no fixed term, has the option of early repayment by the Bank as of the end of the 5th year, and an interest rate of 9.25% per annum 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.

The issuance, the first of its kind denominated in euros on the European market in 2019, was part of the Bank's strategy to strengthen and diversify the components of its capital base, contributing significantly to the strengthening of its eligible liabilities to meet the minimum requirement for eligible own funds and liabilities and to strengthen its presence in the capital market.

Issue of W-Series subordinated bonds of the Bank Millennium, S.A. (Poland)

On 30 January 2019 the Bank Millennium, S.A. (Poland) issued 1,660 series W subordinated bonds in the total amount of PLN 830 million (Euros 193 million). The maturity of the bonds is 30 January 2029 and the interest rate is variable, based on WIBOR 6M plus a margin of 2.30% per annum.

After the assent of Polish Financial Supervision Authority, the bonds were considered instruments in the Bank's Tier 2 capital in the meaning of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

Resolutions of the Annual General Meeting

Banco Comercial Português, S.A. concluded on May 22, 2019, with 64.59% 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 2018, including the Corporate Governance Report;

Item Two – Approval of the proposal for the appropriation of profits for the 2018 financial year;

Item Three – Approval of a vote of trust and praise addressed to the Board of Directors, including to the Executive Committee and to the Audit Committee and each one of their members, as well as to the Chartered Accountant and its representative;

Item Four – Approval of the remuneration policy of Members of Management and Supervision Bodies;

Item Five – Approval of the alteration of the articles of association, giving a new wording to paragraph c) of article 14 and to nr. 1 of article 10, adding two new numbers 2 and 3 to article 10 with the consequent renumbering of current nrs. 2 and 3;

Item Six – Approval of the cooptation of Mr. Fernando Costa Lima as member of the Board of Directors and of the Audit Committee for the exercise of functions in the term-of-office ending in 2021. The effects of this cooptation are subject to obtaining the authorization for the exercise of functions from the European Central Bank;

Item Seven – Appointment of Prof. Cidália Maria da Mota Lopes as Chairperson of the Audit Committee to exercise functions during the term-of-office ending in 2021;

Item Eight – Election of Mr. Nuno Maria Pestana de Almeida Alves as member of the Remunerations and Welfare Board;

Item Nine - Election of Deloitte & Associados – Sociedade de Revisores Oficiais de Contas, S.A., that selected Mr. Paulo Alexandre de Sá Fernandes, ROC nr. 1456, to represent it, as the Single Auditor, and of Mr. Jorge Carlos Batalha Duarte Catulo, ROC nr. 992, as his alternate, during the two-year term-of-office 2019/2020;

Item Ten - Selection of Deloitte & Associados - Sociedade de Revisores Oficiais de Contas, SA to perform functions of External Auditor in the 2019/2020 two-year period;

Item Eleven – Approval of the acquisition and sale of own shares and bonds.

Appropriation of profits for the 2018 financial year

In accordance with the Companies Code, and with the Bank's articles of association, was deliberated in the Annual General Meeting of Shareholders of 22 May 2019, that the year-end results amounting to Euros 59,266,674.99 and the reserve for the stabilization of dividends, in the amount of Euros 30,000,000.00, be applied as follows:

a) For the reinforcement of legal reserve, Euros 5,926,667.50;

b) For the attribution of dividends Euros 30,227,979.90, corresponding Euros 227,979.90 to earnings and Euros 30,000,000.00 to the reserve for the stabilization of dividends;

c) to be distributed to employees Euros 12,587,009.00;

d) Euros 40,525,018.59, that is, the remaining, to Retained Earnings.

It was also approved that:

i) The payment to each share of the unit dividend of Euros 0.002;

ii) The dividend on the shares owned by the Company on the first day of the dividend payment period shall not be paid and shall be registered in the retained earnings.

Acquisition of Euro Bank S.A. by Bank Millennium S.A.

Bank Millennium S.A., owned 50.1% by Banco Comercial Português, S.A., announced on 28 May 2019, having been informed of the non-objection by the Polish Financial Supervision Authority to its acquisition of Euro Bank S.A.. As at 31 May 2019, the Bank Millennium S.A has completed the acquisition of shares representing 99.787% of the share capital of Euro Bank S.A.. The details of the acquition are detailed in note 58.

Evaluation of merger of Banco de Investimento Imobiliário, S.A. with Banco Comercial Português, S.A.

Banco Comercial Português, S.A. informed in 19 June 2019 that is currently evaluating the merger of its wholly-owned subsidiary Banco de Investimento Imobiliário, S.A. by incorporation into Banco Comercial Português, S.A., to be effected until year-end 2019.

48. Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as occurs regarding many products sold to clients, fair value is estimated through internal models based on cash-flow discounting techniques. Cash-flows for the different instruments sold are calculated according to its financial characteristics and the discount rates used include both the market interest rate curve and the current conditions of the Group's pricing policy.

Thus, the fair value obtained is influenced by the parameters used in the evaluation model that have some degree of judgment and reflects exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, as the future business evolution. Therefore, the values presented cannot be understood as an estimate of the economic value of the Group.

The main methods and assumptions used in estimating the fair value for the financial assets and financial liabilities are presented as follows:

Cash and deposits at Central Banks and Loans and advances to credit institutions repayable on demand

Considering the short term of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

Loans and advances to credit institutions, Deposits from credit institutions and Assets with repurchase agreements

The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates. This update is made based on the prevailing market rate for the term of each cash flow plus the average spread of the production of the most recent 3 months of the same. For the elements with signs of impairment, the net impairment of these operations is considered as a reasonable estimate of their fair value, considering the economic valuation that is realized in the determination of this impairment.

For resources from Central Banks it was considered that the book value is a reasonable estimate of its fair value, given the nature of operations and the associated short-term. The rate of return of funding with the European Central Bank is -0.4% as at 30 June 2019 (31 December 2018: -0.4%).

For the remaining loans and advances and deposits, the discount rate used reflects the current conditions applied by the Group on identical instruments for each of the different residual maturities (rates from the monetary market or from the interest rate swap market).

Loans and advances to customers without defined maturity date

Considering the short maturity of these financial instruments, the conditions of the portfolio are similar to conditions used at the date of the report. Therefore, the amount in the balance sheet is a reasonable estimate of its fair value.

Loans and advances to customers with defined maturity date

The fair value of these instruments is calculated by discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates. For loans with signs of impairment, the net impairment of these operations is considered as a reasonable estimate of their fair value, considering the economic valuation that is realized in the determination of this impairment.

The discount rate used is the one that reflects the current rates of the Group for each of the homogeneous classes of this type of instruments and with similar residual maturity. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market) and the spread used at the date of the report, which was calculated from the average production of the three most recent months compared to the reporting date.

Resources from customers and other loans

The fair value of these financial instruments is calculated by discounting the expected principal and interest future cash flows for the referred instruments, considering that payments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by the Group in similar instruments with a similar maturity. The discount rate includes the market rates of the residual maturity date (rates of monetary market or the interest rate swap market, at the end of the period) and the actual spread of the Group. This was calculated from the average production of the three most recent months compared to the reporting date.

As at 30 June 2019, 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:

	30 June 2019			
	Loans and advances to credit institutions	Loans and advances to customers	Resources from credit institutions	Resources from customers
EUR	0.40%	2.23%	-0.08%	-0.06%
AUD	n.a.	n.a.	n.a.	1.56%
CAD	n.a.	n.a.	n.a.	2.15%
CHF	n.a.	2.18%	-0.30%	-0.50%
CNY	n.a.	n.a.	n.a.	2.80%
DKK	n.a.	n.a.	n.a.	-0.16%
GBP	n.a.	n.a.	n.a.	0.98%
HKD	n.a.	2.24%	n.a.	2.62%
MOP	n.a.	n.a.	n.a.	2.42%
MZN	n.a.	17.75%	n.a.	11.19%
NOK	n.a.	4.60%	n.a.	1.78%
PLN	1.87%	5.93%	1.54%	1.57%
SEK	n.a.	n.a.	n.a.	0.28%
USD	2.97%	3.86%	2.78%	2.23%
ZAR	8.07%	11.81%	n.a.	4.56%

As at 31 December 2018, 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:

	31 December 2018			
	Loans and advances to credit institutions	Loans and advances to customers	Resources from credit institutions	Resources from customers
EUR	0.45%	2.75%	0.44%	0.01%
AUD	n.a.	n.a.	n.a.	2.34%
CAD	n.a.	n.a.	n.a.	2.31%
CHF	n.a.	2.63%	-0.11%	-0.42%
CNY	n.a.	n.a.	n.a.	2.79%
DKK	n.a.	n.a.	n.a.	-0.14%
GBP	n.a.	3.64%	n.a.	1.05%
HKD	n.a.	2.29%	n.a.	1.98%
MOP	n.a.	n.a.	n.a.	2.14%
MZN	n.a.	19.82%	n.a.	12.03%
NOK	n.a.	n.a.	n.a.	1.57%
PLN	1.36%	5.47%	1.72%	1.61%
SEK	n.a.	n.a.	n.a.	0.17%
USD	2.90%	5.36%	2.76%	2.56%
ZAR	6.80%	16.18%	n.a.	4.93%

Financial assets and liabilities measured at fair value through profit or loss (except derivatives), financial assets at fair value through other comprehensive income (IFRS 9)

These financial instruments are accounted for at fair value. Fair value is based on market prices ("Bid-price"), whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the market interest rate curve adjusted for factors associated, predominantly credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

Market interest rates are determined based on information released by the suppliers of financial content - Reuters and Bloomberg - more specifically because of the prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are used in the projection of the non-deterministic cash flows such as indexes.

When optionality is involved, the standard templates (Black-Scholes, Black, Ho and others) are used considering the volatility areas applicable. Whenever there are no references in the market of sufficient quality or that the available models do not fully apply to meet the characteristics of the financial instrument, specific quotations supplied by an external entity are applied, typically a counterparty of the business.

Financial assets measured at amortised cost - Debt securities (IFRS 9)

These financial instruments are accounted at amortised cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the market interest rate curve adjusted for factors associated, predominantly credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

Hedging and trading derivatives

All derivatives are recorded at fair value. In case of derivative contracts that are quoted in organised markets their market prices are used. As for derivatives traded "Over-the-counter", it is applied methods based on numerical cash-flow discounting techniques and models for assessment of options considering variables of the market, particularly the interest rates on the instruments in question, and where necessary, their volatilities.

Interest rates are determined based on information disseminated by the suppliers of financial content - Reuters and Bloomberg - more specifically those resulting from prices of interest rate swaps. The values for the very short-term rates are obtained from a similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The interest rate curves are used in the projection of the non-deterministic cash flows such as indexes.

Debt securities non subordinated issued and subordinated debt

For these financial instruments the fair value was calculated for components for which fair value is not yet reflected in the balance sheet. Fixed rate remunerated instruments for which the Group adopts "hedge-accounting", the fair value related to the interest rate risk is already recognised.

For the fair value calculation, other components of risk were considered, in addition to the interest rate risk already recorded, when applicable. The fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the market interest rate curve adjusted by associated factors, predominantly credit risk and trading margin, the latter only in the case of issues placed on non-institutional customers of the Group.

As original reference, the Group applies the curves resulting from the market interest rate swaps for each specific currency. The credit risk (credit spread) is represented by an excess from the curve of interest rate swaps established specifically for each term and class of instruments based on the market prices on equivalent instruments.

For own issued debts placed among non-institutional customers of the Group, one more differential was added (commercial spread), which represents the margin between the financing cost in the institutional market and the cost obtained by distributing the respective instrument in the owned commercial network.

The average of the reference rates of the yield curve obtained from the market prices of the different currencies used in the determination of the fair value of the issues is analysed as follows:

	30 June 2019			31 December 2018		
	EUR	PLN	USD	EUR	PLN	USD
Placed in the institutional market						
Subordinated	5.66%	-	-	6.92%	-	-
Senior (including mortgage)	-0.01%	-	-	0.05%	-	-
Placed in retail						
Subordinated	1.92%	-	-	2.64%	-	-
Senior and collateralised	0.02%	2.14%	2.56%	0.36%	2.27%	3.30%

For debt securities, the fair value calculation focused on all the components of these instruments, as a result the difference determined is a positive amount of Euros 2,180,000 (31 December 2018: a negative amount of Euros 9,663,000) and includes a payable amount of Euros 11,519,000 (31 December 2018: a payable amount of Euros 7,424,000) which reflects the fair value of embedded derivatives and are recorded in financial assets and liabilities held for trading (note 23 and 36).

As at 30 June 2019 and 31 December 2018, 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 2019			
	Currencies			
	EUR	USD	GBP	PLN
1 day	-0.44%	2.55%	0.73%	1.47%
7 days	-0.44%	2.53%	0.74%	1.47%
1 month	-0.44%	2.52%	0.75%	1.54%
2 months	-0.41%	2.41%	0.80%	1.58%
3 months	-0.39%	2.40%	0.85%	1.62%
6 months	-0.35%	2.42%	0.98%	1.69%
9 months	-0.30%	2.36%	1.05%	1.71%
1 year	-0.37%	1.98%	1.11%	1.73%
2 years	-0.39%	1.77%	0.84%	1.77%
3 years	-0.36%	1.71%	0.85%	1.78%
5 years	-0.23%	1.73%	0.90%	1.88%
7 years	-0.08%	1.81%	0.96%	1.98%
10 years	0.17%	1.93%	1.05%	2.13%
15 years	0.49%	2.08%	1.16%	2.32%
20 years	0.65%	2.15%	1.22%	2.42%
30 years	0.72%	2.18%	1.24%	2.42%

	31 December 2018			
	Currencies			
	EUR	USD	GBP	PLN
1 day	-0.43%	2.75%	0.75%	1.44%
7 days	-0.40%	2.55%	0.78%	1.44%
1 month	-0.41%	2.57%	0.80%	1.54%
2 months	-0.38%	2.61%	0.85%	1.58%
3 months	-0.36%	2.72%	0.96%	1.62%
6 months	-0.29%	2.81%	1.08%	1.69%
9 months	-0.23%	2.88%	1.18%	1.72%
1 year	-0.23%	2.74%	1.29%	1.74%
2 years	-0.18%	2.65%	1.16%	1.82%
3 years	-0.07%	2.58%	1.22%	1.91%
5 years	0.20%	2.57%	1.30%	2.12%
7 years	0.47%	2.62%	1.36%	2.29%
10 years	0.82%	2.70%	1.43%	2.48%
15 years	1.17%	2.79%	1.51%	2.75%
20 years	1.35%	2.82%	1.55%	2.88%
30 years	1.41%	2.81%	1.54%	2.88%

The following table shows the fair value of financial assets and liabilities of the Group, as at 30 June 2019:

(Thousands of euros)

	30 June 2019				
	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	-	-	3,586,081	3,586,081	3,586,081
Loans and advances to credit institutions repayable on demand	-	-	313,410	313,410	313,410
Financial assets at amortised cost					
Loans and advances to credit institutions	-	-	971,191	971,191	970,786
Loans and advances to customers (i)	-	-	49,564,362	49,564,362	49,186,512
Debt securities	-	-	3,378,140	3,378,140	3,387,655
Financial assets at fair value through profit or loss					
Financial assets held for trading	855,686	-	-	855,686	855,686
Financial assets not held for trading mandatorily at fair value through profit or loss	1,417,907	-	-	1,417,907	1,417,907
Financial assets designated at fair value through profit or loss	31,544	-	-	31,544	31,544
Financial assets at fair value through other comprehensive income	-	13,385,951	-	13,385,951	13,385,951
Hedging derivatives (ii)	207,312	-	-	207,312	207,312
	2,512,449	13,385,951	57,813,184	73,711,584	73,342,844
Liabilities					
Financial liabilities at amortised cost					
Resources from credit institutions	-	-	7,231,450	7,231,450	7,210,518
Resources from customers (i)	-	-	56,877,433	56,877,433	56,854,595
Non subordinated debt securities issued (i)	-	-	1,771,788	1,771,788	1,773,968
Subordinated debt (i)	-	-	1,302,023	1,302,023	1,390,048
Financial liabilities at fair value through profit or loss					
Financial liabilities held for trading	332,002	-	-	332,002	332,002
Financial liabilities designated at fair value through profit or loss	3,514,497	-	-	3,514,497	3,514,497
Hedging derivatives (ii)	278,927	-	-	278,927	278,927
	4,125,426	-	67,182,694	71,308,120	71,354,555

(i) - The book value includes the effect of the adjustments resulting from the application of hedge accounting;
(ii) - Includes a portion that is recognised in reserves in the application of accounting cash flow hedge.

The following table shows the fair value of financial assets and liabilities of the Group, as at 31 December 2018:

(Thousands of euros)

	31 December 2018				
	Fair value through profit or loss	Fair value through reserves	Amortised cost	Book value	Fair value
Assets					
Cash and deposits at Central Banks	-	-	2,753,839	2,753,839	2,753,839
Loans and advances to credit institutions repayable on demand	-	-	326,707	326,707	326,707
Financial assets at amortised cost					
Loans and advances to credit institutions	-	-	890,033	890,033	889,441
Loans and advances to customers (i)	-	-	45,560,926	45,560,926	45,128,921
Debt securities	-	-	3,375,014	3,375,014	3,381,178
Financial assets at fair value through profit or loss					
Financial assets held for trading	870,454	-	-	870,454	870,454
Financial assets not held for trading mandatorily at fair value through profit or loss	1,404,684	-	-	1,404,684	1,404,684
Financial assets designated at fair value through profit or loss	33,034	-	-	33,034	33,034
Financial assets at fair value through other comprehensive income	-	13,845,625	-	13,845,625	13,845,625
Assets with repurchase agreement	-	-	58,252	58,252	58,259
Hedging derivatives (ii)	123,054	-	-	123,054	123,054
	2,431,226	13,845,625	52,964,771	69,241,622	68,815,196
Liabilities					
Financial liabilities at amortised cost					
Resources from credit institutions	-	-	7,752,796	7,752,796	7,716,281
Resources from customers (i)	-	-	52,664,687	52,664,687	52,675,638
Non subordinated debt securities issued (i)	-	-	1,686,087	1,686,087	1,676,424
Subordinated debt (i)	-	-	1,072,105	1,072,105	1,126,038
Financial liabilities at fair value through profit or loss					
Financial liabilities held for trading	327,008	-	-	327,008	327,008
Financial liabilities designated at fair value through profit or loss	3,603,647	-	-	3,603,647	3,603,647
Hedging derivatives (ii)	177,900	-	-	177,900	177,900
	4,108,555	-	63,175,675	67,284,230	67,302,936

(i) - The book value includes the effect of the adjustments resulting from the application of hedge accounting;
(ii) - Includes a portion that is recognised in reserves in the application of accounting cash flow hedge.

The Group classified the financial instruments recorded in the balance sheet at fair value in accordance with the hierarchy established in IFRS 13. The fair value of financial instruments is determined using quotations recorded in active and liquid markets, considering that a market is active and liquid whenever its stakeholders conduct transactions on a regular basis giving liquidity to the instruments traded. When it is verified that there are no transactions that regularly provide liquidity to the traded instruments, valuation methods and techniques are used to determine the fair value of the financial instruments.

Level 1 - With quotation in active market

In this category are included, in addition to financial instruments traded on a regulated market, bonds and units of investment funds valued based on the prices disclosed through trading systems.

The classification of the fair value of level 1 is used when:

i) - There is a firm daily enforceable quotation for the financial instruments concerned, or;
ii) - There is a quotation available in market information systems that aggregate multiple prices of various stakeholders, or;
iii) - Financial instruments have been classified in level 1, at least 90% of trading days in the year (at the valuation date).

Level 2 - Valuation methods and techniques based on market data

Financial instruments, when there are no regular transactions in the active and liquid markets (level 1), are classified in level 2, according to the following rules:

i) - Failure to comply with the rules defined for level 1, or;
ii) - They are valued based on valuation methods and techniques that use mostly observable market data (interest rate or exchange rate curves, credit curves, etc.).

Level 2 includes over-the-counter derivative financial instruments contracted with counterparties with which the Bank maintains collateral agreements (ISDAs with Credit Support Annex (CSA)), in particular with MTA (Minimum Transfer Amount) which contributes to the mitigation of the counterparty credit risk, so that the CVA (Credit Value Adjustment) component is not significant. In addition, derivative financial instruments traded in the over-the-counter market, which, despite not having CSA agreements, the non-observable market data component (i.e. internal ratings, default probabilities determined by internal models, etc.) incorporated in valuation of CVA is not significant in the value of the derivative as a whole. In order to assess the significance of this component, the Bank defined a quantitative relevance criterion and performed a qualitative sensitivity analysis on the valuation component that includes unobservable market data.

Level 3 - Valuation methods and techniques based on data not observable in the market

If the level 1 or level 2 criteria are not met, financial instruments should be classified in level 3, as well as in situations where the fair value of financial instruments results from the use of information not observable in the market, such as:

- financial instruments which are not classified as level 1 and which are valued using evaluation methods and techniques without being known or where there is consensus on the criteria to be used, namely:

i) - They are valued using comparative price analysis of financial instruments with risk and return profile, typology, seniority or other similar factors, observable in the active and liquid markets;
ii) - They are valued based on performance of impairment tests, using performance indicators of the underlying transactions (e.g. default probability rates of the underlying assets, delinquency rates, evolution of the ratings, etc.);
iii) - They are valued based on NAV (Net Asset Value) disclosed by the management entities of securities/real estate/other investment funds not listed on a regulated market.

Level 3 includes over-the-counter derivative financial instruments that have been contracted with counterparties with which the Bank does not maintain collateral exchange agreements (CSAs), and whose unobservable market data component incorporated in the valuation of CVA is significant in the value of the derivative as a whole. In order to assess the significance of this component, the Bank defined a quantitative relevance criterion and performed a qualitative sensitivity analysis on the valuation component that includes unobservable market data.

The following table shows, by valuation levels, the fair value of financial assets and liabilities of the Group, as at 30 June 2019:

(Thousands of euros)

	30 June 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and deposits at Central Banks	3,586,081	-	-	3,586,081
Loans and advances to credit institutions repayable on demand	313,410	-	-	313,410
Financial assets at amortised cost				
Loans and advances to credit institutions	-	-	970,786	970,786
Loans and advances to customers	-	-	49,186,512	49,186,512
Debt securities	207,142	670,565	2,509,948	3,387,655
Financial assets at fair value through profit or loss				
Financial assets held for trading	213,577	308,462	333,647	855,686
Financial assets not held for trading mandatorily at fair value through profit or loss	-	-	1,417,907	1,417,907
Financial assets designated at fair value through profit or loss	31,544	-	-	31,544
Financial assets at fair value through other comprehensive income	12,939,481	342,108	104,362	13,385,951
Hedging derivatives	-	207,312	-	207,312
	17,291,235	1,528,447	54,523,162	73,342,844
Liabilities				
Financial liabilities at amortised cost				
Resources from credit institutions	-	-	7,210,518	7,210,518
Resources from customers	-	-	56,854,595	56,854,595
Non subordinated debt securities issued	-	-	1,773,968	1,773,968
Subordinated debt	-	-	1,390,048	1,390,048
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading	75	298,697	33,230	332,002
Financial liabilities designated at fair value through profit or loss	752,505	-	2,761,992	3,514,497
Hedging derivatives	-	278,927	-	278,927
	752,580	577,624	70,024,351	71,354,555

The following table shows, by valuation levels, the fair value of financial assets and liabilities of the Group, as at 31 December 2018:

(Thousands of euros)

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and deposits at Central Banks	2,753,839	-	-	2,753,839
Loans and advances to credit institutions repayable on demand	326,707	-	-	326,707
Financial assets at amortised cost				
Loans and advances to credit institutions	-	-	889,441	889,441
Loans and advances to customers	-	-	45,128,921	45,128,921
Debt securities	122,601	677,298	2,581,279	3,381,178
Financial assets at fair value through profit or loss				
Financial assets held for trading	214,531	347,770	308,153	870,454
Financial assets not held for trading mandatorily at fair value through profit or loss	-	-	1,404,684	1,404,684
Financial assets designated at fair value through profit or loss	33,034	-	-	33,034
Financial assets at fair value through other comprehensive income	12,986,573	831,266	27,786	13,845,625
Assets with repurchase agreement	-	-	58,259	58,259
Hedging derivatives	-	123,054	-	123,054
	16,437,285	1,979,388	50,398,523	68,815,196
Liabilities				
Financial liabilities at amortised cost				
Resources from credit institutions	-	-	7,716,281	7,716,281
Resources from customers	-	-	52,675,638	52,675,638
Non subordinated debt securities issued	-	-	1,676,424	1,676,424
Subordinated debt	-	-	1,126,038	1,126,038
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading	266	289,039	37,703	327,008
Financial liabilities designated at fair value through profit or loss	678,192	-	2,925,455	3,603,647
Hedging derivatives	-	177,900	-	177,900
	678,458	466,939	66,157,539	67,302,936

49. Post-employment benefits and other long term benefits

The Group assumed the liability to pay to their employees' pensions on retirement or disability and other obligations, in accordance with the accounting policy described in note 1 S).

As at 30 June 2019 and 31 December 2018, 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 2019	31 December 2018
Pensioners	16,881	16,829
Former Attendees Acquired Rights	3,267	3,300
Employees	7,405	7,255
	27,553	27,384

In accordance with the accounting policy described in note 1 S), the Group's retirement pension liabilities and other benefits and the respective coverage as at 30 June 2019 and 31 December 2018, based on the Projected Unit Credit method are analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Actual amount of the past services		
Pensioners	2,181,548	2,048,284
Former attendees acquired rights	213,524	193,995
Employees	924,415	823,444
	3,319,487	3,065,723
Pension fund value	(3,174,429)	(3,078,430)
Net (assets) / liabilities in balance sheet (notes 32)	145,058	(12,707)
Accumulated actuarial losses and changing assumptions effect recognised in Other comprehensive income	3,447,156	3,289,529

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 2019 amounts to Euros 295,334,000 (31 December 2018: Euros 284,923,000). The End of Career Premium also came to be borne by the pension fund under the basic pension plan.

Currently, negotiations are ongoing between the Bank and the representative trade unions of its employees in service and pensioners related coma ACT review. Until the date of this report, no agreement has been reached between the Bank and the Unions.

The change in the projected benefit obligations is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Balance as at 1 January	3,065,723	3,049,570
Service cost	(7,619)	(15,800)
Interest cost / (income)	31,627	62,991
Actuarial losses / (gains)		
Not related to changes in actuarial assumptions	17,570	43,549
Related to changes in assumptions	255,803	-
Payments	(53,274)	(102,024)
Early retirement programmes and terminations by mutual agreement	5,656	19,303
Contributions of employees	4,001	8,134
Balance at the end of the period	3,319,487	3,065,723

As at 30 June 2019, the amount of pensions paid by the Fund, including the Additional Complement, amounts to Euros 53,274,000 (31 December 2018: Euros 102,024,000).

The liabilities with health benefits are fully covered by the Pension Fund and correspond to Euros 320,364,000 as at 30 June 2019 (31 December 2018: Euros 300,550,000).

Additionally, regarding the coverage of some benefit obligations related to pensions, the Bank contracted with Ocidental Vida the acquisition of perpetual annuities for which the total liability as at 30 June 2019 amounts to Euros 60,332,000 (31 December 2018: Euros 62,677,000), in order to pay:

i) pensions of former Group's Board Members in accordance with the Bank's Board Members Retirement Regulation;
ii) pensions and complementary pension to pensioners in accordance with the Pension Fund of the BCP Group employees established in 28 December 1987, as also to pensioners, in accordance with other Pension Funds, that were incorporated after on the BCP Group Pension Fund and which were planed that the retirement benefits should be paid through the acquisition of insurance policies, in accordance with the Decree - Law no. 12/2006.

Ocidental Vida is 100% owned by Ageas Group and Ageas Group is 49% owned by the BCP Group.

Changes in the Collective Labour Agreement (CLA)

At the end of December 2016, a revision of the Collective Labour Agreement (CLA) was reached between the BCP Group and the Workers' Trade Unions, "Federação dos Sindicatos Independentes da Banca" and" Federação Nacional do Sector Financeiro". "Sindicato dos Bancários do Norte" ("SBN"), which was also involved in the negotiations of the new CLA only formalized the acceptance of the amendments to the CLA in April 2017 and, as such, the Bank only recognise the impact of changes from CLA to employees associates of SBN in 2017. The new CLA have already been published by the Ministry of Labour in Bulletin of Labour and Employment

The most relevant changes that occurred in the CLA and can be described as follows:

- Change in the retirement age (presumed disability) from 65 years to 66 years and 2 months in 2016. This age is not fixed and increases at the beginning of each calendar year one month. So, in 2019 the retirement age is 66 years and 5 months (66 years and 4 months in 2018). It was agreed that the retirement age in each year, fixed by the application of the above mentioned rule, cannot exceed in any case the normal retirement age in force in the General Social Security Regime. For the actuarial calculation, a progressive increase in retirement age was considered up to 67 years and 2 months.

- It was introduced a change into the formula for determining the employer's contribution to the SAMS, which is no longer a percentage of the Pensions (Euros 88 per beneficiary and Euros 37.93 in the case of pensioners). This amount will be updated by the salary table update rate. This change has no impact on participants and beneficiaries, both in terms of their contributions and in their benefits.

- A new benefit and retirement was introduced called End of Career Premium. At the retirement date the participant is entitled to a capital equal to 1.5 times the amount of the monthly remuneration earned at the retirement date. This benefit replaces the Seniority premium that was awarded during active life. This benefit, to be attributed at the retirement date or in the event of death, is a post-employment benefit by which it becomes part of retirement liabilities. This benefit is not included in the pension fund agreement in force at 2016 and as such was considered as Extra-Fund. The End of Career Premium also came to be borne by the pension fund under the basic pension plan.

During the first semester of 2019 and during 2018 the changes in the value of plan's assets is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Balance as at 1 January	3,078,430	3,166,351
Employees' contributions	4,001	8,134
Actuarial gains / (losses)	115,746	(54,373)
Payments	(53,274)	(102,024)
Expected return on plan assets	28,862	59,962
Amount transferred to the Fund resulting from acquired rights unassigned related to the Complementary Plan	664	380
Balance at the end of the period	3,174,429	3,078,430

The elements of the Pension Fund's assets are analysed as follows:

(Thousands of euros)

	30 June 2019			31 December 2018		
Asset class	Assets with market price in active market	Remaining	Total Portfolio	Assets with market price in active market	Remaining	Total Portfolio
Shares	300,314	111,780	412,094	280,208	102,992	383,200
Bonds and other fixed income securities	1,100,292	4,202	1,104,494	1,054,637	4,193	1,058,830
Participations units in investment funds	-	841,108	841,108	-	752,628	752,628
Participation units in real estate funds	-	278,469	278,469	-	276,144	276,144
Properties	-	245,392	245,392	-	245,392	245,392
Loans and advances to credit institutions and others	-	292,872	292,872	-	362,236	362,236
	1,400,606	1,773,823	3,174,429	1,334,845	1,743,585	3,078,430

The balance Shares includes an investment of 2.61% held in the Dutch unlisted insurance group "Achmea BV", whose valuation as at 30 June 2019 amounts to Euros 110,459,000 (31 December 2018: Euros 101,618,000). This valuation was determined by the Management Company based on the last independent valuation carried out by Achmea solicitation.

The balance Properties includes buildings owned by the Fund and used by the Group's companies which as at 30 June 2019, amounts to Euros 245,392,000 (31 December 2018: Euros 245,392,000), mostly a set of properties called "Taguspark" whose book value as at 30 June 2019 amounts to Euros 243,750,000 (31 December 2018: Euros 243,750,000). This book value was calculated based on valuations performed by independent expert evaluators performed in 2017.

The securities issued by Group's companies accounted in the portfolio of the Fund are analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Loans and advances to credit institutions and others	254,966	275,429
Fixed income securities	12,316	12,209
	267,282	287,638

The evolution of net (assets) / liabilities in the balance sheet is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Balance as at 1 January	(12,707)	(116,781)
Recognised in the income statement:		
Service cost	(7,619)	(15,800)
Interest cost / (income) net of the balance liabilities coverage	2,765	3,030
Cost with early retirement programs	5,656	19,303
Amount transferred to the Fund resulting from acquired rights		
unassigned related to the Complementary Plan	(664)	(380)
	138	6,153
Recognised in the statement of comprehensive income:		
Actuarial (gains) / losses		
Not related to changes in actuarial assumptions		
Deviation between the estimated and the actual income of the fund	(115,746)	54,372
Difference between expected and effective obligations	17,570	43,549
Arising from changes in actuarial assumptions	255,803	-
	157,627	97,921
Balance at the end of the period	145,058	(12,707)

In accordance with IAS 19, during the first semester of 2019 and 2018, the Group accounted post-employment benefits as a loss in the amount of Euros 138,000 (30 June 2018: gain of Euros 2,045,000), which is analysed as follows:

(Thousands of euros)

	30 June 2019	30 June 2018
Current service cost	(7,619)	(7,907)
Net interest cost in the liability coverage balance	2,765	1,410
Cost with early retirement programs	5,656	4,452
Amount transferred to the Fund resulting from acquired rights		
unassigned related to the Complementary Plan	(664)	-
(Income) / Cost of the period	138	(2,045)

Within the framework of the three-party agreement between the Government, the Banking and the Trade Unions, the bank's employees in activity as at 31 December 2010 under the CAFEB / CLA regime were integrated into the General Social Security System (RGSS) with effect from 1 January 2011. The integration led to an effective decrease in the present value of the total benefits reported at the retirement age to be borne by the Pension Fund, and this effect is recorded on a straight-line basis over the average period of active life until the normal retirement age is reached. The calculation of the liability for pensions carried out periodically by the actuary considers this effect and is calculated considering the actuarial assumptions in force, ensuring that the liabilities calculated with reference to 31 December 2010, not considering the effect of the integration of bank employees into the General Social Security Scheme are fully covered and deducted from the amount of the effect recognised until the date. The component of this effect for the year is recognised under the heading "Current service costs".

Board of Directors Plan

As the Board of Directors Retirement Regulation establish that the pensions are subjected to an annual update, and as it is not common in the insurance market the acquisition of perpetual annuities including variable updates in pensions, the Bank determined, the liability to be recognised on the financial statements related to that update, taking into consideration current actuarial assumptions.

In accordance with the remuneration policy of the Board Members, the Group has the responsibility of supporting the cost with: i) the retirement pensions of former Group's Executive Board Members; and ii) the Complementary Plan for these members in accordance with the applicable rules funded through the Pension Fund, Extra-fund and perpetual annuities.

In order to cover liabilities with pensions to former members of the Executive Board of Directors, under the Bank's Board of Directors Retirement Regulation the Bank contracted with Ocidental Vida to purchase immediate life annuity insurance policies.

To cover the update of contracted responsibilities through perpetual annuities policies, based on the actuarial calculations, the Group recognised as at 30 June 2019 a provision of Euros 3,733,000 (31 December 2018: Euros 3,733,000).

Considering the market indicators, particularly the inflation rate estimates and the long term interest rate for Euro Zone, as well as the demographic characteristics of its employees, the Group considered the following actuarial assumptions for calculating the liabilities with pension obligations:

	30 June 2019	31 December 2018
Salary growth rate	0,25% until 2019 0,75% after 2019	0,25% until 2019 0,75% after 2019
Pensions growth rate	0% until 2019 0,5% after 2019	0% until 2019 0,5% after 2019
Discount rate / Projected Fund's rate of return	1.6%	2.1%
Mortality tables		
Men	TV 88/90	TV 88/90
Women (a)	TV 88/90-3 years	TV 88/90-3 years
Disability rate	Non applicable	Non applicable
Turnover rate	Non applicable	Non applicable
Normal retirement age (b)	66 years and 5 months	66 years and 4 months
Total salary growth rate for Social Security purposes	1.75%	1.75%
Revaluation rate of wages / pensions of Social Security	1%	1%

a) The mortality table considered for women corresponds to TV 88/90 adjusted in less than 3 years (which implies an increase in hope life expectancy compared to that which would be considered in relation to their effective age).

b) The retirement age is variable. In 2019 it is 66 years and 5 months (2018: 66 years and 4 months) and will increase by 1 month for each calendar year. This age cannot be higher than the normal retirement age in force in the General Social Security System (RGSS). The normal retirement age in RGSS is variable and depends on the evolution of the average life expectancy at 65 years. For the purposes of the actuarial calculation, it was assumed that the increase in life expectancy in future years will be one year in every 10 years. However, as a prudential factor it was used a maximum age of 67 years and 2 months.

The assumptions used on the calculation of the actuarial value of the liabilities are in accordance with the requirements of IAS 19. No disability decreases are considered in the calculation of the liabilities.

As defined by IAS 19, the discount rate used to update the responsibilities of the Bank's pension fund was determined on 31 December 2016, based on an analysis performed over the market yield regarding a bond issues universe – with high quality (low risk), different maturities (appropriate to the period of liquidation of the fund's liabilities) and denominated in Euros - related to a diverse and representative range of issuers. As at 30 June 2019, the Group used a discount rate of 1.6% (31 December 2018: 2.1%) to measure its liability for defined benefit pension plans of its employees and managers.

As at 30 June 2019, the Actuarial losses amount to Euros 157,627,000 (31 December 2018: actuarial losses amount to Euros 97,921,000) and 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 2019		31 December 2018	
	Values effectively verified in %	Amount of deviations	Values effectively verified in %	Amount of deviations
Deviation between expected and actual liabilities		17,570		43,549
Changes on the assumptions:				
Discount rate		255,803		-
Deviation between expected income and income from funds	4.73%	(115,746)	0.18%	54,372
		157,627		97,921

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 2019		31 December 2018	
	-0.25%	0.25%	-0.25%	0.25%
Discount rate	140,095	(131,765)	125,693	(121,218)
Pension's increase rate	(174,262)	151,118	(132,092)	141,376
Salary growth rate	(37,345)	39,849	(26,101)	43,592

(Thousands of euros)

	Impact resulting from changes in demographic assumptions			
	30 June 2019		31 December 2018	
	- 1 year	+ 1 year	- 1 year	+ 1 year
Changes in mortality table (*)	115,853	(115,853)	97,169	(103,574)

(*) The impact of the 1 year reduction in the mortality table implies an increase in the average life expectancy

Defined contribution plan

According to what is described in accounting policy 1 S2), in the scope of the Defined Contribution Plan provided for the BCP Pension Fund of the BCP Group, no contributions were made in during the first semester of 2019 and during 2018, for employees who have been admitted until 1 July 2009, because the following requirements have not been met, cumulatively: (i) the previous year BCP's ROE equals or exceeds the rate of government bonds of 10 years plus 5 percentage points, and (ii) distributable profits or reserves exist in the accounts of Banco Comercial Português.

For employees who have been admitted after 1 July 2009, are made monthly contributions equal to 1.5% of the monthly remuneration received by employees in the current month, either by themselves or by the Group and employees. This contribution has a mandatory character and is defined in the Collective Labour Agreement of the BCP Group and does not have a performance criterion. The Group accounted as staff costs in the first semester of 2019, the amount of Euros 81,000 (30 June 2018: Euros 37,000) related to this contribution.

50. Related parties

As defined by IAS 24, are considered related parties of the Group, the companies detailed in note 58 - List of subsidiary and associated companies of Banco Comercial Português Group, the Pension Fund, the members of the Board of Directors and key management members. The key management members are the first line Directors. Beyond the members of the Board of Directors and key management members, are also considered related parties people who are close to them (family relationships) and entities controlled by them or in whose management they have significant influence.

As the transactions with subsidiaries are eliminated in consolidation, these are not included in the notes to the Group's consolidated financial statements.

According to Portuguese law, namely under Article no. 109 of the General Law for Credit Institutions and Financial Companies, are also considered related parties, the qualified shareholders of Banco Comercial Português, S.A. and the entities controlled by them or with which they are in a group relationship. The list of the qualified shareholders is detailed in note 40.

A) Balances and transactions with qualified shareholders

The balances reflected in assets of consolidated balance sheet with qualified shareholders, are analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Assets		
Financial assets at amortised cost		
Loans and advances to customers	95,002	100,700
Debt instruments	153,157	150,614
Financial assets at fair value through profit or loss		
Financial assets held for trading	6,596	6,102
Financial assets at fair value through other comprehensive income	81,747	32,968
Others	52	53
	336,554	290,437
Liabilities		
Resources from customers	268,084	162,665
	268,084	162,665

Loans and advances to customers are net of impairment in the amount of Euros 420,000 (31 December 2018: Euro 650,000).

During the first semester of 2019 and 2018, the transactions with qualified shareholders, reflected in the consolidated income statement items, are as follows:

(Thousands of euros)

	30 June 2019	30 June 2018
Income		
Interest and similar income	5,789	5,309
Commissions	2,927	2,664
	8,716	7,973
Costs		
Interest and similar expenses	-	105
Commissions	43	75
	43	180

The balances with qualified shareholders, reflected in the guarantees granted and revocable and irrevocable credit lines, are as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Guarantees granted	107,088	100,329
Revocable credit lines	56,446	56,670
Irrevocable credit lines	156,000	150,121
	319,534	307,120

B) Balances and transactions with members of the Board of Directors and key management members

The balances with related parties discriminated in the following table, included in asset items on the consolidated balance sheet, are analysed as follows:

(Thousands of euros)

	Loans and advances to customers	
	30 June 2019	31 December 2018
Board of Directors		
Non-executive directors	5	24
Executive Committee	107	124
Closely related people	289	13
Key management members		
Key management members	5,814	6,611
Closely related people	469	480
Controlled entities	13	78
	6,697	7,330

The balances with related parties discriminated in the following table, included in liabilities items in the consolidated balance sheet, are analysed as follows:

(Thousands of euros)

	Resources from customers	
	30 June 2019	31 December 2018
Board of Directors		
Non-executive directors	7,004	5,915
Executive Committee	689	868
Closely related people	396	322
Controlled entities	20	30
Key management members		
Key management members	6,230	6,133
Closely related people	2,710	2,353
Controlled entities	1,849	1,818
	18,898	17,439

During the first semester of 2019 and 2018, the transactions with related parties discriminated in the following table, included in income for items of the consolidated income statement, are as follows:

(Thousands of euros)

	Interest and similar income		Commissions' income	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Board of Directors				
Non-executive directors	-	-	11	7
Executive Committee	-	-	6	5
Closely related people	-	-	2	2
Key management members				
Key management members	22	22	19	28
Closely related people	5	5	17	15
Controlled entities	-	1	4	6
	27	28	59	63

During the first semester of 2019 and 2018, 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 2019	30 June 2018	30 June 2019	30 June 2018
Board of Directors				
Non-executive directors	83	20	-	-
Key management members				
Key management members	10	16	1	1
Closely related people	1	1	-	1
Controlled entities	-	1	1	1
	94	38	2	3

The revocable and irrevocable credit lines granted by the Group to the following related parties are as follows:

(Thousands of euros)

	Revocable credit lines		Irrevocable credit lines	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Board of Directors				
Non-executive directors	25	22	-	-
Executive Committee	75	70	-	-
Closely related people	28	39	-	-
Key management members				
Key management members	347	429	-	50
Closely related people	157	163	24	24
Controlled entities	18	14	-	-
	650	737	24	74

The fixed remunerations and social charges paid to members of the Board of Directors and Key management members are analysed as follows:

(Thousands of euros)

	Board of Directors					
	Executive Committee		Non-executive directors		Key management members	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Remunerations	1,528	2,015	958	358	3,718	3,009
Supplementary retirement pension	305	403	15	-	-	-
Post-employment benefits	1	(3)	-	-	(57)	(86)
Other mandatory social security charges	654	473	226	85	811	744
	2,488	2,888	1,199	443	4,472	3,667

Considering that the remuneration of members of the Executive Committee intends to compensate the functions that are performed in the Bank and in all other functions on subsidiaries or governing bodies for which they have been designated by indication of the Bank or representing it, in the latter case, the net amount of the remunerations annually received by each member will be deducted from the fixed annual remuneration attributed by the Bank.

During the first semester of 2019, the amount of remunerations paid to the Executive Committee includes Euros 36,000 (30 June 2018: Euros 48,000), which were supported by subsidiaries or companies whose governing bodies represent the Group's interests. During the first semester of 2019 and 2018, no variable remuneration was attributed to the members of the Executive Committee.

During the first semester of 2019, were paid Euros 420,000 of severance payments to two key management members. During the first semester of 2018, no severance payments were made to key management members.

The shareholder and bondholder position of members of the Board of Directors, Key management members and people closely related to the previous categories, as well as the movements occurred during the first semester of 2019, are as follows:

Shareholders/Bondholders	Security	Number of securities at 30/06/2019	Number of securities at 31/12/2018	Acquisitions	Disposals	Date	Unit Price Euros
MEMBERS OF BOARD OF DIRECTORS							
Ana Paula Alcobia Gray	BCP Shares	0	0				
Cidália Maria Mota Lopes (1)	BCP Shares	2,184	2,184				
João Nuno Oliveira Jorge Palma	BCP Shares	32,695	32,695				
Jorge Manuel Baptista Magalhães Correia	BCP Shares	88,500	88,500				
José Manuel Elias da Costa	BCP Shares	0	0				
José Miguel Bensliman Schorcht da Silva Pessanha	BCP Shares	1,748	1,748				
Lingjiang Xu	BCP Shares	0	0				
Maria José Henriques Barreto de Matos de Campos (2)	BCP Shares	0	0				
Miguel de Campos Pereira de Bragança	BCP Shares	365,968	365,968				
Miguel Maya Dias Pinheiro	BCP Shares	361,408	361,408				
Nuno Manuel da Silva Amado	BCP Shares	1,025,388	1,025,388				
Rui Manuel da Silva Teixeira (3)	BCP Shares	36,336	36,336				
Teófilo César Ferreira da Fonseca (4)	BCP Shares	10,000	10,000				
Valter Rui Dias de Barros	BCP Shares	0	0				
Wan Sin Long	BCP Shares	0	0				
Xiao Xu Gu	BCP Shares	0	0				
KEY MANAGEMENT MEMBERS							
Albino António Carneiro de Andrade	BCP Shares	2,000	2,000				
Alexandre Manuel Casimiro de Almeida	BCP Shares	0	121,440		121,440	14-May-19	0.252
Américo João Pinto Carola (5)	BCP Shares	503	503				
Ana Isabel dos Santos de Pina Cabral (6)	BCP Shares	39,040	39,040				
Ana Maria Jordão F. Torres Marques Tavares (7)	BCP Shares	82,635	82,635				
André Cardoso Meneses Navarro	BCP Shares	267,888	267,888				
António Augusto Amaral de Medeiros	BCP Shares	0	42,656		42,656	17-Apr-19	0.251
António José Lindeiro Cordeiro	BCP Shares	0	0				
António Luís Duarte Bandeira (8)	BCP Shares	113,000	113,000				
Artur Frederico Silva Luna Pais	BCP Shares	328,795	328,795				
Belmira Abreu Cabral	BCP Shares	0	0				
Bernardo Roquette de Aragão de Portugal Collaço	BCP Shares	0	0				
Filipe Maria de Sousa Ferreira Abecasis	BCP Shares	0	0				
Francisco António Caspa Monteiro (9)	BCP Shares	29,354	29,354				
Gonçalo Nuno Belo de Almeida Pascoal	BCP Shares	48	48				
Hugo Miguel Martins Resende	BCP Shares	11,984	11,984				
João Manuel Taveira Pinto Santos Paiva	BCP Shares	500	500				
Jorge Filipe Nogueira Freire Cortes Martins	BCP Shares	1,600	1,600				
Jorge Manuel Machado de Sousa Góis	BCP Shares	0	0				
Jorge Manuel Nobre Carreteiro	BCP Shares	9,468	9,468				
José Carlos Benito Garcia de Oliveira	BCP Shares	0	0				
José Gonçalo Prior Regalado (10)	BCP Shares	0	0				

The paragraphs stated in the tables above for the categories "Members of Board of Directors" and "Key management members", identify the people who they are associated with in the category "People closely related to the previous categories".

Shareholders/Bondholders	Security	Number of securities at 30/06/2019	Number of securities at 31/12/2018	Acquisitions	Disposals	Date	Unit Price Euros
José Guilherme Potier Raposo Pulido Valente	BCP Shares	138,719	138,719				
Luis Miguel Manso Correia dos Santos	BCP Shares	21,328	21,328				
Maria Helena Soledade Nunes Henriques	BCP Shares	170,974	170,974				
Maria Manuela de Araujo Mesquita Reis (11)	BCP Shares	106,656	106,656				
Maria Rita Sítima Fonseca Lourenço	BCP Shares	42,385	42,385				
Mário António Pinho Gaspar Neves	BCP Shares	30,000	30,000				
Mário Madeira Robalo Fernandes	BCP Shares	0	0				
Miguel Pedro Lourenço Magalhães Duarte	BCP Shares	250.937	250.937				
Nelson Luís Vieira Teixeira	BCP Shares	285	285				
Nuno Alexandre Ferreira Pereira Alves	BCP Shares	1,800	1,800				
Nuno Miguel Nobre Botelho	BCP Shares	0	0				
Pedro José Mora de Paiva Beija	BCP Shares	0	0				
Pedro Manuel Macedo Vilas Boas	BCP Shares	0	0				
Pedro Manuel Rendas Duarte Turras	BCP Shares	14,816	14,816				
Pedro Manuel Francisco da Silva Dias	BCP Shares	0	0				
Pedro Trigo de Morais de Albuquerque Reis	BCP Shares	0	0				
Ricardo Potes Valadares	BCP Shares	10,613	10,613				
Rosa Maria Ferreira Vaz Santa Bárbara	BCP Shares	8,204	8,204				
Rui Emanuel Agapito Silva	BCP Shares	0	0				
Rui Fernando da Silva Teixeira	BCP Shares	91,297	91,297				
Rui Manuel Pereira Pedro	BCP Shares	149,328	149,328				
Rui Miguel Alves Costa	BCP Shares	162,881	162,881				
Rui Nelson Moreira de Carvalho Maximino	BCP Shares	0	0				
Rui Pedro da Conceição Coimbra Fernandes	BCP Shares	0	0				
Vânia Alexandra Machado Marques Correia	BCP Shares	0	0				
PEOPLE CLOSELY RELATED TO THE PREVIOUS CATEGORIES							
Alexandre Miguel Martins Ventura (1)	BCP Shares	2,184	2,184				
Álvaro Manuel Coreia Marques Tavares (7)	BCP Shares	25,118	25,118				
Américo Simões Regalado (10)	BCP Shares	880	880				
Ana Isabel Salgueiro Antunes (5)	BCP Shares	29	29				
Ana Margarida Rebelo A.M. Soares Bandeira (8)	BCP Shares	2,976	2,976				
António da Silva Bandeira (8)	BCP Shares	20,000	20,000				
Francisco Jordão Torres Marques Tavares (7)	BCP Shares	1,016	1,016				
José Francisco Conceição Monteiro (9)	BCP Shares	18,002	18,002				
José Manuel de Vasconcelos Mendes Ferreira (6)	BCP Shares	1,616	1,616				
Luís Filipe da Silva Reis (11)	BCP Shares	280,000	280,000				
Maria Avelina V C L J Teixeira Diniz (7)	BCP Shares	16,770	16,770				
Maria Eugénia Pinto Tavares da Fonseca (4)	BCP Shares	37	37				
Maria Helena Espassandim Catão (3)	BCP Shares	576	576				
Ricardo Gil Monteiro Lopes de Campos (2)	BCP Shares	96,240	96,240				
Ricardo Miranda Monteiro (9)	BCP Shares	1,639	1,639				
Rita Miranda Monteiro (9)	BCP Shares	1,639	1,639				

The paragraphs stated in the tables above for the categories "Members of Board of Directors" and "Key management members", identify the people who they are associated with in the category "People closely related to the previous categories".

C) Balances and transactions with associated companies

The balances with associated companies included in the consolidated balance sheet items, except for investments in associated companies, are as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Assets		
Loans and advances to credit institutions repayable on demand	190	5
Financial assets at amortised cost		
Loans and advances to credit institutions	236,814	293,553
Loans and advances to customers	62,411	65,577
Debt instruments	-	950
Financial assets at fair value through profit or loss		
Financial assets held for trading	102,169	107,843
Other assets	9,270	14,579
	410,854	482,507
Liabilities		
Financial liabilities at amortised cost		
Resources from credit institutions	142,893	189,106
Resources from customers	658,031	541,422
Non subordinated debt securities issued	54,080	132,911
Subordinated debt	470,588	474,873
Financial liabilities held for trading	25,967	27,275
Financial liabilities designated at fair value through profit or loss	30,662	31,995
Other liabilities	(2)	3
	1,382,219	1,397,585

As at 30 June 2019, the associated company Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. holds 142,601,002 BCP shares (31 December 2018: 142,601,002 shares) in the amount of Euros 38,745,000 (31 December 2018: Euros 32,727,000).

During the first semester of 2019 and 2018, the transactions with associated companies included in the consolidated income statement items, are as follows:

(Thousands of euros)

	30 June 2019	30 June 2018
Income		
Interest and similar income	7,330	6,758
Commissions	26,394	29,119
Other operating income	609	546
	34,333	36,423
Costs		
Interest and similar expenses	22,015	25,081
Commissions	7	14
Other operating losses	448	-
Other administrative costs	277	31
Losses from financial operations	2,807	-
	25,554	25,126

The guarantees granted and revocable credit lines by the Group over associated companies, are as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Guarantees granted	8,397	21,325
Revocable credit lines	4,705	9,862
Irrevocable credit lines	645	14,011
Other revocable commitments	4,907	4,906
	18,654	50,104

Under the scope of the Group's insurance mediation activities, the remunerations from services rendering are analysed as follows:

(Thousands of euros)

	30 June 2019	30 June 2018
Life insurance		
Saving products	17,784	16,952
Mortgage and consumer loans	10,326	9,655
Others	16	12
	28,126	26,619
Non-Life insurance		
Accidents and health	9,352	8,541
Motor	1,960	1,856
Multi-Risk Housing	3,273	3,097
Others	639	573
	15,224	14,067
	43,350	40,686

The remuneration for insurance intermediation services were received through bank transfers and resulted from insurance intermediation with the subsidiaries of Millenniumbcp Ageas Group (Ocidental - Companhia Portuguesa de Seguros de Vida, S.A. and Ocidental - Sociedade Gestora de Fundos de Pensões, S.A.) and with Ocidental - Companhia Portuguesa de Seguros, SA. The Group does not collect insurance premiums on behalf of Insurance Companies nor performs any movement of funds related to insurance contracts. Thus, there is no other asset, liability, income or expense to be reported related to the activity of insurance mediation exercised by the Group, other than those already disclosed.

The receivable balances from insurance intermediation activity, by nature, are analysed as follows:

(Thousands of euros)

	30 June 2019	30 June 2018
Funds receivable for payment of life insurance commissions	13,686	12,999
Funds receivable for payment of non-life insurance commissions	7,394	6,988
	21,080	19,987

The commissions received result from the insurance mediation contracts and investment contracts, under the terms established in the contracts. The mediation commissions are calculated given the nature of the contracts subject to mediation, as follows:
- insurance contracts – use of fixed rates on gross premiums issued;
- investment contracts – use of fixed rates on the responsibilities assumed by the insurance company under the commercialization of these products.

D) Transactions with the Pension Fund

The balances with the Pension Fund included in items of the consolidated balance sheet are as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Assets		
Other assets	361	58
Liabilities		
Resources from customers	261,903	279,851
Financial liabilities measured at amortised cost		
Non subordinated debt securities issued	14,433	14,306
Subordinated debt	33	34
	276,369	294,191

During the first semester of 2019, the Pension Fund holds Perpetual subordinated debt securities (Adt1) in the amount of Euros 1,549,000 issued by Banco Comercial Português, S.A. In the first semester of 2019 and 2018, there were no transactions related to other financial instruments between the Group and the Pension Fund.

During the first semester of 2019 and 2018, income and expenses with the Pension Fund included in the items of the consolidated income statement are as follows:

(Thousands of euros)

	30 June 2019	30 June 2018
Income		
Commissions	363	432
Expenses		
Interest expense and similar charges	56	2
Other administrative costs	7,137	7,797
	7,193	7,799

The balance Other administrative costs corresponds to the amount of rents incurred under the scope of the Pension Fund's properties which the tenant is the Group.

As at 30 June 2019, the amount of Guarantees granted by the Group to the Pension Fund amounted to Euros 5,000 (31 December 2018: Euros 5,000).

51. CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT BY 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, ActivoBank and Banco de Investimento Imobiliário.

Portugal activity includes the following segments: i) Retail Banking; ii) Companies, Corporate & Investment Banking; iii) Private Banking and iv) Other.

Retail Banking includes the following business areas:

- Retail network, which ensures the monitoring of individual customers, entrepreneurs, merchants and small and medium enterprises with a turnover less than 2.5 million euros. The Retail network strategic approach is to target “Mass Market” customers, who appreciate a value proposal based on innovation and speed, as well as Prestige and Small Business customers, whose specific characteristics, financial assets or income imply a value proposal based on innovation and personalisation, requiring a dedicated Account Manager;
- Retail Recovery Division that accompanies and manages the responsibilities of customers or economic groups in effective default, as well as customers with bankruptcy requirement or other similar mechanisms, looking through the conclusion of agreements or payment restructuring processes that minimizes the economic loss to the Bank; and
- ActivoBank, a bank focused on clients who are young, intensive users of new communication technologies and who prefer a banking relationship based on simplicity, offering modern products and services.

Companies, Corporate and Investment Banking segment includes:

- Companies and Corporate network, which monitors clients included in the corporate segment, economic groups and institutional entities, with a turnover higher than 2.5 million euros, offering a wide range of traditional banking products complemented by specialised financing;
- Large Corporate network that assures the relationship and the monitoring of a set of Groups / Clients, which in addition to Portugal, develop their activity in several geographies (Poland, Angola, Mozambique and East), providing a complete range of value-added products and services;
- Specialised Monitoring Division which carries out the monitorisation of business groups that have high and complex credit exposures or that show relevant signs of impairment;
- Investment Banking unit, that ensures the offer of products and specific services, in particular financial advice, including corporate finance services, capital market transactions and analysis and financing structuring in the medium to long term;
- Trade Finance Department (from Treasury and Markets International Division), which coordinates the business with banks and financial institutions, boosting international business with the commercial networks of the Bank and institutional custody services for securities;
- Specialised Recovery Division which ensures efficient tracking of customers with predictable or effective high risk of credit, from Companies, Corporate, Large Corporate and retail networks (exposure exceeding 1 million euros);
- Specialized Credit and Real Estate Division, which ensures integrated and specialized management of real estate business of the Group. Regarding credit for real estate development, it ensures the economic viability of real estate and tourist projects. In the area of specialized credit for Factoring and Confirming products, it ensures the operational management of contracts and collections and in the real estate sector ensures the sustainability and quick return of these assets to the market.
- Interfundos with the activity of management of real estate investment funds.

The Private Banking segment, for the purposes of geographical segments, comprises the Private Banking network in Portugal and the provision of advisory services and the asset management activity provided by the Wealth Management Division. For the purposes of business segments also includes Banque Privée BCP in Switzerland and Millennium bcp Bank & Trust in Cayman Islands that are considered Foreign Business on geographical segmentation.

All other businesses not previously discriminated are allocated to the Other segment (Portugal) and include centralized management of financial investments, corporate activities and operations not integrated in the remaining business segments and other amounts not allocated to segments.

Foreign Business includes the following segments:
- Poland, where the Group is represented by Bank Millennium, a universal bank offering a wide range of financial products and services to individuals and companies nationwide;
- Mozambique, where the Group is represented by BIM – Banco Internacional de Moçambique, a universal bank targeting companies and individual customers; and
- Other, which includes other countries activity such as Switzerland where the Group is represented by Banque Privée BCP, a Private Banking platform under Swiss law and Cayman Islands by Millennium bcp Bank & Trust, a bank designed for international services in the area of Private Banking to customers with high financial assets (Affluent segment). The Other segment also includes the contribution of the associate in Angola.

B. Business Segments

For the purposes of business segments reporting, Foreign Business segment comprises the Group's operations developed in other countries already mentioned excluding the activity of Banque Privée BCP in Switzerland and Millennium bcp Bank & Trust in the Cayman Islands which, in this context, are considered in Private Banking segment.

BUSINESS SEGMENTS ACTIVITY

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

Considering that the process of capital allocation complies with the regulatory criteria of solvency in force, as at 30 June 2019, 31 December 2018 and 30 June 2018 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. As an example, for operational costs, the first set includes costs recorded for telephones, travel, travelling accommodation and representation expenses and to advisory services, and in the second set of costs are included correspondence, water and electricity and rents related to spaces occupied by organic units, among others. The allocation of this last set of costs 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 2019. Information relating to prior periods is restated whenever it occurs changes in the internal organization of the entity susceptible to change the composition of the reportable segments (business and geographical).

The information in the financial statements of reportable segments is reconciled, at the level of the total revenue of those same segments, with the revenue from the demonstration of the consolidated financial position of the reportable entity for each date on which is lodged a statement of financial position.

As at 30 June 2019, the net contribution of the major business segments, for the income statement and balance sheet, is analysed as follows:

(Thousands of Euros)

	Commercial banking			Companies, Corporate and Investment			
	Retail in Portugal	Foreign business (1)	Total	banking in Portugal	Private banking	Other	Consolidated
INCOME STATEMENT							
Interest and similar income	241,720	469,663	711,383	165,084	12,374	64,014	952,855
Interest expense and similar charges	(13,664)	(134,036)	(147,700)	(24,584)	(3,829)	(36,669)	(212,782)
Net interest income	228,056	335,627	563,683	140,500	8,545	27,345	740,073
Commissions and other income	207,602	137,871	345,473	81,313	28,204	5,786	460,776
Commissions and other costs	(20,272)	(83,673)	(103,945)	(13,132)	(3,505)	(97,480)	(218,062)
Net commissions and other income	187,330	54,198	241,528	68,181	24,699	(91,694)	242,714
Net gains arising from financial operations (2)	14,109	39,923	54,032	251	2,543	38,711	95,537
Share of profit of associates under the equity method	-	6,322	6,322	-	-	14,869	21,191
Gains / (losses) arising from the sale of subsidiaries and other assets	-	4,896	4,896	-	-	19,810	24,706
Net operating revenue	429,495	440,966	870,461	208,932	35,787	9,041	1,124,221
Operating expenses	236,043	199,703	435,746	67,064	22,953	22,418	548,181
Impairment for credit and financial assets (3)	(5,433)	(60,008)	(65,441)	(137,451)	1,434	1,293	(200,165)
Other impairments and provisions (4)	3	(1,692)	(1,689)	1	-	(41,271)	(42,959)
Net income / (loss) before income tax	188,022	179,563	367,585	4,418	14,268	(53,355)	332,916
Income tax	(58,300)	(45,426)	(103,726)	(990)	(3,702)	(12,670)	(121,088)
Income / (loss) after income tax from continuing operations	129,722	134,137	263,859	3,428	10,566	(66,025)	211,828
Income / (loss) arising from discontinued operations	-	-	-	-	-	13,413	13,413
Net income / (loss) for the period	129,722	134,137	263,859	3,428	10,566	(52,612)	225,241
Non-controlling interests	-	(55,813)	(55,813)	-	-	351	(55,462)
Net income / (loss) for the period attributable to Bank's Shareholders	129,722	78,324	208,046	3,428	10,566	(52,261)	169,779
BALANCE SHEET							
Cash and Loans and advances to credit institutions	9,060,580	1,503,342	10,563,922	1,790,890	2,625,359	(10,109,489)	4,870,682
Loans and advances to customers (5)	21,564,555	16,647,280	38,211,835	12,769,450	589,598	464,183	52,035,066
Financial assets (6)	384,758	5,389,052	5,773,810	-	391	11,031,635	16,805,836
Other assets	184,665	787,371	972,036	48,437	24,747	6,116,434	7,161,654
Total Assets	31,194,558	24,327,045	55,521,603	14,608,777	3,240,095	7,502,763	80,873,238
Resources from other credit institutions (7)	730,623	495,056	1,225,679	5,359,359	3,987	642,425	7,231,450
Resources from customers (8)	27,962,136	19,630,908	47,593,044	7,964,936	2,668,220	793,489	59,019,689
Debt securities issued (9)	1,307,288	346,166	1,653,454	1,519	85,131	1,403,925	3,144,029
Other financial liabilities (10)	-	521,691	521,691	-	75	1,391,186	1,912,952
Other liabilities	46,039	702,631	748,670	69,452	16,884	1,164,990	1,999,996
Total Liabilities	30,046,086	21,696,452	51,742,538	13,395,266	2,774,297	5,396,015	73,308,116
Equity and non-controlling interests	1,148,472	2,630,593	3,779,065	1,213,511	465,798	2,106,748	7,565,122
Total Liabilities, Equity and Non-controlling interests	31,194,558	24,327,045	55,521,603	14,608,777	3,240,095	7,502,763	80,873,238
Number of employees (11)	4,728	11,322	16,050	739	231	1,650	18,670

(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, results from derecognition of financial assets and financial liabilities measured at amortised cost, results from derecognition of financial assets measured at fair value through other comprehensive income;
(3) Includes impairment (net of reversals) of financial assets at amortised cost, for loans and advances of credit institutions, for loans to customers (net of recoveries - principal and accrual) and for debt instruments related to credit operations. It also includes impairment of financial assets (at fair value through other comprehensive income and at amortised cost not associated with credit operations);
(4) Includes impairment of non-current assets held for sale, impairment of investments in associated companies, impairment of goodwill, impairment of other assets and provisions.
(5) 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;
(6) 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;
(7) Includes resources and other financing from Central Banks and resources from other credit institutions;
(8) 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);
(9) Includes non-subordinated debt securities at amortised cost and financial liabilities at fair value through profit or loss (debt securities and certificates);
(10) Includes financial liabilities held for trading, subordinated debt and hedging derivatives;
(11) Foreign Business segment considers 8,700 employees from Poland corresponding to 8,550 FTE - Full-time equivalent.

As at 30 June 2018, the net contribution of the major business segments, for the income statement, is analysed as follows:

(Thousands of Euros)

	Commercial banking			Companies, Corporate and Investment banking in Portugal	Private banking	Other	Consolidated
	Retail in Portugal	Foreign business [1]	Total				
INCOME STATEMENT							
Interest and similar income	234,383	433,305	667,688	173,436	18,141	76,684	935,949
Interest expense and similar charges	(22,575)	(135,775)	(158,350)	(41,373)	(4,962)	(43,609)	(248,294)
Net interest income	211,808	297,530	509,338	132,063	13,179	33,075	687,655
Commissions and other income	199,863	130,936	330,799	87,045	29,939	(565)	447,218
Commissions and other costs	(19,213)	(76,245)	(95,458)	(13,372)	(3,889)	(95,433)	(208,152)
Net commissions and other income	180,650	54,691	235,341	73,673	26,050	(95,998)	239,066
Net gains arising from financial operations [2]	16,996	29,506	46,502	218	2,248	28,050	77,018
Share of profit of associates under the equity method	-	12,766	12,766	-	-	28,617	41,383
Gains / (losses) arising from the sale of subsidiaries and other assets	-	8,638	8,638	-	-	3,016	11,654
Net operating revenue	409,454	403,131	812,585	205,954	41,477	(3,240)	1,056,776
Operating expenses	234,662	175,196	409,858	61,653	21,292	7,997	500,800
Impairment for credit and financial assets [3]	(11,440)	(29,628)	(41,068)	(205,014)	1,649	28,670	(215,763)
Other impairments and provisions [4]	-	(9,530)	(9,530)	4	-	(54,515)	(64,041)
Net income / (loss) before income tax	163,352	188,777	352,129	(60,709)	21,834	(37,082)	276,172
Income tax	(50,847)	(45,540)	(96,387)	19,436	(5,752)	10,808	(71,895)
Income / (loss) after income tax from continuing operations	112,505	143,237	255,742	(41,273)	16,082	(26,274)	204,277
Income arising from discontinued operations	-	-	-	-	-	1,750	1,750
Net income / (loss) for the period	112,505	143,237	255,742	(41,273)	16,082	(24,524)	206,027
Non-controlling interests	-	(59,632)	(59,632)	-	-	4,248	(55,384)
Net income / (loss) for the period attributable to Bank's Shareholders	112,505	83,605	196,110	(41,273)	16,082	(20,276)	150,643

As at 31 December 2018, the net contribution of the major operational segments, for the balance sheet, is analysed as follows:

(Thousands of Euros)

	Retail in Portugal	Foreign business	Total	Companies, Corporate and Investment banking in Portugal	Private banking	Other	Consolidated
BALANCE SHEET							
Cash and Loans and advances to credit institutions	8,676,928	1,280,716	9,957,644	218,221	2,513,580	(8,718,866)	3,970,579
Loans and advances to customers [5]	21,257,724	12,977,414	34,235,138	13,092,522	573,712	221,924	48,123,296
Financial assets [6]	20,838	6,148,434	6,169,272	-	1,481	10,976,994	17,147,747
Other assets	187,135	596,699	783,834	49,580	15,569	5,832,444	6,681,427
Total Assets	30,142,625	21,003,263	51,145,888	13,360,323	3,104,342	8,312,496	75,923,049
Resources from other credit institutions [7]	913,040	483,416	1,396,456	4,310,909	1,641	2,043,790	7,752,796
Resources from customers [8]	27,168,263	16,988,098	44,156,361	7,883,217	2,577,072	631,586	55,248,236
Debt securities issued [9]	1,018,395	188,446	1,206,841	769	54,691	1,443,884	2,706,185
Other financial liabilities [10]	-	304,002	304,002	-	1,428	1,271,583	1,577,013
Other liabilities	38,566	514,180	552,746	60,772	10,559	1,050,836	1,674,913
Total Liabilities	29,138,264	18,478,142	47,616,406	12,255,667	2,645,391	6,441,679	68,959,143
Equity and non-controlling interests	1,004,361	2,525,121	3,529,482	1,104,656	458,951	1,870,817	6,963,906
Total Liabilities, Equity and Non-controlling interests	30,142,625	21,003,263	51,145,888	13,360,323	3,104,342	8,312,496	75,923,049
Number of employees [11]	4,637	8,889	13,526	725	226	1,590	16,067

(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, results from derecognition of financial assets and financial liabilities measured at amortised cost, results from derecognition of financial assets measured at fair value through other comprehensive income;
(3) Includes impairment (net of reversals) of financial assets at amortised cost, for loans and advances of credit institutions, for loans to customers (net of recoveries - principal and accrual) and for debt instruments related to credit operations. It also includes impairment of financial assets (at fair value through other comprehensive income and at amortised cost not associated with credit operations);
(4) Includes impairment of non-current assets held for sale, impairment of investments in associated companies, impairment of goodwill, impairment of other assets and provisions;
(5) 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;
(6) 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;
(7) Includes resources and other financing from Central Banks and resources from other credit institutions;
(8) 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);
(9) Includes non-subordinated debt securities at amortised cost and financial liabilities at fair value through profit or loss (debt securities and certificates);
(10) Includes financial liabilities held for trading, subordinated debt and hedging derivatives;
(11) Foreign Business segment considers 6,270 employees from Poland corresponding to 6,132 FTE - Full-time equivalent.

As at 30 June 2019, the net contribution of the major geographic segments, for the income statement and balance sheet, is analysed as follows:

(Thousands of Euros)

	Portugal								
	Retail banking	Companies, Corporate and Investment banking	Private banking	Other	Total	Poland	Mozambique	Other (1)	Consolidated
INCOME STATEMENT									
Interest and similar income	241,720	165,084	7,410	64,014	478,228	347,342	122,321	4,964	952,855
Interest expense and similar charges	(13,664)	(24,584)	(3,746)	(36,669)	(78,663)	(100,635)	(33,249)	(235)	(212,782)
Net interest income	228,056	140,500	3,664	27,345	399,565	246,707	89,072	4,729	740,073
Commissions and other income	207,602	81,313	12,893	5,786	307,594	108,742	29,129	15,311	460,776
Commissions and other costs	(20,272)	(13,132)	(691)	(97,480)	(131,575)	(74,951)	(8,721)	(2,815)	(218,062)
Net commissions and other income	187,330	68,181	12,202	(91,694)	176,019	33,791	20,408	12,496	242,714
Net gains arising from financial operations (2)	14,109	251	403	38,711	53,474	32,734	7,188	2,141	95,537
Share of profit of associates under the equity method	-	-	-	14,869	14,869	-	-	6,322	21,191
Gains / (losses) arising from the sale of subsidiaries and other assets	-	-	-	19,810	19,810	(629)	5,525	-	24,706
Net operating revenue	429,495	208,932	16,269	9,041	663,737	312,603	122,193	25,688	1,124,221
Operating expenses	236,043	67,064	9,696	22,418	335,221	152,907	46,796	13,257	548,181
Impairment for credit and financial assets (3)	(5,433)	(137,451)	1,226	1,293	(140,365)	(50,769)	(11,657)	2,626	(200,165)
Other impairments and provisions (4)	3	1	-	(41,271)	(41,267)	165	(1,857)	-	(42,959)
Net income / (loss) before income tax	188,022	4,418	7,799	(53,355)	146,884	109,092	61,883	15,057	332,916
Income tax	(58,300)	(990)	(2,457)	(12,670)	(74,417)	(31,189)	(13,512)	(1,970)	(121,088)
Income / (loss) after income tax from continuing operations	129,722	3,428	5,342	(66,025)	72,467	77,903	48,371	13,087	211,828
Income / (loss) arising from discontinued operations	-	-	-	13,413	13,413	-	-	-	13,413
Net income / (loss) for the period	129,722	3,428	5,342	(52,612)	85,880	77,903	48,371	13,087	225,241
Non-controlling interests	-	-	-	351	351	(38,873)	(16,391)	(549)	(55,462)
Net income / (loss) for the period attributable to Bank's Shareholders	129,722	3,428	5,342	(52,261)	86,231	39,030	31,980	12,538	169,779
BALANCE SHEET									
Cash and Loans and advances to credit institutions	9,060,580	1,790,890	2,002,597	(10,109,489)	2,744,578	984,647	518,695	622,762	4,870,682
Loans and advances to customers (5)	21,564,555	12,769,450	247,994	464,183	35,046,182	15,979,111	668,169	341,604	52,035,066
Financial assets (6)	384,758	-	-	11,031,635	11,416,393	4,656,813	732,238	392	16,805,836
Other assets	184,665	48,437	12,345	6,116,434	6,361,881	437,083	218,577	144,113	7,161,654
Total Assets	31,194,558	14,608,777	2,262,936	7,502,763	55,569,034	22,057,654	2,137,679	1,108,871	80,873,238
Resources from other credit institutions (7)	730,623	5,359,359	1	642,425	6,732,408	454,317	12,142	32,583	7,231,450
Resources from customers (8)	27,962,136	7,964,936	2,108,053	793,489	38,828,614	18,092,031	1,538,877	560,167	59,019,689
Debt securities issued (9)	1,307,288	1,519	85,131	1,403,925	2,797,863	346,166	-	-	3,144,029
Other financial liabilities (10)	-	-	-	1,391,186	1,391,186	521,691	-	75	1,912,952
Other liabilities	46,039	69,452	1,050	1,164,990	1,281,531	593,716	108,914	15,835	1,999,996
Total Liabilities	30,046,086	13,395,266	2,194,235	5,396,015	51,031,602	20,007,921	1,659,933	608,660	73,308,116
Equity and non-controlling interests	1,148,472	1,213,511	68,701	2,106,748	4,537,432	2,049,733	477,746	500,211	7,565,122
Total Liabilities, Equity and Non-controlling interests	31,194,558	14,608,777	2,262,936	7,502,763	55,569,034	22,057,654	2,137,679	1,108,871	80,873,238
Number of employees (11)	4,728	739	147	1,650	7,264	8,700	2,622	84	18,670

(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, results from derecognition of financial assets and financial liabilities measured at amortised cost, results from derecognition of financial assets measured at fair value through other comprehensive income;
(3) Includes impairment (net of reversals) of financial assets at amortised cost, for loans and advances of credit institutions, for loans to customers (net of recoveries - principal and accrual) and for debt instruments related to credit operations. It also includes impairment of financial assets (at fair value through other comprehensive income and at amortised cost not associated with credit operations);
(4) Includes impairment of non-current assets held for sale, impairment of investments in associated companies, impairment of goodwill, impairment of other assets and provisions.
(5) 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;
(6) 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;
(7) Includes resources and other financing from Central Banks and resources from other credit institutions;
(8) 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);
(9) Includes non-subordinated debt securities at amortised cost and financial liabilities at fair value through profit or loss (debt securities and certificates);
(10) Includes financial liabilities held for trading, subordinated debt and hedging derivatives;
through profit or loss (debt securities and certificates);
(10) Includes financial liabilities held for trading, subordinated debt and hedging derivatives;
(11) In Poland, the number of employees presented corresponds to 8,550 FTE - Full-time equivalent.

As at 30 June 2018, the net contribution of the major geographic segments, for the income statement, is analysed as follows:

(Thousands of Euros)

	Portugal								
	Retail banking	Companies, Corporate and Investment banking	Private banking	Other	Total	Poland	Mozambique	Other (1)	Consolidated
INCOME STATEMENT									
Interest and similar income	234,383	173,436	11,269	76,684	495,772	292,036	145,022	3,119	935,949
Interest expense and similar charges	(22,575)	(41,373)	(3,191)	(43,609)	(110,748)	(86,428)	(52,839)	1,721	(248,294)
Net interest income	211,808	132,063	8,078	33,075	385,024	205,608	92,183	4,840	687,655
Commissions and other income	199,863	87,045	14,682	(565)	301,025	102,539	28,397	15,257	447,218
Commissions and other costs	(19,213)	(13,372)	(743)	(95,433)	(128,761)	(65,045)	(11,200)	(3,146)	(208,152)
Net commissions and other income	180,650	73,673	13,939	(95,998)	172,264	37,494	17,197	12,111	239,066
Net gains arising from financial operations [2]	16,996	218	504	28,050	45,768	25,708	3,798	1,744	77,018
Share of profit of associates under the equity method	-	-	-	28,617	28,617	-	-	12,766	41,383
Gains / (losses) arising from the sale of subsidiaries and other assets	-	-	-	3,016	3,016	948	7,690	-	11,654
Net operating revenue	409,454	205,954	22,521	(3,240)	634,689	269,758	120,868	31,461	1,056,776
Operating expenses	234,662	61,653	8,877	7,997	313,189	132,106	43,091	12,414	500,800
Impairment for credit and financial assets [3]	(11,440)	(205,014)	977	28,670	(186,807)	(20,567)	(14,127)	5,738	(215,763)
Other impairments and provisions [4]	-	4	-	(54,515)	(54,511)	(3,718)	770	(6,582)	(64,041)
Net income / (loss) before income tax	163,352	(60,709)	14,621	(37,082)	80,182	113,367	64,420	18,203	276,172
Income tax	(50,847)	19,436	(4,605)	10,808	(25,208)	(31,026)	(12,975)	(2,686)	(71,895)
Income / (loss) after income tax from continuing operations	112,505	(41,273)	10,016	(26,274)	54,974	82,341	51,445	15,517	204,277
Income arising from discontinued operations	-	-	-	1,750	1,750	-	-	-	1,750
Net income / (loss) for the period	112,505	(41,273)	10,016	(24,524)	56,724	82,341	51,445	15,517	206,027
Non-controlling interests	-	-	-	4,248	4,248	(41,088)	(17,395)	(1,149)	(55,384)
Net income / (loss) for the period attributable to Bank's Shareholders	112,505	(41,273)	10,016	(20,276)	60,972	41,253	34,050	14,368	150,643

As at 31 December 2018, the net contribution of the major geographic segments, for the balance sheet, is analysed as follows:

(Thousands of Euros)

	Retail banking	Companies, Corporate and Investment banking	Private banking	Other	Total	Poland	Mozambique	Other (1)	Consolidated
BALANCE SHEET									
Cash and Loans and advances to credit institutions	8,676,928	218,221	1,869,029	(8,718,866)	2,045,312	740,447	540,268	644,552	3,970,579
Loans and advances to customers [5]	21,257,724	13,092,522	231,839	221,924	34,804,009	12,268,269	711,562	339,456	48,123,296
Financial assets [6]	20,838	-	-	10,976,994	10,997,832	5,448,454	699,980	1,481	17,147,747
Other assets	187,135	49,580	12,163	5,832,444	6,081,322	268,046	186,692	145,367	6,681,427
Total Assets	30,142,625	13,360,323	2,113,031	8,312,496	53,928,475	18,725,216	2,138,502	1,130,856	75,923,049
Resources from other credit institutions [7]	913,040	4,310,909	-	2,043,790	7,267,739	428,275	13,203	43,579	7,752,796
Resources from customers [8]	27,168,263	7,883,217	1,998,106	631,586	37,681,172	15,417,499	1,570,599	578,966	55,248,236
Debt securities issued [9]	1,018,395	769	54,691	1,443,884	2,517,739	188,446	-	-	2,706,185
Other financial liabilities [10]	-	-	-	1,271,583	1,271,583	304,002	-	1,428	1,577,013
Other liabilities	38,566	60,772	1,018	1,050,836	1,151,192	435,594	78,586	9,541	1,674,913
Total Liabilities	29,138,264	12,255,667	2,053,815	6,441,679	49,889,425	16,773,816	1,662,388	633,514	68,959,143
Equity and non-controlling interests	1,004,361	1,104,656	59,216	1,870,817	4,039,050	1,951,400	476,114	497,342	6,963,906
Total Liabilities, Equity and Non-controlling interests	30,142,625	13,360,323	2,113,031	8,312,496	53,928,475	18,725,216	2,138,502	1,130,856	75,923,049
Number of employees [11]	4,637	725	143	1,590	7,095	6,270	2,619	83	16,067

(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, results from derecognition of financial assets and financial liabilities measured at amortised cost, results from derecognition of financial assets measured at fair value through other comprehensive income;
(3) Includes impairment (net of reversals) of financial assets at amortised cost, for loans and advances of credit institutions, for loans to customers (net of recoveries - principal and accrual) and for debt instruments related to credit operations. It also includes impairment of financial assets (at fair value through other comprehensive income and at amortised cost not associated with credit operations);
(4) Includes impairment of non-current assets held for sale, impairment of investments in associated companies, impairment of goodwill, impairment of other assets and provisions;
(5) 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;
(6) 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;
(7) Includes resources and other financing from Central Banks and resources from other credit institutions;
(8) 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);
(9) Includes non-subordinated debt securities at amortised cost and financial liabilities at fair value through profit or loss (debt securities and certificates);
(10) Includes financial liabilities held for trading, subordinated debt and hedging derivatives;
(11) In Poland, the number of employees presented corresponds to 6,132 FTE - Full-time equivalent.

Reconciliation of net income of reportable segments with the net income attributable to shareholders

(Thousands of euros)

	30 June 2019	30 June 2018
Net contribution		
Retail banking in Portugal	129,722	112,505
Companies, Corporate and Investment banking	3,428	(41,273)
Private Banking	5,342	10,016
Foreign business (continuing operations)	139,361	149,303
Non-controlling interests (1)	(55,812)	(59,632)
	222,041	170,919
Amounts not allocated to segments		
Net interest income of the bond portfolio	9,557	6,490
Foreign exchange activity	379	11,616
Gains / (losses) arising from sales of subsidiaries and other assets	19,810	3,016
Equity accounted earnings	14,869	28,617
Impairment and other provisions (2)	(39,978)	(25,844)
Operational costs (3)	(22,419)	(7,997)
Gains on sale of Portuguese public debt	55,449	13,379
Mandatory contributions	(66,626)	(66,470)
Loans sale	(10,849)	(22,395)
Taxes (4)	(12,670)	10,808
Income from discontinued operations	13,413	1,750
Non-controlling interests	351	4,248
Others (5)	(13,548)	22,506
Total not allocated to segments	(52,262)	(20,276)
Consolidated net income	169,779	150,643

(1) Corresponds mainly to the income attributable to third parties related to the subsidiaries in Poland, and in Mozambique.
(2) Includes provisions for property in kind and for funds specialized in the recovery of loans, administrative infractions, various contingencies and other unallocated to business segments.
(3) Corresponds to revenues/costs related restructuring costs.
(4) Includes deferred tax revenue, net of current non-segment tax expense, namely the tax effect associated with the impacts of the previous items, calculated based on a marginal tax rate.
(5) It includes other operations not allocated previously namely funding for non-interest bearing assets and strategic financial investments, net commissions and other operating income / expenses and other income from financial operations.

52. Solvency

The Group's own funds are determined according to the established regulation, in particular, according to Directive 2013/36/EU and Regulation (EU) 575/2013, approved by the European Parliament and the Council (CRD IV / CRR).

Total capital includes tier 1 and tier 2. Tier 1 comprises common equity tier 1 (CET1) and additional tier 1.

Common equity tier 1 includes: (i) paid-up capital, share premium, reserves and retained earnings deducted anticipated dividends and non-controlling interests; ii) and deductions related to own shares and loans to finance the acquisition of shares of the Bank, the shortfall of value adjustments and provisions to expected losses concerning risk-weighted exposure amounts calculated according to the IRB approach and goodwill and other intangible assets. Reserves and retained earnings are adjusted by the reversal of unrealised gains and losses on cash-flow hedge transactions and on financial liabilities valued at fair value through profits and losses, to the extent related to own credit risk. The minority interests are only eligible up to the amount of the Group's capital requirements attributable to the minorities. In addition, the deferred tax assets arising from unused tax losses carried forward are deducted, as well as the deferred tax assets arising from temporary differences relying on the future profitability and the interests held in financial institutions and insurers of at least 10%, in this case only in the amount that exceeds the thresholds of 10% and 15% of the common equity tier 1, when analysed on an individual and aggregated basis, respectively. The additional value adjustments necessary for the prudent valuation requirements applied to all assets at fair value as well as the irrevocable payment commitments for the Deposits Guarantee Fund and the Single Resolution Fund , are also deducted.

Additional tier 1 comprises preference shares, hybrid instruments and perpetual bonds representing subordinated debt that are compliant with the issue conditions established in the Regulation and minority interests related to minimum level 1 additional capital requirements, of institutions that are not totally owned by the Group.

Tier 2 includes the subordinated debt that is compliant with the Regulation and the minority interests related to minimum total capital requirements of institutions that are not totally owned by the Group. Additionally, Tier 2 instruments held in financial institutions and insurers of at least 10% are deducted.

The legislation in force stipulates a transitional period between the own funds calculated under national law until 31 December 2013, and own funds estimated according to EU law, in order to exclude some elements previously considered (phase-out) and include new elements (phase-in). The transitional period was extended to the end of 2017 for most of the elements, except for the deferred tax already recorded on the balance sheet of 1 January 2014 and the subordinated debt and all the hybrid instruments not eligible to own funds, according to the new regulation, which period ends in 2023 and 2021, respectively.

With the IFRS9 introduction the Bank has decided to gradually recognise the impacts, according to artº 473º-A of CRR.

CRD IV/CRR establishes Pilar 1 capital requirements of 4.5%, 6% and 8% for CET1, Tier 1 and Total Capital, respectively. However, under the scope of SREP , European Central Bank notified BCP about the need to comply with phased-in capital ratios, during 2019, of 9.63% (CET1), 11.13% (Tier 1) and 13.13% (Total), including 2.25% of additional Pilar 2 requirements, 0,375% of O-SII and 2.5% of capital conservation buffer. 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 2019	31 December 2018
Common equity tier 1 (CET1)		
Share capital	4,725,000	4,725,000
Share Premium	16,471	16,471
Ordinary own shares	(88)	(74)
Reserves and retained earnings	1,178,531	1,006,048
Minority interests eligible to CET1	662,543	493,796
Regulatory adjustments to CET1	(1,132,704)	(1,194,083)
	5,449,753	5,047,158
Tier 1		
Capital Instruments	400,877	1,169
Minority interests eligible to AT1	101,021	72,740
	5,951,651	5,121,067
Tier 2		
Subordinated debt	418,863	477,675
Minority interests eligible to CET1	253,505	148,108
Other	(58,800)	(58,800)
	613,568	566,983
Total own funds	6,565,219	5,688,050
RWA - Risk weighted assets		
Credit risk	39,493,468	36,974,641
Market risk	1,148,939	1,125,845
Operational risk	3,889,986	3,631,244
CVA	142,837	151,302
	44,675,230	41,883,032
Capital ratios		
CET1	12.2%	12.1%
Tier 1	13.3%	12.2%
Tier 2	1.4%	1.4%
	14.7%	13.6%

The 2018 and 2019 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 to which the Group's business is subject to – credit, market, liquidity and operational – is particularly relevant.

Main types ok risk

Credit – Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfil their obligations.

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

Liquidity – Liquidity risk reflects the Group's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

Operational – Operational risk consists in the potential losses resulting from failures or inadequacies in internal procedures, persons or systems, and also in the potential losses resulting from external events.

Real Estate market – Real Estate market risk is related to the potential loss in which the Bank may incur due to changes in the prices of real estate assets owned by the Group.

Pension fund – Pension fund risk consists in the potential losses in which the Bank may incur due to risk related to the uncertainty about required contributions for defined benefit pension plans or to market rates fluctuations that might cause direct financial losses or indirect in the pension fund's assets.

Business and strategy – The risk related to business and strategy consists in the potential losses due to unpredictable changes in the economic and competitive framework in which the Group develops its activity, changes in the business strategy, risk of depreciation on strategic shareholdings that are out of the consolidation perimeter, and misalignment between IT's structure and the Bank's strategy.

Legal and compliance – Legal and compliance risk is related to losses in which the Bank may incur resulting from violations or non-conformity with laws and regulations.

Risk of foreign currency loans' conversion in Poland – This risk is related to eventual losses for the Group due to approval of law regarding rules of conversion into zlotys of loans originally based in foreign currency.

Internal organisation

Banco Comercial Português Board of Directors is responsible for the definition of the risk policy, including the approval of the principles and rules of the highest level to be followed in risk management, as well as the guidelines dictating the allocation of capital to the business lines.

The Board of Directors, through the Audit Committee, ensures the existence of adequate risk control and of risk-management systems at Group level and for each entity. The Board of Directors also approves the risk-tolerance level acceptable to the Group, proposed by its Executive Committee.

The Risk Committee is responsible for monitoring the overall levels of risk incurred, ensuring that these are compatible with the goals and strategies approved for the business.

The Chief Risk Officer is responsible for the control of risks in all Group entities, for the identification of all risks to which the Group activity is exposed and for the proposal of measures to improve risks control. The Chief Risk Officer also ensures that risks are monitored on an overall basis and that there is alignment of concepts, practices and goals in risk management. The activity of every entity included within the Banco Comercial Português consolidation perimeter is governed by the principles and decisions established centrally by the Risk Committee and the main subsidiaries are provided with Risk Office structures which are established in accordance with the risks inherent to their particular business. A Risk Control Commission has been set up at each relevant subsidiary, responsible for the control of risks at local level, in which the Chief Risk Officer takes part.

The Group Head of Compliance is responsible for implementing systems for monitoring the compliance with legal obligations and responsibilities to which the Bank is subject, as well, the prevention, monitoring and reporting of risks in organizational processes, which include, among others, the prevention and repression of money laundering, combating financing of terrorism, prevention of conflicts of interest, issues related to abuse of market and compliance with the disclosure requirements to customers.

Risk assessment

Credit Risk

Credit granting is based on a prior classification of the customers' risk and on a thorough assessment of the level of protection provided by the underlying collateral. In order to do so, a single risk-notation system has been introduced, the Rating Master Scale, based on the expected probability of default, allowing greater discrimination in the assessment of the customers and better establishment of the hierarchies of the associated risk.

The Rating Master Scale also identifies those customers that show a worsening credit capacity and, in particular, those classified as being in default. All rating and scoring models used by the Group have been duly calibrated for the Rating Master Scale. The protection-level concept has been introduced as a crucial element of evaluation of the effectiveness of the collateral in credit-risk mitigation, leading to a more active collateralization of loans and to a better adequacy of pricing regarding the risk incurred.

The gross Group's exposure to credit risk (original exposure) is presented in the following table:

(Thousands of euros)

Risk items	30 June 2019	31 December 2018
Central Governments or Central Banks	15,833,170	15,231,511
Regional Governments or Local Authorities	976,884	806,871
Administrative and non-profit Organisations	146,252	144,656
Multilateral Development Banks	19,111	19,139
Other Credit Institutions	3,171,939	2,738,662
Retail and Corporate customers	63,278,139	60,735,561
Other items (*)	10,194,670	10,072,372
	93,620,165	89,748,772

Note: gross exposures of impairment and amortization, in accordance with the prudential consolidation perimeter. Includes securitization positions.

(*) In addition to positions in equity, collective investment and securitization, the Other items contain other assets subject to credit risk in accordance with article 134 of the CRR.

The evaluation of the risk associated to the loan portfolio and quantification of the respective losses expected, considers the following methodological notes.

a) Collaterals and Guarantees

On the risk evaluation of an operation or of a group of operations, the mitigation elements of credit risk associated to those operations are considered in accordance with the rules and internal procedures that fulfil the requirements defined by the regulations in force, also reflecting the experience of the loans recovery areas and the Legal Department opinions with respect to the entailment of the various mitigation instruments.

The collaterals and the relevant guarantees can be aggregated in the following categories:

- financial collaterals, real estate collaterals or other collaterals;
- receivables;
- first demand guarantees, issued by banks or other entities with Risk Grade 7 or better on the Rating Master Scale;
- personal guarantees, when the persons are classified with Risk Grade 7 or better;
- credit derivatives.

The financial collaterals accepted are those that are traded in a recognised stock exchange, i.e., on an organized secondary market, liquid and transparent, with public bid-ask prices, located in countries of the European Union, United States, Japan, Canada, Hong Kong or Switzerland.

In this context, it is important to refer that the Bank's shares are not accepted as financial collaterals of new credit operations and are only accepted for the reinforcement of guarantees of existing credit operations, or in restructuring process associated to credit recoveries.

Regarding guarantees and credit derivatives, it can be applied the substitution principle by replacing the Risk Grade of the client by the Risk Grade of the guarantor, (if the Risk of Grade Degree of the guarantor is better than the client's), when the protection is formalized through:

- State, Financial Institutions or Mutual Guarantee Societies guarantees exist;
- personal guarantees (or, in the case of Leasing, there is a recovery agreement of the provider);
- Credit derivatives;
- Formalization of the clause of the contracting party in leasing contracts in which it is an entity that is in a relationship of dominion or group with the lessee.

An internal level of protection is attributed to all credit operations at the moment of the credit granting decision, considering the credit amount as well as the value and type of the collaterals involved. The protection level corresponds to the loss reduction in case of default that is linked to the various collateral types, considering their market value and the amount of the associated exposure.

In the case of financial collaterals, adjustments are made to the protection value by the use of a set of haircuts, in order to reflect the price volatility of the financial instruments.

In the case of real estate mortgages, the initial appraisal of the real estate value is done during the credit analysis and before decision process.

Either the initial evaluations or the subsequent reviews carried out are performed by external expert valuers and the ratification process is centralized in the Appraisals Unit, which is independent of the clients' areas.

In any case, they are the subject to a written report, in a standardized digital format, based on a group of predefined methods that are aligned with the sector practices – income, replacement cost and/or market comparative - mentioning the obtained value, for both the market value and for purposes of the mortgage guarantee, depending on the type of the real estate. The evaluations have a declaration/certification of an expert valuer since 2008, as requested by Regulation (EU) 575/2013 and Law 153/2015 of 14 September and are ratified by the Appraisals Unit.

Regarding residential real estate, after the initial valuation and in accordance with Notice n. 5/2006 of Bank of Portugal and e CRR 575/2013, the Bank monitors the respective values through market indexes. If the index is lower than 0.9, the Bank revaluates choosing one of the following two methods:

i) - depreciation of the property by direct application of the index, if the amount owed does not exceed Euros 300,000;
ii) - review of the property value by external valuators, depending on the value of the credit operation, and in accordance with the established standards from ECB and Bank of Portugal.

For all non-residential real estate, the Bank also monitors its values through market indexes and to the regular valuation reviews with the minimum periodicities in accordance with the Regulation (EU) 575/2013, in the case of offices, commercial spaces, warehouses and industrial premises.

For all real estate (residential or non-residential) for which the monitoring result in significant devaluation of the real estate value (more than 10%), a valuation review is subsequently carried out by an expert valuer, preserving the referred i) above.

For the remaining real estate (land or country side buildings for example) there are no market indexes available for the monitoring of appraisal values, after the initial valuations. Therefore, for these cases and in accordance with the minimum periodicity established for the monitoring and reviewing of this type of real estate, valuation reviews are carried out by expert valuers.

The indexes currently used are supplied to the Bank by an external specialized entity that, for more than a decade, has been collecting and processing the data upon which the indexes are built.

In the case of financial collaterals, their market value is daily and automatically updated, through the IT connection between the collaterals management system and the relevant financial markets data.

b) Risk grades

Credit granting is based on the previous risk assessment of clients and also on a rigorous assessment of the protection level provided by the underlying collaterals. For this purpose, a single risk grading system is used - the Rating Master Scale - based on Probability of Default (PD), allowing for a greater discriminating power in clients' assessment and for a better hierarchy of the associated risk. The Rating Master Scale also allows to identify clients that show signs of degradation in their credit capacity and, in particular, those that are classified in a default situation. All rating systems and models used by the Group were calibrated for the Rating Master Scale.

Aiming at an adequate assessment of credit risk, the Group defined a set of macro segments and segments which are treated through different rating systems and models that relate the internal risk grades and the clients' PD, ensuring a risk assessment that considers the clients' specific features in terms of their respectively risk profiles.

The assessment made by these rating systems and models result in the risk grades of the Master Scale, that has fifteen grades, where the last three correspond to relevant downgrades of the clients' credit quality and are referred to by "procedural risk grades": 13, 14 and 15, that correspond, in this order, to situations of increased severity in terms default, as risk grade 15 is a Default situation.

The non-procedural risk grades are attributed by the rating systems through automatic decision models or by the Rating Division – a unit which is independent from the credit analysis and decision areas and bodies- and are reviewed/updated periodically or whenever this is justified by events.

The models within the various rating systems are regularly subject to validation, made by the Models Validation and Monitoring Office, which is independent from the units that are responsible for the development and maintenance of the rating models.

The conclusions of the validations by the Models Validation and Monitoring Office, as well the respective recommendations and proposal for changes and/or improvements, are analysed and ratified by a specific Validation Committee, composed in accordance to the type of model analysed. The proposals for models' changes originated by the Validation Committee are submitted to the approval of the Risk Committee.

The following table lists the recognised External Credit Assessment Institutions (ECAI) and the external ratings equivalence to the Rating Master Scale of the Group:

	External ratings			
Internal risk grade	Fitch	S&P	Moody's	DBRS
1	AAA	AAA	Aaa	AAA
1	AA+	AA+	Aa1	AA (high)
2	AA	AA	Aa2	AA
2	AA-	AA-	Aa3	AA (low)
3	A+	A+	A1	A (high)
3	A	A	A2	A
4	A-	A-	A3	A (low)
4	BBB+	BBB+	Baa1	BBB (high)
5	BBB	BBB	Baa2	BBB
6	BBB-	BBB-	Baa3	BBB (low)
7	BB+	BB+	Ba1	BB (high)
8	BB	BB	Ba2	BB
9	BB-	BB-	Ba3	BB (low)
10	B+	B+	B1	B (high)
11	B	B	B2	B
12	≤ B-	≤ B-	≤ B3	≤ B-

c) Impairment and Write-offs

The credit impairment calculation as at 30 June 2019 and 31 December 2018 integrates the general principles defined in International Financial Reporting Standards (IFRS 9) and the guidelines issued by the Bank of Portugal through a 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 2019, the financial instruments subject to impairment requirements under IFRS 9, (do not include equity instruments as accounting policy 1 C1.1.2), analysed by stage, are detailed in the following tables:

(Thousands of euros)

	30 June 2019				
	Gross exposure				
Category	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	966,283	5,475	-	-	971,758
Loans and advances to customers (note 21)	39,793,573	7,464,384	4,801,237	125,546	52,184,740
Debt instruments (note 22)	3,122,547	233,553	50,968	-	3,407,068
Debt instruments at fair value					
through other comprehensive income (note 23) (*)	13,347,581	-	1,178	-	13,348,759
Guarantees and other commitments (note 45)	11,113,471	1,645,237	532,482	757	13,291,947
Total	68,343,455	9,348,649	5,385,865	126,303	83,204,272

The gross exposure to guarantees and other commitments includes the balances of guarantees granted, irrevocable credit lines and revocable commitments, as detailed in note 45.

(Thousands of euros)

	30 June 2019				
	Impairment losses				
Category	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	189	378	-	-	567
Loans and advances to customers (note 21)	116,785	178,191	2,324,411	991	2,620,378
Debt instruments (note 22)	4,557	661	23,710	-	28,928
Debt instruments at fair value					
through other comprehensive income (note 23) (*)	-	-	-	-	-
Guarantees and other commitments (note 38)	11,130	6,729	107,403	-	125,262
Total	132,661	185,959	2,455,524	991	2,775,135

(Thousands of euros)

	30 June 2019				
	Net exposure				
Category	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	966,094	5,097	-	-	971,191
Loans and advances to customers (note 21)	39,676,788	7,286,193	2,476,826	124,555	49,564,362
Debt instruments (note 22)	3,117,990	232,892	27,258	-	3,378,140
Debt instruments at fair value					
through other comprehensive income (note 23) (*)	13,347,581	-	1,178	-	13,348,759
Guarantees and other commitments (notes 38 and 45)	11,102,341	1,638,508	425,079	757	13,166,685
Total	68,210,794	9,162,690	2,930,341	125,312	80,429,137

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 C1.5.1.2.

As at 31 December 2018, 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 2018				
	Gross Exposure				
Category	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	880,560	10,657	669	-	891,886
Loans and advances to customers (note 21)	35,658,333	7,235,837	5,518,658	4	48,412,832
Debt instruments (note 22)	3,080,409	264,307	72,007	-	3,416,723
Debt instruments at fair value					
through other comprehensive income (note 23) (*)	13,797,971	-	4,887	-	13,802,858
Guarantees and other commitments (note 45)	10,702,195	1,491,003	640,274	-	12,833,472
Total	64,119,468	9,001,804	6,236,495	4	79,357,771

(Thousands of euros)

	31 December 2018				
	Impairment losses				
Category	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	410	774	669	-	1,853
Loans and advances to customers (note 21)	94,542	183,932	2,573,432	-	2,851,906
Debt instruments (note 22)	4,542	507	36,660	-	41,709
Debt instruments at fair value					
through other comprehensive income (note 23)	-	-	-	-	-
Guarantees and other commitments (note 38)	10,632	6,615	170,463	-	187,710
Total	110,126	191,828	2,781,224	-	3,083,178

(Thousands of euros)

	31 December 2018				
	Net exposure				
Category	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	880,150	9,883	-	-	890,033
Loans and advances to customers (note 21)	35,563,791	7,051,905	2,945,226	4	45,560,926
Debt instruments (note 22)	3,075,867	263,800	35,347	-	3,375,014
Debt instruments at fair value					
through other comprehensive income (note 23)	13,797,971	-	4,887	-	13,802,858
Guarantees and other commitments (notes 38 and 45)	10,691,563	1,484,388	469,811	-	12,645,762
Total	64,009,342	8,809,976	3,455,271	4	76,274,593

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 C1.5.1.2.

AS at 30 June 2019 and 31 December 2018, the maximum exposure to credit risk of financial assets not subject to impairment requirements is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Financial assets held for trading (note 23)		
Debt instruments	219,182	220,047
Derivatives	831,094	696,943
Financial assets designated at fair value through profit or loss - Debt instruments (note 23)	31,544	33,034
Financial assets not held for trading mandatorily at fair value through profit or loss		
Debt instruments (note 23)	16,778	16,778
Hedging derivatives (note 25)	255,193	185,525
Total	1,098,598	966,802

- 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 2019, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments, analysed by segment and stage, are as follows:

(Thousands of euros)

	30 June 2019									
		Stage 2				Stage 3				
Segment	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Individuals-Mortgage	21,718,735	2,532,864	185,608	42,298	2,760,770	341,621	441,539	783,160	28,319	25,290,984
Individuals-Other	7,312,939	737,002	79,760	25,546	842,308	243,995	322,407	566,402	97,984	8,819,633
Financial Companies	3,150,888	413,009	177	18	413,204	266,214	308,443	574,657	-	4,138,749
Non-financial comp. - Corporate	7,741,251	1,248,568	6,151	32,339	1,287,058	534,366	617,621	1,151,987	-	10,180,296
Non-financial comp.- SME-Corporate	9,036,101	2,390,562	18,204	6,325	2,415,091	945,219	567,650	1,512,869	-	12,964,061
Non-financial comp. -SME-Retail	3,831,367	1,094,172	26,980	4,860	1,126,012	392,990	334,129	727,119	-	5,684,498
Non-financial comp.-Other	680,494	180,591	2,252	247	183,090	6,984	61,508	68,492	-	932,076
Other loans	1,524,099	321,116	-	-	321,116	-	1	1	-	1,845,216
Total	54,995,874	8,917,884	319,132	111,633	9,348,649	2,731,389	2,653,298	5,384,687	126,303	69,855,513
Impairment										
Individuals-Mortgage	11,448	10,355	2,704	2,318	15,377	29,998	82,704	112,702	-	139,527
Individuals-Other	44,536	16,356	5,521	6,765	28,642	95,390	186,984	282,374	991	356,543
Financial Companies	2,035	9,574	18	3	9,595	159,137	225,991	385,128	-	396,758
Non-financial comp. - Corporate	23,961	18,423	63	2,685	21,171	275,478	394,386	669,864	-	714,996
Non-financial comp.- SME-Corporate	37,468	71,004	1,269	863	73,136	339,492	325,797	665,289	-	775,893
Non-financial comp. -SME-Retail	10,388	27,035	1,898	794	29,727	140,818	174,745	315,563	-	355,678
Non-financial comp.-Other	993	2,588	125	5	2,718	861	23,743	24,604	-	28,315
Other loans	1,832	5,593	-	-	5,593	-	-	-	-	7,425
Total	132,661	160,928	11,598	13,433	185,959	1,041,174	1,414,350	2,455,524	991	2,775,135
Net exposure										
Individuals-Mortgage	21,707,287	2,522,509	182,904	39,980	2,745,393	311,623	358,835	670,458	28,319	25,151,457
Individuals-Other	7,268,403	720,646	74,239	18,781	813,666	148,605	135,423	284,028	96,993	8,463,090
Financial Companies	3,148,853	403,435	159	15	403,609	107,077	82,452	189,529	-	3,741,991
Non-financial comp. - Corporate	7,717,290	1,230,145	6,088	29,654	1,265,887	258,888	223,235	482,123	-	9,465,300
Non-financial comp.- SME-Corporate	8,998,633	2,319,558	16,935	5,462	2,341,955	605,727	241,853	847,580	-	12,188,168
Non-financial comp. -SME-Retail	3,820,979	1,067,137	25,082	4,066	1,096,285	252,172	159,384	411,556	-	5,328,820
Non-financial comp.-Other	679,501	178,003	2,127	242	180,372	6,123	37,765	43,888	-	903,761
Other loans	1,522,267	315,523	-	-	315,523	-	1	1	-	1,837,791
Total	54,863,213	8,756,956	307,534	98,200	9,162,690	1,690,215	1,238,948	2,929,163	125,312	67,080,378
% of impairment coverage										
Individuals-Mortgage	0.05%	0.41%	1.46%	5.48%	0.56%	8.78%	18.73%	14.39%	0.00%	0.55%
Individuals-Other	0.61%	2.22%	6.92%	26.48%	3.40%	39.10%	58.00%	49.85%	1.01%	4.04%
Financial Companies	0.06%	2.32%	9.88%	15.85%	2.32%	59.78%	73.27%	67.02%	0.00%	9.59%
Non-financial comp. - Corporate	0.31%	1.48%	1.02%	8.30%	1.64%	51.55%	63.86%	58.15%	0.00%	7.02%
Non-financial comp.- SME-Corporate	0.41%	2.97%	6.97%	13.64%	3.03%	35.92%	57.39%	43.98%	0.00%	5.98%
Non-financial comp. -SME-Retail	0.27%	2.47%	7.03%	16.34%	2.64%	35.83%	52.30%	43.40%	0.00%	6.26%
Non-financial comp.-Other	0.15%	1.43%	5.56%	1.97%	1.48%	12.33%	38.60%	35.92%	0.00%	3.04%
Other loans	0.12%	1.74%	0.00%	98.41%	1.74%	0.00%	25.15%	25.15%	0.00%	0.40%
Total	0.24%	1.80%	3.63%	12.03%	1.99%	38.12%	53.31%	45.60%	0.78%	3.97%

As at 30 June 2019, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments, analysed by sector of activity and stage, are as follows:

(Thousands of euros)

	30 June 2019									
		Stage 2				Stage 3				
Sector of activity	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Loans to individuals	29,031,674	3,269,866	265,368	67,844	3,603,078	585,616	763,946	1,349,562	126,303	34,110,617
Non-financial comp.- Trade	4,354,415	676,813	12,221	2,921	691,955	199,588	137,397	336,985	-	5,383,355
Non-financial comp.- Construction	1,505,633	747,873	7,243	396	755,512	625,191	361,386	986,577	-	3,247,722
Non finan. comp.- Manufacturing indust.	4,662,467	951,138	13,517	6,990	971,645	133,548	172,889	306,437	-	5,940,549
Non-financial comp.-Other activities	1,431,987	380,987	1,556	558	383,101	206,553	14,873	221,426	-	2,036,514
Non-financial comp.- Other services	9,334,711	2,157,082	19,050	32,906	2,209,038	714,679	894,363	1,609,042	-	13,152,791
Other Services /Other activities	4,674,987	734,125	177	18	734,320	266,214	308,444	574,658	-	5,983,965
Total	54,995,874	8,917,884	319,132	111,633	9,348,649	2,731,389	2,653,298	5,384,687	126,303	69,855,513
Impairment										
Loans to individuals	55,984	26,711	8,225	9,083	44,019	125,388	269,688	395,076	991	496,070
Non-financial comp.- Trade	18,517	14,151	721	518	15,390	69,220	76,952	146,172	-	180,079
Non-financial comp.- Construction	5,676	8,752	721	95	9,568	201,147	243,574	444,721	-	459,965
Non-financial comp.- Manufacturing indus	19,061	18,376	679	552	19,607	50,229	87,474	137,703	-	176,371
Non-financial comp.-Other activities	2,442	12,124	76	40	12,240	89,489	6,053	95,542	-	110,224
Non-financial comp.- Other services	27,114	65,647	1,158	3,142	69,947	346,564	504,618	851,182	-	948,243
Other Services /Other activities	3,867	15,167	18	3	15,188	159,137	225,991	385,128	-	404,183
Total	132,661	160,928	11,598	13,433	185,959	1,041,174	1,414,350	2,455,524	991	2,775,135
Net exposure										
Loans to individuals	28,975,690	3,243,155	257,143	58,761	3,559,059	460,228	494,258	954,486	125,312	33,614,547
Non-financial comp.- Trade	4,335,898	662,662	11,500	2,403	676,565	130,368	60,445	190,813	-	5,203,276
Non-financial comp.- Construction	1,499,957	739,121	6,522	301	745,944	424,044	117,812	541,856	-	2,787,757
Non finan. comp.- Manufacturing indust.	4,643,406	932,762	12,838	6,438	952,038	83,319	85,415	168,734	-	5,764,178
Non-financial comp.-Other activities	1,429,545	368,863	1,480	518	370,861	117,064	8,820	125,884	-	1,926,290
Non-financial comp.- Other services	9,307,597	2,091,435	17,892	29,764	2,139,091	368,115	389,745	757,860	-	12,204,548
Other Services /Other activities	4,671,120	718,958	159	15	719,132	107,077	82,453	189,530	-	5,579,782
Total	54,863,213	8,756,956	307,534	98,200	9,162,690	1,690,215	1,238,948	2,929,163	125,312	67,080,378
% of impairment coverage										
Loans to individuals	0.19%	0.82%	3.10%	13.39%	1.22%	21.41%	35.30%	29.27%	0.78%	1.45%
Non-financial comp.- Trade	0.43%	2.09%	5.90%	17.74%	2.22%	34.68%	56.01%	43.38%	0.00%	3.35%
Non-financial comp.- Construction	0.38%	1.17%	9.96%	24.03%	1.27%	32.17%	67.40%	45.08%	0.00%	14.16%
Non finan. comp.- Manufacturing indust.	0.41%	1.93%	5.02%	7.89%	2.02%	37.61%	50.60%	44.94%	0.00%	2.97%
Non-financial comp.-Other activities	0.17%	3.18%	4.88%	7.14%	3.19%	43.33%	40.70%	43.15%	0.00%	5.41%
Non-financial comp.- Other services	0.29%	3.04%	6.08%	9.55%	3.17%	48.49%	56.42%	52.90%	0.00%	7.21%
Other Services /Other activities	0.08%	2.07%	9.88%	16.62%	2.07%	59.78%	73.27%	67.02%	0.00%	6.75%
Total	0.24%	1.80%	3.63%	12.03%	1.99%	38.12%	53.31%	45.60%	0.78%	3.97%

As at 30 June 2019, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments, analysed by geography and stage, are as follows:

(Thousands of euros)

	30 June 2019									
		Stage 2				Stage 3				
Geography	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Portugal	36,054,850	7,711,872	248,201	75,494	8,035,567	2,450,366	2,212,758	4,663,124	4	48,753,545
Poland	17,217,689	718,608	66,923	33,702	819,233	248,330	315,175	563,505	126,299	18,726,726
Mozambique	1,234,720	487,404	4,008	2,437	493,849	29,129	125,365	154,494	-	1,883,063
Switzerland	488,615	-	-	-	-	3,564	-	3,564	-	492,179
Total	54,995,874	8,917,884	319,132	111,633	9,348,649	2,731,389	2,653,298	5,384,687	126,303	69,855,513
Impairment										
Portugal	30,412	129,830	5,684	4,434	139,948	917,860	1,172,252	2,090,112	-	2,260,472
Poland	96,846	21,487	5,035	8,371	34,893	111,854	191,037	302,891	991	435,621
Mozambique	4,769	9,611	879	628	11,118	8,575	51,061	59,636	-	75,523
Switzerland	634	-	-	-	-	2,885	-	2,885	-	3,519
Total	132,661	160,928	11,598	13,433	185,959	1,041,174	1,414,350	2,455,524	991	2,775,135
Net exposure										
Portugal	36,024,438	7,582,042	242,517	71,060	7,895,619	1,532,506	1,040,506	2,573,012	4	46,493,073
Poland	17,120,843	697,121	61,888	25,331	784,340	136,476	124,138	260,614	125,308	18,291,105
Mozambique	1,229,951	477,793	3,129	1,809	482,731	20,554	74,304	94,858	-	1,807,540
Switzerland	487,981	-	-	-	-	679	-	679	-	488,660
Total	54,863,213	8,756,956	307,534	98,200	9,162,690	1,690,215	1,238,948	2,929,163	125,312	67,080,378
% of impairment coverage										
Portugal	0.08%	1.68%	2.29%	5.87%	1.74%	37.46%	52.98%	44.82%	0.00%	4.64%
Poland	0.56%	2.99%	7.52%	24.84%	4.26%	45.04%	60.61%	53.75%	0.78%	2.33%
Mozambique	0.39%	1.97%	21.93%	25.77%	2.25%	29.44%	40.73%	38.60%	0.00%	4.01%
Switzerland	0.13%	0.00%	0.00%	0.00%	0.00%	80.96%	0.00%	80.96%	0.00%	0.72%
Total	0.24%	1.80%	3.63%	12.03%	1.99%	38.12%	53.31%	45.60%	0.78%	3.97%

As at 30 June 2019, the gross exposure, by type of financial instrument, internal rating (attributed in Portugal and in Poland (excluding Euro Bank)) and stage, is analysed as follows:

(Thousands of euros)

	30 June 2019							
	Gross Exposure							
	Higher quality (GR 1-6)	Average quality (GR 7-9)	Lower quality (GR 10-12)	Procedural (GR 13/14/15)	Not classified (without risk grade)	Total	Impairment losses	Net exposure
Financial assets at amortised cost								
stage 1	26,217,684	9,171,935	2,749,671	32,600	1,433,653	39,605,543	97,822	39,507,721
stage 2	1,322,350	1,719,750	3,206,657	403,556	629,005	7,281,318	168,581	7,112,737
stage 3	1,774	6,045	46,931	4,616,973	26,659	4,698,382	2,285,383	2,412,999
POCI	-	-	-	-	4	4	-	4
	27,541,808	10,897,730	6,003,259	5,053,129	2,089,321	51,585,247	2,551,786	49,033,461
Debt instruments at fair value through other comprehensive income (*)								
stage 1	12,925,572	79,955	4,890	-	50	13,010,467	-	13,010,467
stage 2	-	-	-	-	-	-	-	-
stage 3	-	-	-	-	1,178	1,178	-	1,178
	12,925,572	79,955	4,890	-	1,228	13,011,645	-	13,011,645
Guarantees and other commitments								
stage 1	6,858,192	2,702,835	762,469	557	484,080	10,808,133	9,664	10,798,469
stage 2	222,138	407,072	647,972	60,892	234,004	1,572,078	6,195	1,565,883
stage 3	10	8	15,776	508,124	2,358	526,276	106,712	419,564
	7,080,340	3,109,915	1,426,217	569,573	720,442	12,906,487	122,571	12,783,916
Total	47,547,720	14,087,600	7,434,366	5,622,702	2,810,991	77,503,379	2,674,357	74,829,022

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 C1.5.1.2.

The gross exposure includes the guarantees granted, irrevocable credit lines and revocable commitments, as detailed in note 45.

As at 31 December 2018, 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 2018									
		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	19,749,462	2,536,079	197,808	46,836	2,780,723	429,851	551,741	981,592	-	23,511,777
Individuals-Other	5,552,362	714,557	102,982	32,516	850,055	267,829	371,734	639,563	4	7,041,984
Financial Companies	2,968,123	363,896	-	-	363,896	283,266	372,289	655,555	-	3,987,574
Non-financial comp. - Corporate	7,633,705	1,230,536	6,688	202	1,237,426	599,083	637,974	1,237,057	-	10,108,188
Non-financial comp.- SME-Corporate	9,015,943	2,041,249	25,862	3,241	2,070,352	1,088,217	622,686	1,710,903	-	12,797,198
Non-financial comp. -SME-Retail	3,381,566	1,151,099	64,964	6,624	1,222,687	558,034	357,637	915,671	-	5,519,924
Non-financial comp.-Other	282,342	173,104	351	143	173,598	31,802	58,226	90,028	-	545,968
Other loans	1,737,994	302,936	43	88	303,067	11	1,228	1,239	-	2,042,300
Total	50,321,497	8,513,456	398,698	89,650	9,001,804	3,258,093	2,973,515	6,231,608	4	65,554,913
Impairment										
Individuals-Mortgage	6,527	10,629	7,063	2,865	20,557	32,951	103,478	136,429	-	163,513
Individuals-Other	28,974	16,796	10,419	5,249	32,464	109,544	216,385	325,929	-	387,367
Financial Companies	2,266	7,318	-	-	7,318	187,600	280,991	468,591	-	478,175
Non-financial comp. - Corporate	23,010	33,240	109	5	33,354	346,914	378,883	725,797	-	782,161
Non-financial comp.- SME-Corporate	37,788	53,270	1,829	1,250	56,349	347,670	362,971	710,641	-	804,778
Non-financial comp. -SME-Retail	8,906	29,055	2,047	760	31,862	216,571	165,252	381,823	-	422,591
Non-financial comp.-Other	775	3,716	11	13	3,740	17,295	13,479	30,774	-	35,289
Other loans	1,880	6,184	-	-	6,184	11	1,229	1,240	-	9,304
Total	110,126	160,208	21,478	10,142	191,828	1,258,556	1,522,668	2,781,224	-	3,083,178
Net exposure										
Individuals-Mortgage	19,742,935	2,525,450	190,745	43,971	2,760,166	396,900	448,263	845,163	-	23,348,264
Individuals-Other	5,523,388	697,761	92,563	27,267	817,591	158,285	155,349	313,634	4	6,654,617
Financial Companies	2,965,857	356,578	-	-	356,578	95,666	91,298	186,964	-	3,509,399
Non-financial comp. - Corporate	7,610,695	1,197,296	6,579	197	1,204,072	252,169	259,091	511,260	-	9,326,027
Non-financial comp.- SME-Corporate	8,978,155	1,987,979	24,033	1,991	2,014,003	740,547	259,715	1,000,262	-	11,992,420
Non-financial comp. -SME-Retail	3,372,660	1,122,044	62,917	5,864	1,190,825	341,463	192,385	533,848	-	5,097,333
Non-financial comp.-Other	281,567	169,388	340	130	169,858	14,507	44,747	59,254	-	510,679
Other loans	1,736,114	296,752	43	88	296,883	-	(1)	(1)	-	2,032,996
Total	50,211,371	8,353,248	377,220	79,508	8,809,976	1,999,537	1,450,847	3,450,384	4	62,471,735
% of impairment coverage										
Individuals-Mortgage	0.03%	0.42%	3.57%	6.12%	0.74%	7.67%	18.75%	13.90%	0.00%	0.70%
Individuals-Other	0.52%	2.35%	10.12%	16.14%	3.82%	40.90%	58.21%	50.96%	0.00%	5.50%
Financial Companies	0.08%	2.01%	7.10%	21.98%	2.01%	66.23%	75.48%	71.48%	0.00%	11.99%
Non-financial comp. - Corporate	0.30%	2.70%	1.63%	2.67%	2.70%	57.91%	59.39%	58.67%	0.00%	7.74%
Non-financial comp.- SME-Corporate	0.42%	2.61%	7.07%	38.58%	2.72%	31.95%	58.29%	41.54%	0.00%	6.29%
Non-financial comp. -SME-Retail	0.26%	2.52%	3.15%	11.47%	2.61%	38.81%	46.21%	41.70%	0.00%	7.66%
Non-financial comp.-Other	0.27%	2.15%	3.17%	8.86%	2.15%	54.38%	23.15%	34.18%	0.00%	6.46%
Other loans	0.11%	2.04%	1.04%	0.22%	2.04%	100.00%	99.92%	99.92%	0.00%	0.46%
Total	0.22%	1.88%	5.39%	11.31%	2.13%	38.63%	51.21%	44.63%	0.00%	4.70%

As at 31 December 2018, 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 2018									
		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	25,301,824	3,250,636	300,790	79,352	3,630,778	697,680	923,475	1,621,155	4	30,553,761
Non-financial comp.- Trade	4,247,942	642,117	14,849	2,904	659,870	230,067	157,920	387,987	-	5,295,799
Non-financial comp.- Construction	1,574,944	525,725	7,678	2,245	535,648	705,122	457,206	1,162,328	-	3,272,920
Non finan. comp.- Manufacturing indust.	4,474,126	903,046	16,952	1,291	921,289	146,016	169,215	315,231	-	5,710,646
Non-financial comp.-Other activities	1,349,242	320,945	2,313	502	323,760	212,992	18,897	231,889	-	1,904,891
Non-financial comp.- Other services	8,667,302	2,204,155	56,073	3,268	2,263,496	982,939	873,285	1,856,224	-	12,787,022
Other Services /Other activities	4,706,117	666,832	43	88	666,963	283,277	373,517	656,794	-	6,029,874
Total	50,321,497	8,513,456	398,698	89,650	9,001,804	3,258,093	2,973,515	6,231,608	4	65,554,913
Impairment										
Loans to individuals	35,501	27,425	17,482	8,114	53,021	142,495	319,863	462,358	-	550,880
Non-financial comp.- Trade	14,814	16,075	783	902	17,760	92,613	92,945	185,558	-	218,132
Non-financial comp.- Construction	6,299	5,719	1,099	550	7,368	265,322	263,502	528,824	-	542,491
Non-financial comp.- Manufacturing indus	17,935	18,086	1,039	132	19,257	52,154	88,621	140,775	-	177,967
Non-financial comp.-Other activities	2,407	10,089	75	70	10,234	90,586	8,189	98,775	-	111,416
Non-financial comp.- Other services	29,024	69,312	1,000	374	70,686	427,775	467,328	895,103	-	994,813
Other Services /Other activities	4,146	13,502	-	-	13,502	187,611	282,220	469,831	-	487,479
Total	110,126	160,208	21,478	10,142	191,828	1,258,556	1,522,668	2,781,224	-	3,083,178
Net exposure										
Loans to individuals	25,266,323	3,223,211	283,308	71,238	3,577,757	555,185	603,612	1,158,797	4	30,002,881
Non-financial comp.- Trade	4,233,128	626,042	14,066	2,002	642,110	137,454	64,975	202,429	-	5,077,667
Non-financial comp.- Construction	1,568,645	520,006	6,579	1,695	528,280	439,800	193,704	633,504	-	2,730,429
Non finan. comp.- Manufacturing indust.	4,456,191	884,960	15,913	1,159	902,032	93,862	80,594	174,456	-	5,532,679
Non-financial comp.-Other activities	1,346,835	310,856	2,238	432	313,526	122,406	10,708	133,114	-	1,793,475
Non-financial comp.- Other services	8,638,278	2,134,843	55,073	2,894	2,192,810	555,164	405,957	961,121	-	11,792,209
Other Services /Other activities	4,701,971	653,330	43	88	653,461	95,666	91,297	186,963	-	5,542,395
Total	50,211,371	8,353,248	377,220	79,508	8,809,976	1,999,537	1,450,847	3,450,384	4	62,471,735
% of impairment coverage										
Loans to individuals	0.14%	0.84%	5.81%	10.23%	1.46%	20.42%	34.64%	28.52%	0.00%	1.80%
Non-financial comp.- Trade	0.35%	2.50%	5.28%	31.06%	2.69%	40.25%	58.86%	47.83%	0.00%	4.12%
Non-financial comp.- Construction	0.40%	1.09%	14.31%	24.49%	1.38%	37.63%	57.63%	45.50%	0.00%	16.58%
Non finan. comp.- Manufacturing indust.	0.40%	2.00%	6.13%	10.20%	2.09%	35.72%	52.37%	44.66%	0.00%	3.12%
Non-financial comp.-Other activities	0.18%	3.14%	3.25%	13.99%	3.16%	42.53%	43.34%	42.60%	0.00%	5.85%
Non-financial comp.- Other services	0.33%	3.14%	1.78%	11.46%	3.12%	43.52%	53.51%	48.22%	0.00%	7.78%
Other Services /Other activities	0.09%	2.02%	1.04%	0.32%	2.02%	66.23%	75.56%	71.53%	0.00%	8.08%
Total	0.22%	1.88%	5.39%	11.31%	2.13%	38.63%	51.21%	44.63%	0.00%	4.70%

As at 31 December 2018, 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 2018									
		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	35,135,414	7,451,625	241,597	40,889	7,734,111	2,966,505	2,524,585	5,491,090	4	48,360,619
Poland	13,457,252	622,012	137,888	45,848	805,748	260,144	316,334	576,478	-	14,839,478
Mozambique	1,250,611	439,819	19,213	2,913	461,945	27,866	132,596	160,462	-	1,873,018
Switzerland	478,220	-	-	-	-	3,578	-	3,578	-	481,798
Total	50,321,497	8,513,456	398,698	89,650	9,001,804	3,258,093	2,973,515	6,231,608	4	65,554,913
Impairment										
Portugal	31,379	124,608	5,442	1,429	131,479	1,126,917	1,272,926	2,399,843	-	2,562,701
Poland	67,895	24,838	12,879	7,398	45,115	108,280	200,123	308,403	-	421,413
Mozambique	10,094	10,762	3,157	1,315	15,234	20,652	49,619	70,271	-	95,599
Switzerland	758	-	-	-	-	2,707	-	2,707	-	3,465
Total	110,126	160,208	21,478	10,142	191,828	1,258,556	1,522,668	2,781,224	-	3,083,178
Net exposure										
Portugal	35,104,035	7,327,017	236,155	39,460	7,602,632	1,839,588	1,251,659	3,091,247	4	45,797,918
Poland	13,389,357	597,174	125,009	38,450	760,633	151,864	116,211	268,075	-	14,418,065
Mozambique	1,240,517	429,057	16,056	1,598	446,711	7,214	82,977	90,191	-	1,777,419
Switzerland	477,462	-	-	-	-	871	-	871	-	478,333
Total	50,211,371	8,353,248	377,220	79,508	8,809,976	1,999,537	1,450,847	3,450,384	4	62,471,735
% of impairment coverage										
Portugal	0.09%	1.67%	2.25%	3.49%	1.70%	37.99%	50.42%	43.70%	0.00%	5.30%
Poland	0.50%	3.99%	9.34%	16.14%	5.60%	41.62%	63.26%	53.50%	0.00%	2.84%
Mozambique	0.81%	2.45%	16.43%	45.16%	3.30%	74.11%	37.42%	43.79%	0.00%	5.10%
Switzerland	0.16%	0.00%	0.00%	0.00%	0.00%	75.66%	0.00%	75.66%	0.00%	0.72%
Total	0.22%	1.88%	5.39%	11.31%	2.13%	38.63%	51.21%	44.63%	0.00%	4.70%

As at 31 December 2018, the gross exposure, by type of financial instrument, internal rating (attributed in Portugal and in Poland) and stage, is analysed as follows:

(Thousands of euros)

	31 December 2018							
	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	25,159,396	8,953,561	2,853,215	35	1,181,364	38,147,571	90,088	38,057,483
stage 2	1,205,609	1,583,594	3,037,028	474,487	774,553	7,075,271	170,144	6,905,127
stage 3	2,549	10,477	96,250	5,246,346	73,159	5,428,781	2,538,296	2,890,485
	26,367,554	10,547,632	5,986,493	5,720,868	2,029,080	50,651,627	2,798,528	47,853,099
Debt instruments at fair value through other comprehensive income (*)								
stage 1	13,708,187	83,940	-	-	5,843	13,797,970	-	13,797,970
stage 2	-	-	-	-	-	-	-	-
stage 3	-	-	-	-	4,887	4,887	-	4,887
	13,708,187	83,940	-	-	10,730	13,802,857	-	13,802,857
Guarantees and other commitments								
stage 1	6,664,521	2,619,025	759,108	24	402,415	10,445,093	9,186	10,435,907
stage 2	205,729	304,644	609,108	49,856	295,250	1,464,587	6,451	1,458,136
stage 3	60	5	25,145	609,961	3,617	638,788	169,948	468,840
	6,870,310	2,923,674	1,393,361	659,841	701,282	12,548,468	185,585	12,362,883
Total	46,946,051	13,555,246	7,379,854	6,380,709	2,741,092	77,002,952	2,984,113	74,018,839

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 C1.5.1.2.

The gross exposure includes the guarantees granted, irrevocable credit lines and revocable commitments, as detailed in note 45.

As at 30 June 2019, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments subject to individual and collective impairment, by segment, by sector of activity and by geography, are presented in the following tables:

(Thousands of euros)

	30 June 2019					
	Gross Exposure			Impairment losses		
Segment	Individual	Collective	Total	Individual	Collective	Total
Individuals-Mortgage	28,266	25,262,718	25,290,984	9,867	129,660	139,527
Individuals-Other	91,223	8,728,410	8,819,633	44,134	312,409	356,543
Financial Companies	564,386	3,574,363	4,138,749	384,408	12,350	396,758
Non-financial comp. - Corporate	1,084,639	9,095,657	10,180,296	664,901	50,095	714,996
Non-financial comp.- SME-Corporate	1,203,314	11,760,747	12,964,061	579,303	196,590	775,893
Non-financial comp. -SME-Retail	504,226	5,180,272	5,684,498	247,536	108,142	355,678
Non-financial comp.-Other	60,775	871,301	932,076	20,681	7,634	28,315
Other loans	-	1,845,216	1,845,216	-	7,425	7,425
Total	3,536,829	66,318,684	69,855,513	1,950,830	824,305	2,775,135

(Thousands of euros)

	30 June 2019					
	Gross Exposure			Impairment losses		
Sector of activity	Individual	Collective	Total	Individual	Collective	Total
Loans to individuals	119,490	33,991,127	34,110,617	54,001	442,069	496,070
Non-financial comp.- Trade	199,930	5,183,425	5,383,355	108,837	71,242	180,079
Non-financial comp.- Construction	827,740	2,419,982	3,247,722	398,607	61,358	459,965
Non finan. comp.- Manufacturing indust.	190,998	5,749,551	5,940,549	108,461	67,910	176,371
Non-financial comp.-Other activities	191,408	1,845,106	2,036,514	90,235	19,989	110,224
Non-financial comp.- Other services	1,442,878	11,709,913	13,152,791	806,281	141,962	948,243
Other Services /Other activities	564,385	5,419,580	5,983,965	384,408	19,775	404,183
Total	3,536,829	66,318,684	69,855,513	1,950,830	824,305	2,775,135

(Thousands of euros)

	30 June 2019					
	Gross Exposure			Impairment losses		
Geography	Individual	Collective	Total	Individual	Collective	Total
Portugal	3,251,788	45,501,757	48,753,545	1,823,280	437,192	2,260,472
Poland	167,012	18,559,714	18,726,726	82,514	353,107	435,621
Mozambique	114,465	1,768,598	1,883,063	42,151	33,372	75,523
Switzerland	3,564	488,615	492,179	2,885	634	3,519
Total	3,536,829	66,318,684	69,855,513	1,950,830	824,305	2,775,135

The balances Gross Exposure and Collective Impairment include the loans subject to individual analysis for which the Group has concluded that there is no objective evidence of impairment.

As at 31 December 2018, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments subject to individual and collective impairment, by segment, by sector of activity and by geography, are presented in the following tables:

(Thousands of euros)

	31 December 2018					
	Gross Exposure			Impairment losses		
Segment	Individual	Collective	Total	Individual	Collective	Total
Individuals-Mortgage	32,543	23,479,234	23,511,777	12,377	151,136	163,513
Individuals-Other	158,089	6,883,895	7,041,984	63,796	323,571	387,367
Financial Companies	639,580	3,347,994	3,987,574	465,963	12,212	478,175
Non-financial comp. - Corporate	1,220,815	8,887,373	10,108,188	720,016	62,145	782,161
Non-financial comp.- SME-Corporate	1,343,991	11,453,207	12,797,198	603,860	200,918	804,778
Non-financial comp. -SME-Retail	670,617	4,849,307	5,519,924	297,013	125,578	422,591
Non-financial comp.-Other	84,175	461,793	545,968	28,034	7,255	35,289
Other loans	1,238	2,041,062	2,042,300	1,238	8,066	9,304
Total	4,151,048	61,403,865	65,554,913	2,192,297	890,881	3,083,178

(Thousands of euros)

	31 December 2018					
	Gross Exposure			Impairment losses		
Sector of activity	Individual	Collective	Total	Individual	Collective	Total
Loans to individuals	190,631	30,363,130	30,553,761	76,174	474,706	550,880
Non-financial comp.- Trade	258,813	5,036,986	5,295,799	141,116	77,016	218,132
Non-financial comp.- Construction	985,308	2,287,612	3,272,920	471,588	70,903	542,491
Non finan. comp.- Manufacturing indust.	199,963	5,510,683	5,710,646	105,874	72,093	177,967
Non-financial comp.-Other activities	201,314	1,703,577	1,904,891	90,656	20,760	111,416
Non-financial comp.- Other services	1,674,201	11,112,821	12,787,022	839,687	155,126	994,813
Other Services /Other activities	640,818	5,389,056	6,029,874	467,202	20,277	487,479
Total	4,151,048	61,403,865	65,554,913	2,192,297	890,881	3,083,178

(Thousands of euros)

	31 December 2018					
	Gross Exposure			Impairment losses		
Geography	Individual	Collective	Total	Individual	Collective	Total
Portugal	3,833,290	44,527,329	48,360,619	2,046,861	515,840	2,562,701
Poland	172,336	14,667,142	14,839,478	87,960	333,453	421,413
Mozambique	141,844	1,731,174	1,873,018	54,769	40,830	95,599
Switzerland	3,578	478,220	481,798	2,707	758	3,465
Total	4,151,048	61,403,865	65,554,913	2,192,297	890,881	3,083,178

The balances Gross Exposure and Collective Impairment include the loans subject to individual analysis for which the Group has concluded that there is no objective evidence of impairment.

As at 30 June 2019, the following table includes the loans portfolio by segment and by year of production (date of the beginning of the operations, in the portfolio at the date of balance sheet - it does not include restructured loans):

	30 June 2019					
Year of production	Construction and CRE	Companies - Oth. Activities	Mortgage loans	Individuals - Other	Other loans	Total
2009 and previous						
Number of operations	17,905	28,143	335,461	815,444	464	1,197,417
Value (Euros '000)	1,297,290	3,936,339	13,947,474	1,057,810	104,735	20,343,648
Impairment constituted (Euros '000)	165,657	160,985	122,042	21,888	856	471,428
2010						
Number of operations	1,740	3,454	22,110	131,168	40	158,512
Value (Euros '000)	130,484	446,548	1,032,416	184,982	6,444	1,800,874
Impairment constituted (Euros '000)	10,947	14,167	6,638	3,068	378	35,198
2011						
Number of operations	1,771	4,667	15,655	127,105	17	149,215
Value (Euros '000)	89,740	408,255	686,013	187,854	3,455	1,375,317
Impairment constituted (Euros '000)	11,201	14,665	3,888	4,927	172	34,853
2012						
Number of operations	1,645	5,256	13,742	139,141	231	160,015
Value (Euros '000)	97,701	374,328	560,098	175,108	17,077	1,224,312
Impairment constituted (Euros '000)	5,387	19,065	5,690	6,765	665	37,572
2013						
Number of operations	2,448	7,186	13,913	174,522	46	198,115
Value (Euros '000)	126,510	894,991	618,364	215,838	132,928	1,988,631
Impairment constituted (Euros '000)	13,200	52,226	7,882	12,298	25,529	111,135
2014						
Number of operations	2,760	11,196	11,919	210,431	166	236,472
Value (Euros '000)	148,013	1,018,469	585,502	286,672	218,507	2,257,163
Impairment constituted (Euros '000)	9,107	57,171	6,412	19,767	889	93,346
2015						
Number of operations	4,205	18,043	14,377	295,503	330	332,458
Value (Euros '000)	232,438	1,550,345	794,652	528,569	136,876	3,242,880
Impairment constituted (Euros '000)	31,552	82,315	4,607	35,817	7,152	161,443
2016						
Number of operations	4,825	24,370	16,282	313,135	312	358,924
Value (Euros '000)	351,805	2,279,650	946,794	798,884	162,682	4,539,815
Impairment constituted (Euros '000)	18,618	111,008	4,711	38,997	3,183	176,517
2017						
Number of operations	5,745	28,837	26,551	363,923	343	425,399
Value (Euros '000)	623,483	2,712,128	1,843,614	983,804	178,424	6,341,453
Impairment constituted (Euros '000)	41,335	86,898	5,760	37,339	2,991	174,323
2018						
Number of operations	9,359	41,234	34,120	689,111	618	774,442
Value (Euros '000)	1,475,333	4,564,992	2,727,399	1,964,365	747,115	11,479,204
Impairment constituted (Euros '000)	13,264	148,428	3,760	39,854	7,908	213,214
2019						
Number of operations	9,217	131,306	18,018	709,872	1,062	869,475
Value (Euros '000)	1,034,023	5,062,051	1,507,973	1,642,128	363,717	9,609,892
Impairment constituted (Euros '000)	7,741	39,856	2,326	16,811	1,372	68,106
Total						
Number of operations	61,620	303,692	522,148	3,969,355	3,629	4,860,444
Value (Euros '000)	5,606,820	23,248,096	25,250,299	8,026,014	2,071,960	64,203,189
Impairment constituted (Euros '000)	328,009	786,784	173,716	237,531	51,095	1,577,135

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 2018, 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 2018					
Year of production	Construction and CRE	Companies - Oth. Activities	Mortgage loans	Individuals - Other	Other loans	Total
2008 and previous						
Number of operations	17,356	27,714	322,834	611,393	478	979,775
Value (Euros '000)	1,084,845	3,584,254	13,454,506	1,034,717	50,947	19,209,269
Impairment constituted (Euros '000)	168,452	163,012	135,942	26,295	771	494,472
2009						
Number of operations	2,077	3,273	18,789	73,636	64	97,839
Value (Euros '000)	237,103	685,307	903,711	114,823	7,638	1,948,582
Impairment constituted (Euros '000)	23,915	14,271	7,467	4,585	176	50,414
2010						
Number of operations	2,001	4,058	20,615	106,117	64	132,855
Value (Euros '000)	183,439	488,464	1,014,984	192,961	9,896	1,889,744
Impairment constituted (Euros '000)	19,436	15,042	6,723	3,872	594	45,667
2011						
Number of operations	1,960	5,450	13,584	122,165	43	143,202
Value (Euros '000)	98,288	464,657	618,493	193,887	11,437	1,386,762
Impairment constituted (Euros '000)	13,435	14,889	4,167	5,624	568	38,683
2012						
Number of operations	1,861	5,812	11,104	132,350	259	151,386
Value (Euros '000)	108,842	514,859	457,504	182,500	17,890	1,281,595
Impairment constituted (Euros '000)	9,720	90,442	6,146	7,281	338	113,927
2013						
Number of operations	2,833	8,494	11,479	167,727	116	190,649
Value (Euros '000)	139,013	966,916	514,301	230,884	144,862	1,995,976
Impairment constituted (Euros '000)	21,422	54,113	7,606	14,703	17,363	115,207
2014						
Number of operations	3,216	13,391	8,545	212,415	224	237,791
Value (Euros '000)	181,713	1,074,423	436,849	313,691	220,795	2,227,471
Impairment constituted (Euros '000)	9,084	43,856	6,413	24,582	819	84,754
2015						
Number of operations	4,850	20,901	9,886	292,179	448	328,264
Value (Euros '000)	265,538	1,782,911	586,031	517,277	224,327	3,376,084
Impairment constituted (Euros '000)	32,095	145,900	4,230	41,267	7,020	230,512
2016						
Number of operations	5,389	27,322	13,692	289,145	382	335,930
Value (Euros '000)	416,921	2,528,360	858,463	693,072	206,116	4,702,932
Impairment constituted (Euros '000)	31,960	119,846	4,202	37,250	4,137	197,395
2017						
Number of operations	6,189	31,197	25,233	306,462	440	369,521
Value (Euros '000)	696,026	3,046,700	1,834,789	877,639	262,900	6,718,054
Impairment constituted (Euros '000)	45,668	92,627	5,114	31,016	6,008	180,433
2018						
Number of operations	14,010	132,610	32,879	634,048	4,017	817,564
Value (Euros '000)	1,942,173	8,159,206	2,723,382	1,933,972	803,583	15,562,316
Impairment constituted (Euros '000)	29,250	143,454	4,332	31,428	17,731	226,195
Total						
Number of operations	61,742	280,222	488,640	2,947,637	6,535	3,784,776
Value (Euros '000)	5,353,901	23,296,057	23,403,013	6,285,423	1,960,391	60,298,785
Impairment constituted (Euros '000)	404,437	897,452	192,342	227,903	55,525	1,777,659

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 2019, the following table includes the fair value of the collaterals (not limited by the value of the collateral) associated to the loans portfolio by segments Construction and CRE, Companies - Other Activities and Mortgage loans:

	30 June 2019					
	Construction and CRE		Companies - Other Activities		Mortgage loans	
Fair Value	Real Estate	Other real Collateral (*)	Real Estate	Other Collateral (*)	Real Estate	Other real Collateral (*)
< 0.5 M€						
Number	7,158	9,352	10,746	72,517	447,643	451
Value (Euros '000)	898,949	230,808	1,541,338	1,626,692	48,902,937	24,293
>= 0.5 M€ and < 1 M€						
Number	657	49	1,393	300	2,649	5
Value (Euros '000)	452,000	30,897	969,420	210,104	1,712,354	2,889
>= 1 M€ and < 5 M€						
Number	486	57	1,095	225	424	2
Value (Euros '000)	1,005,353	104,709	2,167,826	432,294	642,881	3,182
>= 5 M€ and < 10 M€						
Number	76	4	123	27	7	-
Value (Euros '000)	528,627	29,163	827,445	178,658	46,563	-
>= 10 M€ and < 20 M€						
Number	37	3	59	16	-	-
Value (Euros '000)	504,936	41,209	782,117	241,046	-	-
>= 20 M€ and < 50 M€						
Number	27	-	26	3	-	-
Value (Euros '000)	743,213	-	762,928	96,453	-	-
>= 50 M€						
Number	4	-	9	6	-	-
Value (Euros '000)	230,731	-	794,158	863,177	-	-
Total						
Number	8,445	9,465	13,451	73,094	450,723	458
Value (Euros '000)	4,363,809	436,786	7,845,232	3,648,424	51,304,735	30,364

(*) Includes, namely, securities, deposits and fixed assets pledges.

As at 31 December 2018, the following table includes the fair value of the collaterals (not limited by the value of the collateral) associated to the loans portfolio by segments Construction and CRE, Companies - Other Activities and Mortgage loans:

	31 December 2018					
	Construction and CRE		Companies - Other Activities		Mortgage loans	
Fair Value	Real Estate	Other real Collateral (*)	Real Estate	Other Collateral (*)	Real Estate	Other real Collateral (*)
< 0.5 M€						
Number	7,509	8,674	10,699	67,843	412,381	471
Value (Euros '000)	926,993	221,851	1,531,245	1,583,305	45,077,642	24,357
>= 0.5 M€ and < 1 M€						
Number	638	57	1,314	293	2,450	5
Value (Euros '000)	432,714	36,504	915,079	205,129	1,586,158	2,876
>= 1 M€ and < 5 M€						
Number	436	56	1,055	224	372	2
Value (Euros '000)	875,232	99,842	2,081,256	425,434	561,752	2,916
>= 5 M€ and < 10 M€						
Number	68	3	118	24	4	-
Value (Euros '000)	479,873	19,280	803,674	162,992	24,124	-
>= 10 M€ and < 20 M€						
Number	32	4	59	17	-	-
Value (Euros '000)	430,715	58,495	791,756	255,092	-	-
>= 20 M€ and < 50 M€						
Number	26	-	27	3	-	-
Value (Euros '000)	757,027	-	802,373	86,423	-	-
>= 50 M€						
Number	3	-	8	2	-	-
Value (Euros '000)	176,677	-	669,380	688,193	-	-
Total						
Number	8,712	8,794	13,280	68,406	415,207	478
Value (Euros '000)	4,079,231	435,972	7,594,763	3,406,568	47,249,676	30,149

(*) Includes, namely, securities, deposits and fixed assets pledges.

As at 30 June 2019, the following table includes the LTV ratio by segments Construction and Commercial Real Estate (CRE), Companies - Other Activities and Mortgage loans:

(Thousands of euros)

	30 June 2019				
Segment/Ratio	Number of properties	Stage 1	Stage 2	Stage 3	Impairment
Construction and CRE					
Without associated collateral	n.a.	1,743,721	926,701	491,711	240,532
<60%	9,871	527,161	205,818	76,184	21,101
>=60% and <80%	3,942	597,071	78,793	69,419	14,757
>=80% and <100%	1,957	157,603	63,467	133,025	37,253
>=100%	8,636	372,378	194,259	672,757	334,467
Companies - Other Activities					
Without associated collateral	n.a.	15,065,627	2,331,419	1,388,176	947,009
<60%	48,172	1,425,806	487,227	189,040	84,366
>=60% and <80%	17,543	1,011,810	299,454	134,461	57,133
>=80% and <100%	14,039	699,974	214,435	135,911	68,345
>=100%	6,437	899,174	361,260	644,303	429,155
Mortgage loans					
Without associated collateral	n.a.	274,572	12,770	9,628	7,730
<60%	293,798	8,983,422	977,041	194,446	34,208
>=60% and <80%	159,550	8,191,108	1,041,933	214,685	33,521
>=80% and <100%	68,056	3,580,726	583,619	209,897	27,979
>=100%	23,228	1,129,793	190,584	275,638	84,704

As at 31 December 2018, the following table includes the LTV ratio by segments Construction and Commercial Real Estate (CRE), Companies - Other Activities and Mortgage loans:

(Thousands of euros)

	31 December 2018				
Segment/Ratio	Number of properties	Stage 1	Stage 2	Stage 3	Impairment
Construction and CRE					
Without associated collateral	n.a.	1,919,046	714,764	537,137	234,797
<60%	9,267	397,422	217,356	90,602	31,083
>=60% and <80%	4,269	490,779	82,968	109,921	23,882
>=80% and <100%	2,132	162,694	54,044	96,652	29,928
>=100%	15,197	263,815	151,302	819,524	428,196
Companies - Other Activities					
Without associated collateral	n.a.	14,681,508	2,224,191	1,597,121	1,045,994
<60%	47,980	1,374,701	447,465	233,219	80,416
>=60% and <80%	16,575	902,710	244,641	151,310	51,077
>=80% and <100%	13,894	709,089	202,621	143,773	70,388
>=100%	8,657	1,115,491	357,817	723,141	487,563
Mortgage loans					
Without associated collateral	n.a.	231,962	5,098	10,469	7,999
<60%	272,952	8,057,885	952,664	201,100	30,362
>=60% and <80%	145,013	7,210,271	1,031,242	236,650	29,324
>=80% and <100%	67,132	3,286,948	616,158	251,569	29,570
>=100%	28,216	1,343,396	219,650	375,142	115,204

As at 30 June 2019, the following table includes the fair value and the net book value of the properties classified as Non-current assets held for sale (note 26), by type of asset:

(Thousands of euros)

	30 June 2019					
	Assets arising from recovered loans results (note 26)		Assets belong to investments funds and real estate companies (note 26)		Total	
Asset	Appraised value	Book value	Appraised value	Book value	Appraised value	Book value
Land						
Urban	497,799	455,997	260,787	260,787	758,586	716,784
Rural	19,000	16,070	3,488	3,488	22,488	19,558
Buildings in development						
Commercials	7,769	7,133	34,238	34,238	42,007	41,371
Mortgage loans	18,432	17,174	-	-	18,432	17,174
Other	60	60	-	-	60	60
Constructed buildings						
Commercials	317,005	285,027	22,617	22,617	339,622	307,644
Mortgage loans	422,211	366,357	5,334	5,334	427,545	371,691
Other	11,104	11,042	3,820	3,820	14,924	14,862
Other assets	4,327	4,327	-	-	4,327	4,327
	1,297,707	1,163,187	330,284	330,284	1,627,991	1,493,471

As at 31 December 2018, the following table includes the fair value and the net book value of the properties classified as Non-current assets held for sale (note 26), by type of asset:

(Thousands of euros)

	31 December 2018					
	Assets arising from recovered loans results (note 26)		Assets belong to investments funds and real estate companies (note 26)		Total	
Asset	Appraised value	Book value	Appraised value	Book value	Appraised value	Book value
Land						
Urban	528,954	477,795	267,943	267,943	796,897	745,738
Rural	29,362	26,466	32,760	32,760	62,122	59,226
Buildings in development						
Commercials	25,937	23,348	34,754	34,754	60,691	58,102
Mortgage loans	51,070	44,107	-	-	51,070	44,107
Other	61	61	-	-	61	61
Constructed buildings						
Commercials	344,455	307,941	23,692	23,692	368,147	331,633
Mortgage loans	474,032	417,164	6,994	6,994	481,026	424,158
Other	6,109	6,050	2,851	2,851	8,960	8,901
Other assets	4,050	4,050	-	-	4,050	4,050
	1,464,030	1,306,982	368,994	368,994	1,833,024	1,675,976

Credit concentration risk

The Group's policy relating to the identification, measurement and evaluation of the concentration risk in credit risk is defined and described in the document Credit Principles and Guidelines, approved by the Bank's management body. This policy applies to all Group entities by the transposition of the respective definitions and requirements into the internal rulings of each entity. Through the document mentioned above, the Group defined the following guidelines relating to the control and management of credit concentration risk:

The monitoring of the concentration risk and the follow-up of major risks is made, at Group level, based on the concept of "Economic Groups" and "Customer Groups" - sets of connected Customers (individual persons or companies), which represent a single entity from a credit risk perspective, such that if one of them is affected by financial problems, one or all of the others, will probably face difficulties to fulfil their debtor obligations. The Customer connections that originate a Customer group include the formal participation on the same economic group, the evidence that a direct or indirect control relationship exists, including the control by an individual Customer (criteria of capacity of control) of a company or the existence of a strong commercial interdependency or common sources of funding that cannot be replaced on a short term (criteria of economic dependency).The identification of connected clients is an integral part of the credit granting and monitoring processes of each entity.

For the control of credit concentration risk and limit the exposure to this risk, there are limits defined for:

1) Corporate single-name exposures (Large exposures);
2) Exposures to sovereign risks;
3) Exposures to Institutions (Banks/financial institutions);
4) Exposure to sectors of activity;
5) Geographic concentration (country risk).

These limits apply to the 'Net exposures' at stake(*), relating either to a counterparty or a group of counterparties – cases for 1), 2) and 3) – or to the set of exposures to an activity sector or to a country (the counterparty country of residence) – cases for 4) and 5). The measurement of geographic concentration excludes the countries in which the Group operates (Portugal, Poland and Mozambique).

Except for case 4), the concentration limits are established by taking into consideration the credit worthiness of the debtors at stake in what concerns their rating grades/probability of Default (PD) (internal or external ratings; country rating in the case of geographic concentration).

The concentration limits for Corporate single-name exposures apply only to non-NPE positions, since the NPE(**) positions are covered by the NPE reduction Plan.

The limits in force for single-name concentration, as at 30 June 2019, are presented in the following table, which indicates the single-name limit for any given Customer/Group of Customers, as the Net Exposure weight over the consolidated Own Funds:

Risk quality	Risk grade	Max Net exposure as a % of COF
High quality	1 – 5	8.0%
Average/good quality	6 – 7	6.0%
Average low/quality	8 - 9	4.0%
Low quality	10 – 11	0.8%
Restricted credit	12 or worse	0.4%

As at 30 June 2019 there were 3 Economic Groups with net exposure above the limits approved for the respective risk grade, the same number as by the end of 2018. For each client with 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 measurement of this concentration type is also done within the Group RAS (Risk Appetite Statement)(***) scope.

Risk grades: 1 – 3 - Very low risk ; 4 – 6 - Low risk; 7 - 12 - Average (or lower quality) risk.

(*) Net exposure = EAD x LGD, assuming that PD=1 and considering LGD=45% whenever own estimates for LGD are not available.
(**) NPE = Non-performing exposures
(***) "Risk Appetite" indicators.

The following tables present the concentration limits to Sovereigns, Institutions, countries and activity sectors, as well as the measurements of these concentrations as at 30 June 2019:

Counterparties	Limit (% of COF)	Net exposure % weight
Sovereigns	Very low risk 25%; low risk 10%; average (or lower quality) risk 7.5%	Sovereign 1: 3,2% (low risk); Sovereign 2: 2,3%% (low risk); Sovereign 3: 0,2% (average or lower quality risk); Sovereign 4: 0,1% (very low risk)
Institutions	Very low risk 10%; low risk 5%; average (or lower quality) risk 2.5%	Institution 1: 1,5% (very low risk); Institution 2 (average or lower qualty risk): 1,2%; Institution 3: 0,8% (very low risk) ; Institution 4: 0,5% (very low risk); Institution 5: 0,5% (very low risk); Institution 6: 0,5% ; Institution 7: 0,4%; Institution 8: 0,4%; Institution 9: 0,3%; Institution 10: 0,3%; Institution 11: 0,3%; Institution 12: 0,3%; Institution 13: 0,2%; Institution 14: 0,2%; Institution 15: 0,2%; Institution 16: 0,2%; Institution 17: 0,2%; Institution 18: 0,2%; Institution 19: 0,1%; Institution 20: 0,1%

Portfolios	Limit (% of COF)	Net exposure % weight
Country risk	Very low risk 40%; low risk 20%; average (or lower quality) risk 10%	Country 1 (very low risk): 5,2% ; Country 2 (low risk): 4,6% ; Country 3 (low risk): 3,7% ; Country 4 (very low risk): 2,6% ; Country 5 (average or lower quality risk): 2,2% ; Country 6: 1,8% ; Country 7: 1,7% ; Country 8: 1,6% ; Country 9: 1,2% ; Country 10:1,2% ; Country 11: 0,5% ; Country 12: 0,5% ; Country 13: 0,5% ; Country 14: 0,5% ; Country 15: 0,4%
Sectors of activity	40% of the Group entity's Own Funds	Portugal: Other corporate services: 20,7%; Wholesale and retail trade and repairs: 15,4%; Other activities: 15,3%; Financial and insurance activities: 13,6%; Construction: 13,3% Poland: Wholesale and retail trade and repairs: 25,0%; Transporting and storage: 10,0%; Other corporate services: 6,6%; Financial and insurance activities: 5,7%

COF = Consolidated Own Funds

The Bank's management body and the Risk Assessment Committee are regularly informed on the evolution of the credit concentration risk metrics (against the mentioned limits) and on major risks, which are assessed by measuring the weights of the net exposure values in question in terms of the consolidated Own Funds level. For such measurements, the Risk Office uses a database on credit exposures (the Risk Office Datamart), monthly updated by the Group's systems, which also feeds a simulation tool for supporting the analysis of the impact on changes on the Customers exposures in the consumption of the respective concentration limits, used by the Credit Division within the scope of credit analysis for large clients.

Market risk

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

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

- Trading - Management of positions whose objective is the achievement of short term gains, through sale or revaluation. These positions are actively managed, tradable without restriction and may be valued frequently and accurately. The positions in question include securities and derivatives of sales activities;
- Funding - Management of institutional funding (wholesale funding) and money market positions;

Investment - Management of all the positions in securities to be held to maturity (or for a longer period of time) or positions which are not tradable on liquid markets;

- Commercial - Management of positions arising from commercial activity with Customers;
- Structural - Management of balance sheet items or operations which, due to their nature, are not directly related to any of the management areas referred to above; and
- ALM - Assets and Liabilities Management.

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

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

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

Trading book market risks (Positions allocated to the Trading Management Area and not, specifically, to the accounting Trading Book)

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

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

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

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

The table below presents the amounts at risk for the Trading Book, between 30 June 2018 and 30 June 2019, measured by the methodologies referred to above:

(Thousands of euros)

	30 June 2019	Max amount of global VaR (19 Jun 2019)	Min amount of global VaR (7 Nov 2018)	30 June 2018
Generic Risk (VaR)	4,865	5,491	1,665	4,800
Interest Rate Risk	4,967	5,596	1,767	4,126
FX Risk	232	306	900	1,577
Equity Risk	15	32	34	109
Diversification effects	(350)	(444)	(1,037)	(1,013)
Specific Risk	17	15	59	156
Non-Linear Risk	0	0	17	10
Commodities Risk	3	2	4	4
Global Risk	4,884	5,508	1,746	4,969

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

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

Interest rate risk

The evaluation of interest rate risk derived from Banking Book operations is assessed through a process of risk sensitivity analysis, undertaken every month, covering all the operations included in the Group's consolidated Balance Sheet and discriminated by exposure currency.

Variations of market interest rates influence the Group's net interest income, both in the short term and medium/long term, affecting its economic value in a long term perspective. The main risk factors arise from the repricing mismatch of portfolio positions (repricing risk) and from the risk of variation in market interest rates (yield curve risk). Besides this, although with less impact, there is the risk of unequal variations in different reference rates with the same repricing period (basis risk).

In order to identify the exposure of the Group's banking book to these risks, the monitoring of the interest rate risk takes into consideration the financial characteristics of each of the relevant contracts, with the respective expected cash-flows (principal and interest, without the spread component but including costs for liquidity, capital, operational and other) being projected according to the repricing dates, thus calculating the impact on economic value resulting from alternative scenarios of change of market interest rate curves.

The interest rate sensitivity of the balance sheet, by currency, is calculated as the difference between the present value of the interest rate mismatch discounted at market interest rates and the discounted value of the same cash flows simulating parallel shifts of the market interest rates.

The following tables show the expected impact on the banking book economic value of parallel shifts of the yield curve by +/- 100 and +/- 200 basis points, for each of the main currencies in which the Group holds material positions:

(Thousands of euros)

	30 June 2019			
Currency	- 200 bp (*)	- 100 bp (*)	+ 100 bp	+ 200 bp
CHF	2,484	2,484	2,927	5,791
EUR	82,151	82,151	119,058	238,768
PLN	11,237	4,230	(3,247)	(6,112)
USD	(26,924)	(14,571)	13,986	27,442
	68,948	74,294	132,724	265,889

(Thousands of euros)

	31 December 2018			
Currency	- 200 bp (*)	- 100 bp (*)	+ 100 bp	+ 200 bp
CHF	1,822	1,822	2,879	5,694
EUR	(20,095)	(24,812)	128,633	251,343
PLN	16,936	7,841	(7,100)	(13,523)
USD	(28,136)	(13,800)	13,280	26,077
	(29,473)	(28,949)	137,692	269,591

(*) 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 2019	31 December 2018	30 June 2019	30 June 2018
AOA	389.8990	352.8610	363.4397	265.4298
BRL	4.3646	4.4377	4.3138	4.1301
CHF	1.1105	1.1267	1.1297	1.1652
MOP	9.1612	9.2211	9.1612	9.4359
MZN	70.7100	70.5000	70.9250	73.4279
PLN	4.2465	4.2966	4.2825	4.2257
USD	1.1387	1.1434	1.1312	1.2130

Foreign exchange and equity risk in the banking book

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

As at 30 June 2019, the Group's investments in convertible foreign currencies were fully hedged. On a consolidated basis, these hedges are identified, in accounting terms, as 'Net investment hedges', in accordance with the IFRS nomenclature. On an individual basis, hedge accounting is also carried out, in this case through a 'Fair Value Hedge' methodology.

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

As at 30 June 2019, the information of net investments, considered by the Group in total or partial hedging strategies on subsidiaries and on hedging instruments used, is as follows:

	30 June 2019				
		Net Investment	Hedging instruments	Net Investment	Hedging instruments
Company	Currency	Currency '000	Currency '000	Euros '000	Euros '000
Banque Privée BCP (Suisse) S.A.	CHF	77,622	77,622	69,900	69,900
Bank Millennium, S.A.	PLN	2,570,017	2,570,017	605,208	605,208

The information on the gains and losses in exchange rates on the loans to cover the investments in foreign institutions, accounted for as exchange differences, is presented in the statement of changes in equity. These hedging relationships were considered effective during the the first semester of 2019, as referred in the accounting policy 1 C4.

The transfer to Portugal of funds, including dividends, which are owed by BCP's subsidiaries or associates in third countries, particularly outside the European Union, are, by their nature, subject to the exchange restrictions and controls that are in force at any time in the country of subsidiaries or associates. In particular, as regards Angola and Mozambique, countries in which the Group holds a minority investment in Banco Millennium Angola and a majority investment in BIM - Banco Internacional de Moçambique, being the case of, export of foreign currency requires prior authorization of the competent authorities, which depends, namely, on the availability of foreign exchange by the central bank of each country. At the date of preparation of this report, there are no outstanding amounts due to the aforementioned requirements.

Liquidity risk

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 evolution of the Group's liquidity situation for short-term time horizons (up to 3 months) is reviewed daily on the basis of two indicators defined in-house, immediate liquidity and quarterly liquidity. These measure the maximum fund-taking requirements that could arise on a single day, considering the cash-flow projections for periods of 3 days and of 3 months, respectively.

Calculation of these indicators involves adding to the liquidity position of the day under analysis the estimated future cash flows for each day of the respective time horizon (3 days or 3 months) for the transactions as a whole brokered by the markets areas, including the transactions with customers of the Corporate and Private networks that, for their dimension, have to be quoted by the Trading Room. The amount of assets in the Bank's securities portfolio considered highly liquid is added to the calculated value, leading to determination of the liquidity gap accumulated for each day of the period under review.

In parallel, the evolution of the Group's liquidity position is calculated on a regular basis identifying all the factors that justify the variations that occur. This analysis is submitted to the Capital and Assets and Liabilities Committee (CALCO) for appraisal, in order to enable the decision making that leads to the maintenance of financing conditions adequate to the continuation of the business.

In addition, the Risks Commission is responsible for controlling the liquidity risk. This control is reinforced with the quarterly 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 semester of 2019, there was an increase in consolidated financing requirements of Euros 159,952,000, mainly attributable to the integration of Eurobank wholesale liabilities, after acquisition by Bank Millennium.

Regarding medium-long-term funding, and taking advantage of the improvement in market conditions, in January 2019 BCP issued Additional Tier 1 instruments eligible for MREL in the amount of Euros 400,000,000. In the same month, and in order to strengthen its financing structure with a view to the acquisition of EuroBank, Bank Millennium issued subordinated bonds in the amount of PLN 830,000,000. Both issues correspond to the fulfillement of objectives defined in the Group's Liquidity Plan.

The evolution of the Group's financing structure, compared to December 2018, reflected the strengthening of the medium- to long-term component of these issues and a reduction in the approximate magnitude of the use of money market instruments (MMI and repos).

The gross funding with the ECB remained at Euros 4,000,000,000, corresponding to the original balance of the long-term refinancing operations denominated TLTRO, which will reach maturity in 2020.

The net funding with the ECB, which subtract from the original amount of the deposits with the Bank of Portugal in excess of minimum cash reserves and other liquidity denominated in euros, and also the interest associated with the negative financing rate applied to TLTRO showed a further reduction of Euros 612,907,000 to a balance of Euros 2,039,091,000.

The liquidity buffer available for discount with the ECB increased by Euros 107,797,000 compared to 31 December 2018, reaching Euros 14,368,330,000 as at 30 June 2019.

In the case of Bank Millennium, the liquidity buffer with the Central Bank of Poland amounted to Euro 4,016,727,000 as at 30 June 2019, lower than Euros 1,076,139,000 at the end of 2018, a decrease explained by the application of liquidity in the acquisition of Eurobank. In any case, the Bank's liquidity ratios remain very comfortable. With the full integration of Eurobank, liquidity risk management will remain centralized and will be assumed by Banco Millennium's organizational units responsible for the management, monitoring and control of liquidity risk, in accordance with the policies and risk tolerance profile adopted at the local and Group level.

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 2019	31 December 2018
European Central Bank	6,531,692	7,248,348
Other Central Banks	4,749,508	5,608,093
	11,281,200	12,856,441

As at 30 June 2019, the amount discounted with the European Central Bank amounts to Euros 4,000,000,000 (December 31, 2018: Euro 4,000,000,000). As at 30 June 2019 the amount discounted from the Bank of Mozambique was Euros 2,644,100 (Euros 1,275,000 as at 31 December 2018). There were no discounted amounts with other central banks. The amount of assets eligible for discount with the European Central Bank includes securities issued by the SPE from securitization operations whose assets have not been derecognised in the Group's consolidated view, so that the securities are not recognized in the securities portfolio.

The evolution of the ECB's Monetary Policy Pool, the net borrows at the ECB and liquidity buffer is analysed as follows:

(Thousands of euros)

	30 June 2019	31 December 2018
Collateral eligible for ECB, after haircuts:		
The pool of ECB monetary policy (i)	6,531,692	7,248,348
Outside the pool of ECB monetary policy	9,875,730	9,664,184
	16,407,421	16,912,532
Net borrowing at the ECB (ii)	2,039,091	2,651,998
Liquidity buffer (iii)	14,368,330	14,260,534

i) Corresponds to the amount reported in COLMS (Bank of Portugal application).
ii) Includes, as at 30 June 2019, the value of funding with ECB net of interest associated with negative financing rate applied to TLTRO (Euros 48,250,000) of deposits with the Bank of Portugal and other liquidity of the Eurosystem (Euros 2,285,735,000), plus the minimum cash reserves (Euros 373,076,000).
iii) Collateral eligible for ECB, after haircuts, less net financing at the ECB.

Loans to deposits ratio

The BCP Group structurally improved its liquidity profile by recording as at 30 June 2019 a credit transformation ratio on deposits calculated in accordance with Bank of Portugal Instruction No. 16/2004 (current version) of 88% and as at 31 December 2018 this ratio was set at 87% (according to the current version of the Instruction as at 31 December 2018).

Liquidity coverage ratio

The Basel Committee published the definition of the Liquidity Coverage Ratio (LCR) in 2014, and the Delegated Act by the European Commission was adopted in early October 2015, which introduced, in relation to CRD IV / CRR, new metrics and calculation criteria implemented in the European Union. The adoption of the new framework defines a minimum requirement of 100% from1 January 2018. The LCR ratio of the BCP Group comfortably stood above the reglementary limit indicating 214% at the end of June 2019 (31 December 2018: 218%), supported by highly liquid asset portfolios of value compatible with prudent management of the Group's short-term liquidity.

Net stable funding ratio

The definition of the Net stable funding ratio (NSFR) was approved by the Basel Committee in October 2014. As regards this ratio, the Group presents a stable financing base obtained by the high weight of customer deposits into the funding structure, by collateralized financing and medium and long-term instruments, which allowed that the levels of stable financing ratio established in June 2019 set the NSFR at 135% (31 December 2018: 133%).

Operational Risk

The operational risk management system adopts the “3 Lines of Defence” model and is based on an integrated structure of end-to-end processes, considering that a vision which is transversal to the functional units of the organisational structure is the most suitable approach for the perception of risks and to estimate the effects of the corrective measures introduced for their mitigation. Furthermore, this 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, all the Group's subsidiaries have their own processes structure, which is periodically adjusted according to business evolution, in order to ensure suitable coverage of the business activities (or business support activities) developed.

The responsibility for the day-to-day processes’ management lies with the 1st Line of Defence: the process owners (seconded by process managers), whose mission is to characterise the operational losses captured under their processes, to monitor the respective Key Risk Indicators (KRI), to perform the Risks Self-Assessment (RSA) exercises, as well as to identify and implement suitable actions to mitigate operational risk exposures, thus contributing to the strengthening of control mechanisms and the improvement of the internal control environment. The periodic revision of the main processes in each geography is ensured by local structure units.

The risk management system (SGR) – role of Risk Management (Risk Ofice) and Compliance (Compliance Office) – represents the 2nd Line of Defence and is responsible for implementing the risk policy defined for the Group, proposing and developing approaches for managing this risk, supervising their implementation and challenging the 1st Line of Defence regarding the risk levels incurred.

In 2018, the usual operational risk management activities continued to be carried out by the various players involved in the management of this risk, aiming at an efficient and systematic identification, evaluation, mitigation and control of exposures, as well as at the appropriate reporting tasks, either to the Group’s management bodies or within regulatory duties. The results of the RSA exercises evidence a robust control environment, demonstrating the Group's commitment to operational risk management through the continuous development of improvement actions that help mitigate exposures to this risk. Regarding the operational losses registered, it should be highlighted that their pattern was not different from what is usual and expected, with a higher frequency of losses of low amounts, without concentration in significant amounts. It should also be noted that the average ratio between gross losses and the relevant indicator for TSA (gross income) has consistently presented values below 1%, which compares very favourably with international benchmarking and attests the robustness of the operational control environment of the Group. The monitoring of KRI has allowed to identify opportunities for improvement that, together with the RSA exercises and the process of identification and registration of losses, provide for an effective management of this risk.

Covenants

The contractual terms of instruments of wholesale funding encompass obligations assumed by entities belonging to the Group as debtors or issuers, concerning general duties of societary conduct, maintenance of banking activity and the inexistence of special guarantees constituted for the benefit of other creditors (“negative pledge”). These terms reflect essentially the standards internationally adopted for each type of instrument.

The terms of the Group’s participation in securitization operations involving its own assets are subject to mandatory changes in case the Group stops respecting certain rating criteria. The criteria established in each transaction results mainly from the existing risk analysis at the moment that the transaction was set, being these methodologies usually applied by each rating agency in a standardised way to all the securitization transactions involving the same type of assets.

Regarding the Covered Bond Programs of Banco Comercial Português, there are no relevant covenants related to a possible downgrade of BCP.

Hedge accounting

As at 30 June 2019, the table below includes the detail of the hedging instruments used in the Group's hedging strategies and accounted at the Balance sheet item - Hedging derivatives:

(Thousands of euros)

	30 June 2019			
	Hedging instruments			
		Book value		Change in
Type of hedging	Notional	Assets	Liabilities	fair value (A)
Fair value hedge				
Interest rate risk				
Interest rate swaps	4,393,335	28,170	167,297	(82,628)
	4,393,335	28,170	167,297	(82,628)
Cash flows hedging				
Foreign exchange risk				
Currency swap	176,613	99	858	46
Currency and interest rate swap	2,823,169	22,555	77,544	5,981
Interest rate risk				
Interest rate swaps	12,830,600	156,488	23,589	66,095
	15,830,382	179,142	101,991	72,122
Hedging of net investments in foreign entities				
Foreign exchange risk				
Currency and interest rate swap	598,795	-	9,639	(7,057)
	598,795	-	9,639	(7,057)
Total	20,822,512	207,312	278,927	(17,563)

(A) Changes in fair value used to calculate the ineffectiveness of the hedge

As at 31 December 2018, 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 2018			
	Hedging instruments			
		Book value		Change in
Type of hedging	Notional	Assets	Liabilities	fair value (A)
Fair value hedge				
Interest rate risk				
Interest rate swaps	4,001,174	12,662	77,787	(32,377)
	4,001,174	12,662	77,787	(32,377)
Cash flows hedging				
Foreign exchange risk				
Currency and interest rate swap	3,516,676	28,051	87,700	5,068
Interest rate risk				
Interest rate swaps	12,725,086	81,677	7,604	107,337
	16,241,762	109,728	95,304	112,405
Hedging of net investments in foreign entities				
Foreign exchange risk				
Currency and interest rate swap	596,165	664	4,809	17,333
	596,165	664	4,809	17,333
Total	20,839,101	123,054	177,900	97,361

(A) Changes in fair value used to calculate the ineffectiveness of the hedge

As at 30 June 2019, the table below includes the detail of the hedged items:

(Thousands of euros)

		30 June 2019						
		Hedged items						
		Book value		Cumulative value of the adjustments			Cash flow hedge reserve / Currency translation reserve	
Type of hedging	Balance sheet item	Assets	Liabilities	Assets	Liabilities	Change in fair value (A)	Hedging relationships in effect	Hedging relationships discontinued
Fair value hedge								
Interest rate risk								
Interest rate swaps	(B)	398,883	-	9,274	-	3,898	n.a.	n.a.
	(H)	89,697	-	969	-	-	n.a.	n.a.
	(C)	3,252,824	-	(133,664)	-	87,189	n.a.	n.a.
	(D)	-	260,000	-	11,777	(8,909)	n.a.	n.a.
	(E)	-	191,550	-	7,030	335	n.a.	n.a.
	(F)	-	2,571	-	65	(54)	n.a.	n.a.
	(G)	-	7,583	-	35	-	n.a.	n.a.
		3,741,404	461,704	(123,421)	18,907	82,459	n.a.	n.a.
Cash flows hedging								
Foreign exchange risk								
Currency and interest rate swap	(B)	3,059,515	-	-	-	(6,027)	(3,154)	(4,851)
Interest rate risk								
Interest rate swaps	(B)	13,180,600	-	-	-	(66,092)	129,313	138,936
		16,240,115	-	-	-	(72,119)	126,159	134,085
Hedging of net investments in foreign entities								
Foreign exchange risk								
- Bank Millennium, S.A.		n.a.	n.a.	n.a.	n.a.	7,057	(7,057)	-
Total		19,981,519	461,704	(123,421)	18,907	17,397	119,102	134,085

(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 associated with credit operations

As at 31 December 2018, the table below includes the detail of the hedged items:

(Thousands of euros)

		31 December 2018						
		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)	462,400	-	5,306	-	444	n.a.	n.a.
	(C)	3,484,435	-	(65,176)	-	37,021	n.a.	n.a.
	(D)	-	260,000	-	2,797	(3,796)	n.a.	n.a.
	(E)	-	180,650	-	7,417	1,679	n.a.	n.a.
	(F)	-	2,517	-	11	20	n.a.	n.a.
	(G)	-	7,685	-	137	196	n.a.	n.a.
		3,946,835	450,852	(59,870)	10,362	35,564	n.a.	n.a.
Cash flows hedging								
Foreign exchange risk								
Currency and interest rate swap	(B)	3,577,938	-	-	-	(5,068)	(9,074)	(7,051)
Interest rate risk								
Interest rate swaps	(B)	12,214,683	-	-	-	(107,337)	63,219	50,648
		15,792,621	-	-	-	(112,405)	54,145	43,597
Hedging of net investments in foreign entities								
Foreign exchange risk								
Bank Millennium, S.A.		n.a.	n.a.	n.a.	n.a.	(17,333)	17,333	n.a.
Total		19,739,456	450,852	(59,870)	10,362	(94,174)	71,478	43,597

(A) Changes in fair value used to calculate the ineffectiveness of the hedge

(B) Financial assets at amortised cost - Loans and advances to customers

(C) Financial assets at fair value through other comprehensive income

(D) Financial liabilities at amortised cost - Resources from credit institutions

(E) Financial liabilities at amortised cost - Resources from customers

(F) Financial liabilities at amortised cost - Non subordinated debt securities issued

(G) Financial liabilities at amortised cost - Subordinated debt

The table below shows the reconciliation of each equity component and an analysis of other comprehensive income attributable to hedge accounting, with reference to 30 June 2019 and 31 December 2018:

(Thousands of euros)

	Cash flow hedge reserve		Exchange differences	
	30 junho 2019	31 December 2018	30 junho 2019	30 junho 2018
Balance as at 1 January 2018	(16,126)	(26,514)	21,783	4,450
Amounts recognised in other comprehensive income:				
Hedging cash flows - foreign exchange risk				
Changes in fair value of currency swaps	6,815	4,951	-	-
Foreign exchange changes	(190)	746	-	-
Others	2,385	4,691	-	-
Hedging of net investments - foreign exchange risk				
Reclassified to the income statement	-	-	(7,057)	17,333
Balance at the end of the period	(7,116)	(16,126)	14,726	21,783

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 2019:

(Thousands of euros)

	30 June 2019					
				Amounts reclassified from reserves to results for the following reasons:		
Type of hedging	Income statement item (A)	Gains / (losses) recognised in Other comprehensive income	Hedging ineffectiveness recognised in Income statement (A)	Income statement item (B)	Cash flows that were being hedged (C)	Hedged item with an impact on results
Fair value hedge						
Interest rate risk						
Interest rate swaps	(D)	n.a.	(169)		n.a.	n.a.
		n.a.	(169)		n.a.	n.a.
Cash flows hedging						
Foreign exchange risk						
Currency and interest rate swap	(D)	6,027	(2,283)		-	-
Interest rate risk						
Interest rate swaps	(D)	(62)	-	(E)	16,314	-
		5,965	(2,283)		16,314	-
Hedging of net investments in foreign entities						
Foreign exchange risk						
Currency and interest rate swap	(F)	(7,057)	-		-	-
		(7,057)	-		-	-
Total		(1,092)	(2,452)		16,314	-

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 2018:

(Thousands of euros)

	31 December 2018					
				Amounts reclassified from reserves to results for the following reasons:		
Type of hedging	Income statement item (A)	Gains / (losses) recognised in Other comprehensive income	Hedging ineffectiveness recognised in Income statement (A)	Income statement item (B)	Cash flows that were being hedged (C)	Hedged item with an impact on results
Fair value hedge						
Interest rate risk						
Interest rate swaps	(D)	n.a.	3,187		n.a.	n.a.
		n.a.	3,187		n.a.	n.a.
Cash flows hedging						
Foreign exchange risk						
Currency and interest rate swap	(D)	5,068	(4,636)		-	-
Interest rate risk						
Interest rate swaps	(D)	43	-	(E)	23,004	-
		5,111	(4,636)		23,004	-
Hedging of net investments in foreign entities						
Foreign exchange risk						
Currency and interest rate swap	(F)	17,333	-	-	-	-
		17,333	-		-	-
Total		22,444	(1,449)		23,004	-

(A) Income Statement item in which the ineffectiveness of the hedge was recognised
(B) Income Statement item in which the reclassified amount was recognised
(C) but which are no longer expected to occur
(D) Net gains / (losses) from hedge accounting operations
(E) Interest income
(F) Net gains / (losses) from foreign exchange

The table below shows the detail of hedging instruments, as at 30 June 2019, by maturity:

(Thousands of euros)

Type of hedging	30 June 2019					
	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						
Notional	7,500	-	4,385,835	4,393,335	28,170	167,297
Fixed interest rate (average)	6.38%		1.01%	1.02%		
Cash flow hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps	57,224	346,167	12,427,209	12,830,600	156,488	23,589
Cash flow hedging derivatives related to currency risk changes:						
OTC Market:						
Currency swap	62,551	114,062	-	176,613	99	858
Currency and interest rate swap	178,787	816,149	1,828,233	2,823,169	22,555	77,544
Hedging derivatives related to net investment in foreign operations:						
OTC Market:						
Currency and interest rate swap	-	67,287	531,508	598,795	-	9,639
Total derivatives traded by OTC Market:	306,062	1,343,665	19,172,785	20,822,512	207,312	278,927

The table below shows the detail of hedging instruments, as at 31 December 2018, by maturity:

(Thousands of euros)

Type of hedging	31 December 2018					
	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						
Notional	-	24,500	3,976,674	4,001,174	12,662	77,787
Fixed interest rate (average)		3.44%	1.05%	1.07%		
Cash flow hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps	52,367	205,511	12,467,208	12,725,086	81,677	7,604
Cash flow hedging derivatives related to currency risk changes:						
OTC Market:						
Foreign exchange rate and interest rate swap	336,794	570,475	2,609,407	3,516,676	28,051	87,700
Hedging derivatives related to net investment in foreign operations:						
OTC Market:						
Currency and interest rate swap	58,059	76,034	462,072	596,165	664	4,809
Total derivatives traded by OTC Market:	447,220	876,520	19,515,361	20,839,101	123,054	177,900

54. Mozambique's sovereign debt

Following a period of deceleration in economic activity and increase of inflation, reduction of Republic of Mozambique rating, depreciation of metical and decrease in foreign direct investment, the Bank of Mozambique has adopted a restrictive policy, with increases in the reference rate since December 2015, as well as increasing the reserve ratio. This set of factors constrained commercial banking in Mozambique, pushing it to pursue a strict liquidity management, emphasis on raising funds, despite contributing to the improvement of net interest income.

According to an International Monetary Fund (IMF) statement dated 23 April 2016, existing debt guaranteed by the State of Mozambique in an amount over USD 1 billion that had not been disclosed to the IMF. Following this disclosure, the economic program supported by the IMF was suspended. According to an IMF statement dated 13 December 2016, discussions were initiated on a possible new agreement with the Government of Mozambique and the terms of reference for an external audit were agreed.

In June 2017, the Attorney General's Office of the Republic of Mozambique published an Executive Summary regarding the above-mentioned external audit. On 24 June 2017, the IMF released in a statement that due to the existence of information gaps in this audit, an IMF mission would visit the country to discuss audit results and possible follow-up measures. Following this visit, the IMF requested the Government of Mozambique to obtain additional information on the use of the funds.

On 14 December 2017, in a statement from the IMF staff, after the end of the mission held between 30 November and 13 December 2017, it was reiterated the need for the Mozambican State to provide missing information. In the statement of the Mozambican Attorney General's Office dated 29 January 2018, it is mentioned, among other things, that the Public Prosecutor submitted to the Administrative Court, on 26 January 2018, a complaint regarding the financial responsibility of public managers and companies participated by the State, participants in the execution and management of contracts for financing, supplying and providing services related to debts not disclosed to the IMF.

In the statements dated of 16 January 2017 and 17 July 2017, the Ministry of Economy and Finance of Mozambique informed the holders of bonds issued by the Republic of Mozambique specifically "US$726.524 million, 10.5%, repayable securities in 2023" that the interest payment due on 18 January 2017 and 18 July 2017, would not be paid by the Republic of Mozambique. In November 2018, the Ministry of Economy and Finance of the Republic of Mozambique announced that it has reached an agreement in principle on the key commercial terms of a proposed restructuring transaction related to this debt securities with four members of the Global Group of Mozambique Bondholders. The Bondholders currently own or control approximately 60% of the outstanding Bonds. The agreement in principle reached by the parties, and the support of the Bondholders for the proposed restructuring, is conditional on the parties reaching an agreement on mutually satisfactory documentation setting out the detailed terms of the restructuring including implementation, and the mentioned Ministry obtaining all necessary approvals, including Parliamentary and government approvals of Mozambique. Additionally, on June 3, 2019, the Constitutional Council of the Republic of Mozambique issued a Judgment, within the framework of a successive abstract review of constitutionality, declaring the nullity of the acts inherent to the loan contracted by the entity that originated this debt, and the respective sovereign guarantee granted by the Government in 2013.The Group has no exposure to this debt.

As at 30 June 2019, considering the 66.7% indirect investment in BIM, the Group's interest in BIM's equity amounted to Euros 318,587,000, with the exchange translation reserve associated with this participation, accounted in Group's consolidated equity, in a negative amount of Euros 153,310,000. BIM's contribution to consolidated net income for the first semester of 2019, attributable to the shareholders of the Bank, amounts to Euros 31,980,000.

On this date, the subsidiary BIM's exposure to the State of Mozambique includes public debt securities denominated in metical classified as Financial assets measured at amortised cost - Debt instruments in the gross amount of Euros 731,031,000.

As at 30 June 2019, the Group has also registered in the balance Loans and advances to customers, a direct gross exposure to the Mozambican State in the amount of Euros 361,848,000 (of which Euros 343,044,000 are denominated in metical, Euros 2,860,000 denominated in USD and Euros 15,944,000 denominated in Rands) and an indirect exposure resulting from sovereign guarantees received in the amount of Euros 156,886,000 denominated in USD and in the balance Guarantees granted and irrevocable commitments, an amount of Euros 87,822,000 (of which Euros 1,770, 000 are denominated ir euros, Euros 3,256,000 are denominated in metical, Euros 81,282,000 denominated in USD and Euros 1,514,000 denominated in Rands).

According to public information provided by IMF, there are credits granted in default to Mozambican companies, non-state, guaranteed by the Mozambican State. The ongoing dialogue between the Government of Mozambique, IMF and creditors has the objective of finding a solution to the debt guaranteed by the State of Mozambique that had not previously been disclosed to the IMF referred to above. Nevertheless, the Ministry of Economy and Finance of the Republic of Mozambique has presented in November 2018 new proposals regarding this matter, a solution has not yet been approved to change the current Group's expectations reflected in the financial statements as at 30 June 2019, regarding the capacity of the Government of Mozambique and public companies to repay their debts and the development of the activity of its subsidiary Banco Internacional de Moçambique (BIM).

55. Contingent liabilities and other commitments

In accordance with accounting policy 1 V3, the main Contingent liabilities and other commitments under IAS 37 are as follows:

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 the Banco Comercial Português, S.A. ("BCP" or "Bank") and other credit institutions, where documentation was seized to investigate allegations of a commercially sensitive information exchange between credit institutions in the Portuguese banking market.

The administrative proceeding was subject to judicial secrecy by the PCA, as the publicity of the process would not be compatible with the interests of the investigation and with the rights of the investigated companies. On 2 June 2015, the Bank was notified of the PCA's statement of objections ("SO") in connection with the administrative offence no. 2012/9, by which the Bank is accused of participating in a commercially sensitive information exchange between other 14 banks related to retail credit products, namely mortgage, consumer and small and medium enterprises credit products. The notification of a statement of objections does not constitute a final decision in relation to the accusation of the PCA.

The proceedings, including the deadline to submit a response to the SO, were suspended for several months between 2015 and 2017, following the appeals lodged by some defendants (including the Bank) before the Portuguese Competition, Regulation and Supervision Court ("Competition Court") on procedural grounds (namely, on the right to have access to confidential documents which were not used as evidence by the PCA – for several months, the PCA denied the Defendant' 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 defence was sent to the PCA, at the latter's request, on 30 October 2017. The witnesses indicated by the Bank were interrogated by the PCA in December 2017.

On 23 October 2018, BCP was notified of the non-confidential versions of the oral hearing of the defendants Santander Totta and Unión de Créditos (which took place in December 2017). On 7 December 2018, the Bank requested the PCA to have access to the confidential version of these oral hearings.

In May 2018, the PCA refused the Bank's application for confidential treatment of some of the information in the Bank's reply to the SO, having also imposed that the Bank protects the confidential information of the co-defendants (providing a summary of the information). On 1 June 2018, the Bank filed an appeal with the Competition Court, which, upholding the appeal, concluded that the PCA infringed on the right to a prior hearing. Complying with the judgment, in November 2018, the PCA notified the Bank of its intention to refuse the application for confidential treatment of some of the information included in the Bank's defence, restating its arguments. The Bank submitted a non-confidential revised version of its reply but reaffirmed that it is not the Bank that must protect the confidential information of the co-defendants. On 25 January 2019, the PCA granted the Bank a 10-business day period to provide summaries for the co-defendants' confidential information. On 4 February 2019, the Bank filed an appeal before the Competition Court and, on 11 February 2019, submitted a reply to the PCA (although restated its opposition to the PCA's request).

If the PCA issues a conviction decision, the Bank may be subject to a fine calculated in accordance with the applicable legislation, namely pursuant to article 69 of Law no. 19/2012, of 8 May. However, the Bank may challenge the application of any sanction.

2. On 3 January 2018, Bank Millennium S.A. (Bank Millennium) was notified of the decision of President of the Office of Competition and Consumer Protection (UOKIK), in which the President of UOKIK found infringement by Bank Millennium of the rights of consumers. In the opinion of the President of UOKiK, the essence of the violation is that Bank Millennium informed consumers (regarding 78 agreements), in response to their complaints, that the court verdict stating the abusiveness of the loan agreements' clauses regarding exchange rates did not apply to them. According to the position of the President of UOKiK, the abusiveness of agreements' clauses determined by the court, during abstract control, is constitutive and effective for every agreement from the beginning.

As a result of the decision, Bank Millennium was obliged to:

1) send information about the UOKiK's decision to the referred 78 clients;
2) place information about the decision and the decision itself on the website and on Twitter;
3) pay a fine amounting to PLN 20.7 million (Euros 4.87 million). The decision on the fine is not immediately enforceable.

The decision of the President of UOKIK is not final. Bank Millennium does not agree with this decision and filed an appeal within the statutory time limit.

3. As at 5 April 2016, Bank Millennium was notified of a case brought up by was a case brought up by Europejska Fundacja Współpracy Polsko-Belgijskiej/European Foundation for Polish-Belgian Cooperation (EFWP-B) against Bank Millennium S.A. (Bank Millennium), worth of the dispute of PLN 521.9 million (Euros 121.90 million) with statutory interest from 5 April 2016 until the day of payment.

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 set the claim in the amount of PLN 250 million (Euros 58.87 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 S.A. against Bank Millennium.

Currently, the Court is conducting evidence proceedings.

4. On19 January 2018, Bank Millennium, S.A. (Bank Millennium) has received the lawsuit petition of First Data Polska S.A. requesting the payment of PLN 186.8 million (Euros 43.99 million). First Data Polska S.A. claims a portion of an amount that Bank Millennium received for the share sale transaction in Visa Europe to Visa Inc. The plaintiff based its request on an agreement with Bank Millennium on co-operation in scope of acceptance and settlement of operations conducted with the usage of Visa cards. Bank Millennium does not accept the claim and filed the response to the lawsuit petition within the deadline set forth in the law. The case is being examined by the Court of first instance. In accordance with the judgment of 13 June 2019, Bank Millennium won the case before the Court of first instance. The plaintiff announced the appeal.

5. Regarding mortgage loans granted by Bank Millennium in CHF, there are risks related to verdicts issued by Polish courts in individual litigations raised by borrowers of FX mortgage loans against banks (including Bank Millennium S.A.).

Vast majority of verdicts regarding Bank Millennium S.A. (Bank Millennium) cases have been in favour of Bank Millennium so far. However, some recent verdicts and the opinion of the Advocate-General of the European Court of Justice regarding questions raised by a Polish court about such type of litigation has generated a risk of the European Court of Justice issuing a rule that would increase the risk of possible change on already issued verdicts (more details about the initial opinion are presented below). If materialized, such risk might create significant negative impact on banks with FX mortgage loans portfolios (including Bank Millennium). The contingent liability resulting from a possible negative verdict of the European Court of Justice, that would be applied in local verdicts, cannot be reliably estimated.

On 14 May 2019 the Advocate-General of the Court of Justice of the European Union submitted an opinion on case No. C 260/18 Kamil Dziubak, Justyna Dziubak versus Raiffeisen Bank International AG, with headquarters in Vienna, operating in Poland in the form of a branch office under the name of Raiffeisen Bank International AG Branch, formerly Raiffeisen Bank Polska S.A. with headquarters in Warsaw. The opinion contains a proposed reply to questions of the referring court (Regional Court in Warsaw) present in the request for a preliminary ruling, requested under art. 267 of the Treaty on the Functioning of the European Union.

The referring court (Regional Court in Warsaw) asked 4 questions regarding a mortgage loan agreement, in accordance with which a loan specified in Polish currency, but indexed to a foreign currency, in this case the Swiss franc, was granted.

The position of the Advocate-General is not binding for the Court ruling on the case and constitutes an expression of his view about this matter and, in this subject, may not be deemed indicative for formulating legal assessments.

Regarding law on FX mortgage loans, which has been discussed in Poland during the last 4 years, it was recently approved a Presidential Draft Bill of 2 August 2017 regarding changes in the act of support for distressed borrowers who are part of mortgage loans. The finally accepted Bill does not include the creation of a Conversion Fund. On the other hand, it increased availability in Borrowers' Support Fund in the amount of PLN 600 million (Euros 141.29 million), which was originally created in 2015 and is still waiting to be used by borrowers in need (both PLN and FX mortgages) and sets potential future contributions. The Bill will come into force on 1 January 2020.

6. On 21 October 2014 a class action was delivered to Bank Millennium S.A. (Bank Millennium) in which a group of the Bank's Millennium borrowers represented by the Municipal Consumer Ombudsman in Olsztyn seeks the ascertainment that Bank Millennium is liable for unjust enrichment in connection with the CHF-indexed mortgage agreements. The members of the group claim that Bank Millennium unduly collected excessive amounts from them for the repayment of loans. According to the statement of claim, the overstatement of such amounts was to result from the application of abusive contractual provisions concerning the CHF-indexation of credits.

The number of the group members amounts to approximately 5,400 and the value of the litigation has been estimated to approximately PLN 146 million (Euros 34.38 million). The number of loan agreements involved is approximately 3,300.

The current stage of the proceedings is establishing the composition of the group (i.e. determining whether all persons who joined the group may participate in the group).

7. On 3 December 2015 a collective action against Bank Millennium, S.A. (Bank Millennium) was filed. 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 0.82 million), claiming that the clauses of the agreements of the low-down payment insurance, pertaining to CHF-indexed mortgage agreements, are unfair and thus not binding. The plaintiff extended the group in the court letter filed on 4 April 2018, therefore the claims increased from PLN 3.5 million (Euros 0.82 million) to over PLN 5 million (Euros 1.18 million).

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 1,735,807.83).

The next stage of the proceedings is establishing the composition of the group (i.e. determining whether all persons who joined the proceedings may participate in the group).

In addition, it was also filed a collective action against Euro Bank S.A. (bank held by Bank Millennium) worth PLN 3.5 million (Euros 0.82 million), in which the plaintiffs demand the determination of the actual condition of their debt under the mortgage loan agreements, accusing the banks of abusiveness. The action is pending Court of First Instance decision.

8. On 1 October 2015, a set of entities connected to a group with past due loans to the Bank worth Euros 170 million, resulting from a loan agreement signed in 2009 - debts already fully provisioned in the Bank's accounts -, filed against the Bank, after receiving the Bank's notice for mandatory payment, a lawsuit aiming to:

a) that 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) that the Court declares the nullity of the financing agreement established between the plaintiffs and the Bank, due to relative simulation;
c) that 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 deliver to them the cost they incurred while complying with that mandate, namely, Euros 90,483,816.83 regarding Banco Espírito Santo, S.A. (BES) and Euros 52,021,558.11 regarding Caixa Geral de Depósitos, S.A. (CGD), plus default interests;
d) the amount of the lawsuit determined by the plaintiffs is Euros 317,200,644.90;
e) the Bank opposed and presented a counter claim wherein it requests the conviction, namely, of a plaintiff company in the amount of Euros 185,169,149.23 for the loans granted, plus default interests and stamp tax.

The Court issued a curative act and already ascertained the factual basis proven and that must be proven. We are waiting for the appointment of an expertise, requested by the plaintiffs, and each one of the parties must, afterwards, indicate an expert and the Court shall indicate a third expert.

9. Resolution Fund

Resolution measure of Banco Espírito Santo, S.A.

On 3 August 2014, with the purpose of safeguarding the stability of the financial system, the Bank of Portugal applied a resolution measure to Banco Espírito Santo, S.A. (BES) in accordance with the article 145 C (1.b) of the Legal Framework for Credit Institutions and Financial Companies (RGICSF), namely by the partial transfer of assets, liabilities, off-balance sheet items and assets under management into a transition bank, Novo Banco, S.A. (Novo Banco), incorporated on that date by a decision issued by the Bank of Portugal. Within the scope of this process, the Resolution Fund made a capital contribution to Novo Banco amounting to Euros 4,900 million, becoming, on that date, the sole shareholder.

Within this context, the Resolution Fund borrowed Euros 4,600 million, of which Euros 3,900 million were granted by the State and Euros 700 million by a group of credit institutions, including the Bank.

As announced on 29 December 2015, the Bank of Portugal transferred to the Resolution Fund the liabilities emerging from the *"eventual negative effects of future decisions regarding the resolution process that may result in liabilities or contingencies".*

On 7 July 2016, the Resolution Fund declared that it would analyse and evaluate the diligences to be taken, following the publication of the report on the result of the independent evaluation, made to estimate the level of credit recovery for each category of creditors under a hypothetical scenario of a normal insolvency process of BES on 3 August 2014.

In accordance with the applicable law, when the BES liquidation process is over, if it is verified that the creditors, whose credits were not transferred to Novo Banco, would take on a higher loss than the one they would hypothetically take if BES had gone into liquidation right before the application of the resolution measure, such creditors shall be entitled to receive the difference from the Resolution Fund.

On 31 May 2019, the Liquidation Committee of BES presented a list of all the acknowledged and a list of the non-acknowledged creditors before the Court and the subsequent terms of the proceedings, detailing that the total amount of the acknowledge credits, including capital, remunerative and default interest amounts to Euros 5,056,814,588, of which Euros 2,221,549,499 are common credits and Euros 2,835,265,089 are subordinated claims, there being no guaranteed or privileged claims. Both the total number of acknowledged creditors and the total value of the acknowledged credits and their ranking will only be ultimately determined with the definitive judicial judgment of the verification and ranking of credits to be given in the liquidation proceedings.

Following the resolution measure of BES, a significant number of lawsuits against the Resolution Fund was filed and is underway. According to note 23 of the Resolution Fund's annual report of 2018, *"Legal actions related to the application of resolution measures have no legal precedents, which make it impossible to use of case law in their evaluation, as well as a reliable estimate of the associated contingent financial impact. However, on 12 March 2019, the Administrative Court of Lisbon unanimously by its 20 judges delivered its judgment, confirming the constitutionality of the legal regime of the resolution and the full legality of the resolution measure applied to BES on 3 August 2014. Also, by decision of the Supreme Administrative Court on 13 March 2019, a judgment on the substance was entirely favourable to the Resolution Fund associated to the impugnation of the sale process of Novo Banco. The Board of Directors supported by lawyers opinion, which sponsored these actions, and in the light of the legal and procedural information available so far, considers that there is no evidence to cast doubt on their belief that the probability of success is higher than the probability of failure"*.

On 31 March 2017, Bank of Portugal communicated the sale of Novo Banco, where it states the following: *"Banco of Portugal today selected Lone Star to complete the sale of Novo Banco. The Resolution Fund has consequently signed the contractual documents of the transaction. Under the terms of the agreement, Lone Star will inject a total of Euros 1,000 million in Novo Banco, of which Euros 750 million at completion and Euros 250 million within a period of up to 3 years. Through the capital injection, Lone Star will hold 75% of the share capital of Novo Banco and the Resolution Fund will maintain 25% of the share capital".*

The terms agreed also include a contingent capital mechanism, under which the Resolution Fund, as a shareholder, undertakes to make capital injections if certain cumulative conditions are to be met related to the performance of a specific portfolio of assets and to the capital ratios of Novo Banco going forward.

If these conditions are met, the Resolution Fund may be called upon to make a payment to Novo Banco for the lesser of the accumulated losses in the covered assets and the amount necessary to restore the capital ratios at the agreed levels. Any capital injections to be carried out pursuant to this contingent mechanism are limited to an absolute cap. The terms agreed also provide for mechanisms to safeguard the interests of the Resolution Fund, to align incentives as well as monitoring mechanisms, notwithstanding the limitations arising from State Aid rules.

On 18 October 2017, following the resolution of the Council of Ministers No. 151-A/2017 of 2 October 2017, the Bank of Portugal communicated the conclusion of the sale of Novo Banco to Lone Star, with an injection by the new shareholder of Euros 750 million, followed by a further capital increase of Euros 250 million by the end of 2017. Upon completion of the transaction, the status of Novo Banco as a bridge institution ceased, fully complying with the purposes of the resolution of Banco Espírito Santo.

On 26 February 2018, the European Commission published the non-confidential version of its decision regarding the approval of State aid underlying Novo Banco's sale process. This statement identifies the three support measures by the Resolution Fund and the State that are part of the sale agreement associated with a total gross book value of around Euros [10-20] billion (*) that revealed significant uncertainties regarding adequacy in provisioning (**):

(i) Contingent Capital Agreement (CCA) which allows Lone Star to reclaim, from the Resolution Fund, funding costs, realised losses and provisions related to an ex-ante agreed portfolio of existing loan stock, up to a maximum of Euros 3.89 billion, subject to a capital ratio trigger (CET1 below 8%-13%) as well as to some additional conditions (*) (**) (***);

(ii) underwriting by the Resolution Fund of a Tier 2 instrument to be issued by Novo Banco up to the amount necessary (but no more than Euros 400 million). The amount that can be reclaimed by the Resolution Fund under the Contingent Capital Agreement is subject to the cap of Euros 3.89 billion (**);

(iii) in case the Supervisory Review and Evaluation Process ("SREP") total capital ratio of Novo Banco falls below the SREP total capital requirement, the State will provide additional capital in certain conditions and through different instruments (**).

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

-For payments from the Resolution Fund to be made (limited to a maximum of Euros 3,890 million over the lifetime of the mechanism), losses on the assets under the contingent mechanism should be incurred and the capital ratios of Novo Banco should stand below the agreed reference thresholds;

- The payment to be made by the Resolution Fund corresponds to the lower of the accumulated losses on the assets covered and the amount necessary to restore the capital ratios above the minimum reference threshold;
- The reference capital ratios are, in 2017, 2018 and 2019, linked to the regulatory requirements applicable to Novo Banco (CET1 ratio of 11.25% and Tier 1 ratio of 12.75%), but, as from 2020, the reference ratio will correspond to a CET1 ratio of 12%;
- The initial reference value of the portfolio comprising the contingent capitalization mechanism was as of 30 June 2016 of Euros 7,838 million (book value of the associated assets, net of impairments), and the value of the portfolio, as of 31 December 2018, amounted to approximately Euros 3,920 million (book value, net of impairments);
- The accumulated losses of the covered assets and their management, between 30 June 2016 (reference date of the mechanism) and 31 December 2018, correspond to Euros 2,661 million. Of this amount, the Resolution Fund paid in 2018, in accordance with the terms and conditions of the CCA, around Euros 792 million, hence, the amount of losses not borne by the Fund was, at the end of 2018, approximately Euros 1,869 million;
- The amount necessary to maintain the capital ratios of Novo Banco for 2018 at the agreed levels is Euros 1,149 million. The amount payable by the Resolution Fund results from a comparison between the amount of Euros 1.869 million (accumulated loss on the covered assets not supported by the Fund) and the amount of Euros 1,149 million, corresponding to the lower of those amounts, i.e. Euros 1,149 million.

On 24 May 2018, arising from the referred mechanism, the Resolution Fund paid Euros 792 million to Novo Banco using its available financial resources from banking contributions (direct or indirect) and complemented by a State loan of Euros 430 million under the terms agreed between the Portuguese State and the Resolution Fund in October 2017. In its 2018 annual results press release, on 1 March 2019, Novo Banco states that "in connection with the impact of losses related to the sale and write-downs of legacy assets, Novo Banco will request a compensation of Euros 1,149 million under the existing CCA. 69% of this amount results from the losses incurred on the assets included in the CCA and 31% due to regulatory requirements for capital increase in the adjustment of the transitional period of capital ratios and to the impact of IFRS 9". Additionally, the Resolution Fund paid to Novo Banco on 6 May 2019 the calculated value relative to 2018 exercise of Euros 1.149 million. For this purpose, the Resolution Fund used its own resources and also resorted to a State loan of Euros 850 million which corresponds to the annual maximum funding limit agreed between the Resolution Fund and the State. The amount paid by the Resolution Fund to Novo Banco in two years was Euros 1,941 million.

In its 2018 annual report, the Resolution Fund states that *"Regarding future periods, a significant uncertainty as to the relevant parameters for the calculation of future liabilities is deemed to exist, either for their increase or reduction, under the terms of the agreement on the contingent capital mechanism with Novo Banco"*.

On 31 December 2018, Novo Banco is held by Lone Star and the Resolution Fund, corresponding to 75% and 25% of the share capital respectively.

(*) Exact value not disclosed by the European Commission for confidentiality reasons
(**) As referred to in the respective European Commission Decision
(***) According to 2018 Novo Banco's earnings institutional presentation, the "minimum capital condition" is (i) CET1 or Tier 1 < CET1 or Tier 1 SREP requirement plus a buffer for the first three years (2017-2019); (ii) CET1 < 12%

Resolution measure of Banif – Banco Internacional do Funchal, S.A.

On 19 December 2015, the Board of Directors of Bank of Portugal announced that Banif was *"at risk of insolvency or insolvent"* and started an urgent resolution process of the institution through the partial or total sale of its activity, which was completed on 20 December 2015 through the sale to Banco Santander Totta S.A. (BST) of the rights and obligations of Banif, formed by the assets, liabilities, off-balance sheet items and assets under management.

The largest portion of the assets that were not sold, were transferred to an asset management vehicle denominated Oitante, S.A. (Oitante) specifically created for that purpose, having the Resolution Fund as the sole shareholder. For that matter, Oitante issued bonds representing debt in the amount of Euros 746 million. The Resolution Fund provided a guarantee and the Portuguese State a counter-guarantee. The operation also involved state aid, of which Euros 489 million were provided by the Resolution Fund, which was funded by a mutual contract given by the State.

The Resolution Fund confirmed on 28 March 2018 that the outstanding principal amount of Euros 353 million related to this loan, due to the early reimbursement of Euros 136 million already made. This amount of Euros 136 million corresponds to the income of the contribution collected, up to 31 December 2015, from the institutions covered by the Regulation of the Single Resolution Mechanism that was not transferred to the Single Resolution Fund and will be paid to the Single Resolution Fund by credit institutions that are covered by this scheme over a period of 8 years, starting in 2016 (according to the Resolution Fund Annual Report of 2016).

According the Resolution Fund's 2018 annual report *"to ensure that the Fund has, at due date, the financial resources necessary to comply with this guarantee, if the principal debtor – Oitante - defaults, the Portuguese State counter-guarantees the referred bond issue. Until 31 December 2018, Oitante made partial prepayments of Euros 360.961 thousand, which reduces the amount of the guarantee provided by the Resolution Fund to Euros 385.038 thousand. Considering the anticipated reimbursements, as well as information provided by Oitante's Board of Directors regarding 2018 exercise, it is envisaged that there are no relevant situations that could trigger the guarantee provided by the Resolution Fund".*

Liabilities and Financing of the Resolution Fund

Pursuant to the resolution measures applied to BES and Banif and after the agreement of sale of Novo Banco to Lone Star, the Resolution held, as at 31 December 2018, all the share capital of Oitante, and 25% of the capital of Novo Banco but without the corresponding voting rights.

Under the scope of these measures, the Resolution Fund borrowed loans and assumed other responsibilities and contingent liabilities resulting from:

- The State loans, on 31 December 2018 included the amounts made available (i) in 2014 for the financing of the resolution measure applied to BES (Euros 3,900 million); (ii) to finance the absorption of Banif's losses (Euros 353 million); (iii) under the framework agreement concluded with the State in October 2017 for the financing of the measures under the contingent capital mechanism (Euros 430 million plus Euros 850 million of additional funding requested in 2019, as described above);

- Other funding granted by the institutions participating in the Resolution Fund in the amount of Euros 700 million, in which the Bank participates, within the scope of BES resolution measure;

- Underwriting by the Resolution Fund of a Tier 2 instrument to be issued by Novo Banco up to the amount of Euros 400 million. This underwriting did not take place as the instruments were placed with third party investors as disclosed by Novo Banco on 29 July 2018;

- Effects of the application of the principle that no creditor of the credit institution under resolution may assume a loss greater than the one it would take if that institution did not go into liquidation;

- Negative effects resulting from the resolution process that result in additional liabilities or contingencies for Novo Banco, S.A., which must be neutralized by the Resolution Fund;

- Legal proceedings filed against the Resolution Fund;

- Guarantee granted to the bonds issued by Oitante S.A. This guarantee is counter-guaranteed by the Portuguese State;

- Contingent Capital Agreement which allows Lone Star to reclaim, from the Resolution Fund, funding costs, realised losses and provisions related to an ex-ante agreed portfolio of existing loan stock up to Euros 3,89 billion under the aforementioned conditions, among which a reduction of CET1 below 8%-13%;

- In case the Supervisory Review and Evaluation Process ("SREP") total capital ratio of Novo Banco falls below the SREP total capital requirement, the State will provide additional capital in certain conditions and through different instruments as referred to in the respective European Commission Decision.

According to Note 24 of the Resolution Fund's 2018 annual report, the Resolution Fund considers that, to date, there are no elements that allow a reliable estimate of the potential financial effect of these potential liabilities.

By a public statement on 28 September 2016, the Resolution Fund and the Ministry of Finance communicated the agreement based on a review of the terms of the Euros 3,900 million loan originally granted by the State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. According to the Resolution Fund, the extension of the maturity of the loan was intended to ensure the ability of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Office of the Minister of Finance also announced that increases in the liabilities arising from the materialization of future contingencies will determine the maturity adjustment of State and Bank loans to the Resolution Fund, in order to maintain the contributory effort required to the banking sector at current levels.

According to the communication of the Resolution Fund of 21 March 2017:

- *"The conditions of the loans obtained from the Fund to finance the resolution measures applied to Banco Espírito Santo, S.A. and to Banif – Banco Internacional do Funchal, S.A. were changed. These loans amount to Euros 4,953 million, of which Euros 4,253 million were granted by the Portuguese State and Euros 700 million were granted by a group of banks";*

- *"Those loans are now due in December 2046, without prejudice to the possibility of being repaid early based on the use of the Resolution Fund's revenues. The due date will be adjusted so that it enables the Resolution Fund to fully meet its liabilities based on regular revenues and without the need for special contributions or any other type of extraordinary contributions. The liabilities resulting from the loans agreed between the Resolution Fund and the Sate and the banks pursuant to the resolution measures applied to BES and Banif are handled with one another";*

- *"The revision of the loans' conditions aimed to ensure the sustainability and financial balance of the Resolution Fund";*

- *"The new conditions enable the full payment of the liabilities of the Resolution Fund, as well as the respective remuneration, without the need to ask the banking sector for special contributions or any other type of extraordinary contributions".*

On 2 October 2017, by Council of Ministers (Resolution No. 151-A/2017), the Portuguese State, as the ultimate guarantor of financial stability, was authorised to enter into a framework agreement with the Resolution Fund, to make available the necessary financial resources to the Resolution Fund, if and when it deemed necessary, to satisfy any contractual obligations that may arise from the sale of the 75% stake in Novo Banco. It is also mentioned that the reimbursement will consider the stability of the banking sector, i.e. without the Resolution Funds' participants being charged special contributions or any other extraordinary contributions.

The Resolution Fund's own resources had a negative equity of Euros 6,114 million, according to the latest 2018 annual report of the Resolution Fund.

To reimburse the loans obtained and to meet other liabilities that it may take on, the Resolution Fund receives proceeds from the initial and regular contributions from the participating institutions (including the Bank) and from the contribution over the banking sector (Law no. 55-A/2010). It is also provided for the possibility of the member of the Government responsible for the area of Finance to determine, by ordinance that the participating institutions make special contributions, in the situations provided for in the applicable legislation, particularly if the Resolution Fund does not have resources to fulfil with their obligations.

Pursuant to Decree-Law no. 24/2013 of 19 February, which establishes the method for determining the initial, periodic and special contributions to the Resolution Fund, provided for in the RGICSF, the Bank has been proceeding, since 2013, to the mandatory contributions, as provided for in the decree-law.

On 3 November 2015, the Bank of Portugal issued a Circular Letter under which it is clarified that the periodic contribution to the Resolution Fund should be recognised as an expense at the time of the occurrence of the event which creates the obligation to pay the contribution, i.e. on the last day of April of each year, as stipulated in Article 9 of the referred Decree-Law, thus the Bank is recognising as an expense the contribution to the RF in the year in which it becomes due.

The Resolution Fund issued, on 15 November 2015, a public statement declaring: *"...it is further clarified that it is not expected that the Resolution Fund will propose the setting up of a special contribution to finance the resolution measure applied to Banco Espírito Santo, S.A., ('BES'). Therefore, the eventual collection of a special contribution appears to be unlikely"*.

The regime established in Decree-Law no. 24/2013 establishes that the Bank of Portugal fixes, by instruction, the rate to be applied each year based on objective incidence of periodic contributions. The instruction of the Bank of Portugal No. 32/2018, published on 19 December 2018, set the base rate to be effective in 2019 for the determination of periodic contributions to the FR by 0.057% against the rate of 0.0459% in 2018.

Thus, during the first semester of 2019, the Group made regular contributions to the Resolution Fund in the amount of Euros 15,965 thousand. The amount related to the contribution on the banking sector, registered in the first semester of 2019, was Euros 31,818 thousand. These contributions were recognized during the first semester of 2019, in accordance with IFRIC No. 21 – Levies.

In 2015, following the establishment of the Single Resolution Fund ('SRF'), the Group had to make an initial contribution in the amount of Euros 31,364 thousand. In accordance with the Intergovernmental Agreement on the transfer and mutualisation of contributions to the SRF, this amount was not transferred to the SRF but was used instead to partially cover for the disbursements made by the RF in respect of resolution measures prior to the date of application of this Agreement. This amount will have to be reinstated over a period of 8 years (starting in 2016) through the periodic contributions to the SRF. The total amount of the contribution, in the first half of 2019, attributable to the Group was Euros 21,918 thousand, of which the Group delivered Euros 18,747 thousand and the remaining was constituted as irrevocable payment commitment. The Single Resolution Fund does not cover undergoing situations with the National Resolution Fund as at 31 December 2015.

It is not possible, on this date, to assess the effects on the Resolution Fund due to: (i) the sale of the shareholding in Novo Banco in accordance with the communication of Banco de Portugal dated 18 October 2017 and the information provided by the European Commission on this subject under the terms described above, including the effects of the application of the contingent capital mechanism; (ii) the application of the principle that no creditor of the credit institution under resolution may take on a loss greater than the one it would take if that institution did not go into liquidation; (iii) additional liabilities or contingencies for Novo Banco, S.A. which need to be neutralized by the Resolution Fund; (iv) legal proceedings against the Resolution Fund, including "processo dos lesados do BES"; and (v) the guarantee provided to the bonds issued by Oitante, in this case, the referred trigger is not expectable in accordance to the most recent information communicated by the Resolution Fund in its annual accounts.

According to Article 5(e) of the Regulation of the Resolution Fund, approved by the Ministerial Order No. 420/2012, of 21 December, the Resolution Fund may submit to the Government a proposal for the implementation of special contributions to rebalance the financial condition of the Resolution Fund. According to public communications from both the Resolution Fund and from the Government, there is no indication that any such special contributions are foreseen.

According to the Resolution Fund's 2018 annual report, under note 10, *"the Resolution Fund is not obliged to present positive equity. In case of insufficient resources, the Resolution Fund may receive special contributions, as determined by the member of the Government responsible for finance, in accordance with article 153-I of the RGICSF and no such contributions are foreseen, in particular after a review of the financing conditions of the Resolution Fund".*

Eventual alterations regarding this matter may have relevant implications in future financial statements of the Group.

10. Banco Comercial Português, S.A., Banco ActivoBank S.A. and Banco de Investimento Imobiliário, S.A., initiated an administrative proceeding to contest the resolution adopted by Banco de Portugal on 31 March 2017 to sell Novo Banco (NB), and also, as a precaution, the deliberation adopted by the Resolution Fund on the same date, as they foresee the sale of NB by resorting to a contingent capitalization mechanism under which the Resolution Fund commits to inject capital in Novo Banco up to Euros 3,9 billion, under determined circumstances. In the proceedings, the Claimants request the declaration of nullity or annulment of those acts.

The proceedings were filed based on the information contained in the Communication from Banco de Portugal dated 31 March 2017, of which the Claimants were not notified.

The proceedings were filed in Court on 4 September 2017. Banco de Portugal and the Resolution Fund presented their arguments and, only very recently, Nani Holdings SGPS, S.A. did the same since, by delay of the Court, this company was only very recently notified to act as a party in the proceedings.

Besides opposing to it, the Defendants invoke three objections (i) the illegitimacy of the Claimants, (ii) the argument that the act performed by Banco de Portugal cannot be challenged and (iii) the material incompetence of the Court. The opponent part invoked the issue of passive illegitimacy since Novo Banco was not notified as an opponent party.

The Claimants replied to the arguments presented by the Defendants and to the arguments presented by the opponent party. After the presentation of the arguments, Banco de Portugal attached to the proceedings what it called an evidence process (allegedly in compliance with the law) but most of the documents delivered were truncated in such a way that neither the Court nor the Claimants are able to get an adequate knowledge thereon. That issue was already raised in the proceedings (requesting the Court to order Banco de Portugal to deliver a true evidence process) but no decision thereon has been made yet.

Currently, the proceedings are prepared for confirmation of the decision accepting the formalities of right of action (with the making of a decision on the specific objections invoked). In case the judge considers that Novo Banco is an opponent party, the judge must start by issuing a pre-confirmation order to request the Claimants to identify it. Afterwards, that Bank will be notified to present its opposition arguments.

11. Following the restructuring process agreed with the Directorate-General for Competition ("DGComp") and the Portuguese State, it was implemented in Group Banco Comercial Português a process of salary adjustment with temporary term. Additionally, it was agreed between the Bank and the Trade Unions that, in the following years after the State intervention and if then exist distributable profits, the Board of Directors and the Executive Comitee will submit for approval of the Shareholders' General Meeting a proposal of distribution of profits to the employees, which allows the distribution of an accumulated total global amount at least equal to the total amount that was not received over the temporary term of the salary adjustment, as described in the clause no. 151-E of BCP's Collective Labour Agreement.

At the General Meeting of 22 May 2019, following the proposal submitted by the Board of Directors, the application of profits for the year 2018 was approved, which includes the distribution to employees of Euros 12,587,009, in compliance partially with the previously referred clause. This payment occurred in June 2019 and the corresponding amount was recognized in "Staff costs".

12. The Bank was subject to tax inspections for the years up to 2015. As a result of the inspections in question, corrections were made by the tax authorities, arising from the different interpretation of some tax rules. The main impact of these corrections occurred, regarding IRC, in terms of the tax loss carry forwards and, in the case of VAT, in the calculation of the tax deduction pro rata used for the purpose of determining the amount of deductible VAT. The additional liquidations/corrections made by the tax administration were mostly object of contestation by administrative and/or judicial ways.

The Bank recorded provisions or deferred tax liabilities at the amount considered adequate to offset the tax or tax loss carry forwards, as well as the contingencies related to the fiscal years not yet reviewed by the tax administration.

13. Banco Comercial Português, S.A. filed in 2013 a lawsuit against Mr. Jorge Jardim Gonçalves, his wife and Ocidental – Companhia de Seguros de Vida, S.A., requesting mainly that the following be recognized: (a) that the amount of the retirement instalments of the former director, to be paid by the Bank, cannot exceed the highest fixed remuneration earned by the directors exercising functions in the Bank at any moment; (b) that the former director cannot maintain, at the Bank's expenses, the benefits he had when still in active functions; and (c) that the wife of the former director cannot benefit from a survival lifelong pension paid by the Bank in case of death of the former director, under conditions different from the ones foreseen for the majority of the Bank's employees.

After several procedural extraordinary events, on 27 January 2019, the Court issued a new sentence - which fully reproduces the previous one issued on 25 May 2018 - considering: (i) rejected the request made by the Bank consisting in the reduction of the pensions paid and to be paid to the first defendant Mr. Jorge Jardim Gonçalves, (ii) rejected the request for the nullity of the eventual future survival pension of the second defendant; (iii) partially accepted the counter-claim made by the defendant Mr. Jorge Jardim Gonçalves, sentencing the Bank to pay him the amount of Euros 2,124,923.97, as reimbursement of the expenses regarding the use of a car with driver and private security until June 2016, and also those that, on this regard, he paid since that date or will pay in the future, in the amount that comes to be settled, expenses which would be part of his retirement regime, plus default interests accounted at the legal rate of 4% per year since the date of the reimbursement request up to their effective and full payment.

On March 2019, BCP appealed the sentence to the Tribunal da Relação de Lisboa (Appellate Court) requesting that the same is revoked and replaced by a decision accepting all the requests presented by the Bank. The Bank considers that the Court decided incorrectly regarding evidence and relevant legal issues, and that the appeal has good chances of success, namely because, concerning the amounts received by the former director, the sentence upholds an original interpretation of the limit of article 402, no.2, of the Commercial Companies Code (CCC), going against all court decisions issued by superior courts and most of all the prior doctrine on these issues.

56. Application of IFRS 9 - Financial Instruments

This standard is included in the draft revision of IAS 39 and establishes the new requirements regarding the classification and measurement of financial assets and liabilities, the methodology for calculating impairment and for the application of hedge accounting rules.

IFRS 9 - Financial Instruments was endorsed by EU in November 2016 and come into force for periods beginning on or after 1 January 2018. IFRS 9 has replaced IAS 39 - Financial Instruments: Recognition and Measurement and provides new requirements in accounting for financial instruments with significant changes specifically regarding impairment requirements. For this reason, it is a standard that has been subject to a detailed and complex implementation process that has involved all the key stakeholders in order to understand the impacts and the changes in processes, governance and business strategy that may involve.

The requirements provided by IFRS 9 are, in general, applied retrospectively by adjusting the opening balance at the date of initial application (1 January 2018).

Financial Instruments IFRS 9

In July 2014, the IASB issued the final version of IFRS 9 - Financial Instruments. In October 2017, the IASB issued the document "Prepayment features with negative compensation (amendments to IFRS 9). The changes are effective for annual periods beginning on 1 January 2019, with early adoption allowed.

The Group applied IFRS 9 and adopted in advance the modifications made to IFRS 9 in the period beginning as at 1 January 2018. The impact of the adoption of IFRS 9 on the Group's equity attributable to shareholders of the Bank, with reference to 1 January 2018 was negative of Euros 373,656,000 (negative impact of Euros 403,767,000 Group's total equity, including non-controlling interests).

The accounting policies in force in the Group at the level of financial instruments after adoption of IFRS 9 as at 1 January 2018 are described in note 1C.

I. Classification of financial instruments

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model used in asset management, as well as the characteristics of the respective contractual cash flows.

The standard will have an impact at the level of the classification of the financial assets held as at 1 January 2018, as follows:

- Held for trading and derivatives held for risk management, which were classified as "Held-for-trading" and measured at FVTPL under IAS 39, are measured at FVTPL under IFRS 9;
- Loans and advances to customers and to Financial Institutions measured at amortised cost under IAS 39 are generally measured at amortised cost under IFRS 9;
- Investments in held-to-maturity securities, measured at amortised cost under IAS 39, are measured, generally, at amortised cost under IFRS 9;
- Investments in debt securities that were classified as available for sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on certain circumstances;
- Loans to customers and investment securities that were measured at fair value option under IAS 39 are measured at FVTPL under IFRS 9;
- Most of the equity instruments that were classified as available for sale under IAS 39 are measured at FVTPL under IFRS 9. However, some of these equity instruments are held under a long-term strategic investment and are designated at FVOCI, under IFRS 9.

Based on this analysis and in the strategy defined, no material changes occurred at the level of the measurement associated with financial assets of the Group (financial assets measured at amortised cost versus financial assets measured at fair value) with the impact on the transition to IFRS 9.

II. Impairment - Financial Assets, Commitments and Financial Guarantees

IFRS 9 replaces the "loss incurred" model in IAS 39 by a forward-looking model of "expected credit losses (ECL)", which considers expected losses over the life of financial instruments. Thus, in the determination of ECL, macroeconomic factors are considered as well as other forward looking information, whose changes impact expected losses.

The impact of the adoption of IFRS 9 in the Group's equity related to impairment losses on financial assets, guarantees and other commitments was negative of Euros 256,128,000.

III. Classification - Financial Liabilities

IFRS 9 generally maintains the requirements in IAS 39 regarding the classification of Financial Liabilities. However, under IAS 39 all fair value changes of financial liabilities designated to FVTPL (Fair Value Option) were recognised in the income statement, while under IFRS 9 these fair value changes are presented as follows: the amount related to the variation in the fair value attributable to changes in the credit risk of the liability is presented in OCI and the remaining value of the change in fair value is presented in profit or loss.

The Group has adopted the Fair Value Option for some of its own issues which contain embedded derivatives or associated hedging derivatives, or when this designation eliminates or significantly reduces the accounting mismatch of the operations. The fair value variations attributable to changes in the credit risk of these liabilities were recognised in profit or loss in 2017 under IAS 39. In adopting IFRS 9, these changes in fair value were recognised in OCI and the amount recognised in OCI in each year is variable. The accumulated amount recognised in OCI will be null if these liabilities are repaid at maturity at the nominal value.

IV. Derecognition and modification of contracts

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and liabilities without significant changes.

V. Hedge accounting

As allowed by IFRS 9, the Group opted to continue to apply the hedge accounting requirements under IAS 39.

VI. Transition

Changes in accounting policies resulting from the application of IFRS 9 will generally be applied retrospectively, with the exception of the following:

- The Group applies the exception that allows the non-restatement of prior period comparative information regarding classification and measurement changes (including impairment). Differences in the balance sheet values of financial assets and liabilities resulting from the adoption of IFRS 9 are recognised in Reserves and retained earnings, as at 1 January 2018.

- The following assessment was made based on the facts and circumstances that existed at the time of the initial application:
a) the determination of the business model in which the financial asset is held;
b) the designation and revocation of prior designations of certain financial assets and liabilities designated at FVTPL;
c) the designation of certain equity instruments that are not held for trading as FVOCI; and
d) for financial liabilities designated at FVTPL (Fair Value Option), to assess whether the presentation of the effects in the credit risk variations of the financial liabilities in OCI would create or increase an accounting mismatch in profit or loss.

The impact of the adoption of IFRS 9 in the Group's financial statements is described below.

A) Impact of the adoption of IFRS 9 on the Group's equity

The impacts on the Group's equity arising from the implementation of IFRS 9 with reference to 1 January 2018 are as detailed below:

(Thousands of euros)

	Other equity items	Fair value changes	Reserves and retained earnings	Total equity attributable to bank's shareholders	Non-controlling interests	Total equity
Equity as at 31 December 2017 - Before IFRS 9	5,932,554	82,090	66,171	6,080,815	1,098,921	7,179,736
Impairment						
Loans and advances to credit institutions	-	-	(703)	(703)	-	(703)
Loans and advances to customers	-	-	(194,385)	(194,385)	(41,163)	(235,548)
Debt securities	-	-	(5,163)	(5,163)	-	(5,163)
	-	-	(200,251)	(200,251)	(41,163)	(241,414)
Provisions	-	-	(14,714)	(14,714)	-	(14,714)
Changes in securities classification	-	(91,234)	90,522	(712)	4,164	3,452
Own credit risk	-	1,958	(1,958)	-	-	-
Investments in associates	-	(843)	(1,664)	(2,507)	-	(2,507)
	-	(90,119)	(128,065)	(218,184)	(36,999)	(255,183)
Current and deferred tax assets	-	26,150	(181,622)	(155,472)	6,888	(148,584)
Total impact	-	(63,969)	(309,687)	(373,656)	(30,111)	(403,767)
Equity as at 1 January 2018 - After IFRS 9	5,932,554	18,121	(243,516)	5,707,159	1,068,810	6,775,969

In 2018, the Bank adopted IFRS 9 - Financial Instruments. Since there is no transitional regime that establishes the tax treatment to be applied to the transition adjustments to IFRS 9, the treatment given resulted from the interpretation of the general rules application of the IRC Code.

B) Reconciliation of balance sheet amounts in IAS 39 and IFRS 9

The impacts on the Group's balance sheet arising from the implementation of IFRS 9 with reference to 1 January 2018 are detailed as follows:

(Thousands of euros)

	IAS 39 31 Dec 2017	Reclassifications	Remeasurement	IFRS 9 1 Jan 2018
ASSETS				
Cash and deposits at Central Banks	2,167,934	-	-	2,167,934
Loans and advances to credit institutions repayable on demand	295,532	-	-	295,532
Financial assets at amortised cost				-
Loans and advances to credit institutions	1,065,568	-	(703)	1,064,865
Loans and advances to customers	45,625,972	(263,397)	(235,548)	45,127,027
Debt securities	2,007,520	939,889	(7,341)	2,940,068
Financial assets at fair value through profit or loss				-
Financial assets held for trading	897,734	(6,623)	-	891,111
Financial assets not held for trading				-
mandatorily at fair value through profit or loss	n.a.	1,382,151	-	1,382,151
Financial assets designated at fair value through profit or loss	142,336	-	-	142,336
Financial assets at fair value through other comprehensive income	n.a.	9,831,626	5,630	9,837,256
Financial assets available for sale	11,471,847	(11,471,847)	-	-
Financial assets held to maturity	411,799	(411,799)	-	-
Hedging derivatives	234,345	-	-	234,345
Investments in associated companies	571,362	-	(2,507)	568,855
Non-current assets held for sale	2,164,567	-	-	2,164,567
Investment property	12,400	-	-	12,400
Other tangible assets	490,423	-	-	490,423
Goodwill and intangible assets	164,406	-	-	164,406
Current tax assets	25,914	-	1,047	26,961
Deferred tax assets	3,137,767	-	(149,631)	2,988,136
Other assets	1,052,024	-	-	1,052,024
TOTAL ASSETS	71,939,450	-	(389,053)	71,550,397
LIABILITIES				
Financial liabilities at amortised cost				
Resources from credit institutions	7,487,357	-	-	7,487,357
Resources from customers	48,285,425	-	-	48,285,425
Non subordinated debt securities issued	2,066,538	-	-	2,066,538
Subordinated debt	1,169,062	-	-	1,169,062
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading	399,101	-	-	399,101
Financial liabilities designated at fair value through profit or loss	3,843,645	-	-	3,843,645
Hedging derivatives	177,337	-	-	177,337
Provisions	324,158	-	14,714	338,872
Current tax liabilities	12,568	-	-	12,568
Deferred tax liabilities	6,030	-	-	6,030
Other liabilities	988,493	-	-	988,493
TOTAL LIABILITIES	64,759,714	-	14,714	64,774,428
EQUITY				
Share capital	5,600,738	-	-	5,600,738
Share premium	16,471	-	-	16,471
Preference shares	59,910	-	-	59,910
Other equity instruments	2,922	-	-	2,922
Legal and statutory reserves	252,806	-	-	252,806
Treasury shares	(293)	-	-	(293)
Reserves and retained earnings	(38,130)	186,391	(373,656)	(225,395)
Net income for the year attributable to Bank's Shareholders	186,391	(186,391)	-	-
TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS	6,080,815	-	(373,656)	5,707,159
Non-controlling interests	1,098,921	-	(30,111)	1,068,810
TOTAL EQUITY	7,179,736	-	(403,767)	6,775,969
TOTAL LIABILITIES AND EQUITY	71,939,450	-	(389,053)	71,550,397

The impacts of the implementation of IFRS 9 on the classification and measurement of financial instruments and the determination of impairment losses on financial assets are explained in more detail in the following notes.

C) Classification and measurement of financial instruments

The table below shows the measurement category and the book value of financial assets, in accordance with IAS 39 and IFRS 9, as at 1 January 2018:

(Thousands of euros)

<table>
<tr><th colspan="3">IAS 39</th><th colspan="3">IFRS 9</th></tr>
<tr><th>Category</th><th>Measurement</th><th>Book value</th><th>Category</th><th>Measurement</th><th>Book value</th></tr>
<tr><td>Cash and deposits at Central Banks</td><td>Amortised cost</td><td>2,167,934</td><td>Cash and deposits at Central Banks</td><td>Amortised cost</td><td>2,167,934</td></tr>
<tr><td>Loans and advances to credit institutions repayable on demand</td><td>Amortised cost</td><td>295,532</td><td>Loans and advances to credit institutions repayable on demand</td><td>Amortised cost</td><td>295,532</td></tr>
<tr><td>Loans and advances to credit institutions</td><td>Amortised cost</td><td>1,065,568</td><td>Loans and advances to credit institutions</td><td>Amortised cost</td><td>1,064,865</td></tr>
<tr><td rowspan="2">Financial assets at amortised cost - Loans and advances to customers</td><td rowspan="2">Amortised cost</td><td rowspan="2">45,625,972</td><td>Financial assets at amortised cost - Loans and advances to customers</td><td>Amortised cost</td><td>45,127,027</td></tr>
<tr><td>Financial assets not held for trading mandatorily at fair value through profit or loss</td><td>FVTPL (mandatorily)</td><td>263,397</td></tr>
<tr><td>Financial assets at amortised cost - Debt securities</td><td>Amortised cost</td><td>2,007,520</td><td>Financial assets at amortised cost - Debt securities</td><td>Amortised cost</td><td>2,004,574</td></tr>
<tr><td>Financial assets held to maturity</td><td>Amortised cost</td><td>411,799</td><td>Financial assets at amortised cost - Debt securities</td><td>Amortised cost</td><td>415,695</td></tr>
<tr><td rowspan="3">Financial assets available for sale</td><td rowspan="3">FVOCI (available for sale)</td><td rowspan="3">11,471,847</td><td>Financial assets at fair value through other comprehensive income</td><td>FVOCI</td><td>9,830,633</td></tr>
<tr><td>Financial assets not held for trading mandatorily at fair value through profit or loss</td><td>FVTPL (mandatorily)</td><td>1,118,754</td></tr>
<tr><td>Financial assets at amortised cost - Debt securities</td><td>Amortised cost</td><td>519,799</td></tr>
<tr><td rowspan="2">Financial assets held for trading</td><td rowspan="2">FVTPL</td><td rowspan="2">897,734</td><td>Financial assets at fair value through other comprehensive income</td><td>FVOCI</td><td>6,623</td></tr>
<tr><td>Financial assets held for trading</td><td>FVTPL</td><td>891,111</td></tr>
<tr><td>Financial assets designated at fair value through profit or loss</td><td>FVTPL (designated)</td><td>142,336</td><td>Financial assets designated at fair value through profit or loss</td><td>FVTPL (designated)</td><td>142,336</td></tr>
<tr><td>Hedging derivatives</td><td>FVTPL</td><td>234,345</td><td>Hedging derivatives</td><td>FVTPL</td><td>234,345</td></tr>
</table>

Notes:

FVOCI - Measured at fair value through other comprehensive income

FVTPL - Measured at fair value through profit or loss

There were no material changes regarding the measurement criteria associated with the Group's financial liabilities with impact on the transition to IFRS 9, except for changes in the fair value of financial liabilities at fair value through profit or loss that are attributable to changes in the credit risk of the instrument, which were included in other comprehensive income as from 1 January 2018.

D) Reconciliation of balance sheet amounts in IAS 39 and IFRS 9

The following table shows the reconciliation between the book values of financial assets according to the measurement categories of IAS 39 and IFRS 9, as at 1 January 2018 (transition date).

(Thousands of euros)

		Financial assets at amortised cost (Amortised Cost)			
	Notes	IAS 39 31 December 2017	Reclassifications	Remeasurement	IFRS 9 1 January 2018
Cash and deposits at Central Banks					
Opening balance in IAS 39 and final balance in IFRS 9		2,167,934	-	-	2,167,934
Loans and advances to credit institutions repayable on demand					
Opening balance in IAS 39 and final balance in IFRS 9		295,532	-	-	295,532
Loans and advances to credit institutions					
Opening balance in IAS 39		1,065,568	-	-	1,065,568
Remeasurement: impairment losses	(A)	-	-	(703)	(703)
Final balance in IFRS 9		1,065,568	-	(703)	1,064,865
Loans and advances to customers					
Opening balance in IAS 39		45,625,972	-	-	45,625,972
Transfer					
to fair value through profit or loss (IFRS 9) - Gross Value	(G)	-	(283,463)	-	(283,463)
to fair value through profit or loss (IFRS 9) - Impairment	(G)	-	20,066	-	20,066
Remeasurement: impairment losses	(A)	-	-	(235,548)	(235,548)
Final balance in IFRS 9		45,625,972	(263,397)	(235,548)	45,127,027
Debt instruments					
Opening balance in IAS 39		2,007,520	-	-	2,007,520
Transfer of available financial assets for sale (IAS 39)	(E)	-	528,090	-	528,090
Transfer from held-to-maturity financial assets to maturity date (IAS 39)	(F)	-	411,799	-	411,799
Remeasurement: impairment losses	(A)	-	-	(5,163)	(5,163)
Remeasurement: fair value to amortised cost	(E)	-	-	(2,178)	(2,178)
Final balance in IFRS 9		2,007,520	939,889	(7,341)	2,940,068
Financial assets held to maturity					
Opening balance in IAS 39		411,799	-	-	411,799
Transfer for financial assets at amortised cost - debt securities (IFRS 9)	(F)	-	(411,799)	-	(411,799)
Final balance in IFRS 9		411,799	(411,799)	-	-
Total of financial assets at amortised cost		51,574,325	264,693	(243,592)	51,595,426

(Thousands of euros)

	Notes	Financial assets at fair value through other comprehensive income (FVOCI) IAS 39 31 December 2017	Reclassifications	Remeasurement	IFRS 9 1 January 2018
Financial assets at fair value through other comprehensive income - debt instruments					
Opening balance in IAS 39					
Transfer of available financial assets for sale (IAS 39)	(F)	-	9,793,650	-	9,793,650
Transfer of financial assets held for trading	(D)	-	6,623	-	6,623
Final balance in IFRS 9		-	9,800,273	-	9,800,273
Financial assets at fair value through other comprehensive income - equity instruments					
Opening balance in IAS 39					
Transfer of available financial assets for sale (IAS 39)	(B)		31,353	5,630	36,983
Final balance in IFRS 9		-	31,353	5,630	36,983
		-	9,831,626	5,630	9,837,256
Financial assets available for sale					
Opening balance in IAS 39		11,471,847	-	-	11,471,847
Transfer Financial assets not held for trading mandatorily at fair value through profit or loss (IFRS 9)	(C)	-	(1,118,754)	-	(1,118,754)
Transfer for financial assets at amortised cost (IFRS 9)	(E)	-	(528,090)	-	(528,090)
Transfer to financial assets at fair value through other comprehensive income - debt instruments (IFRS 9)	(F)	-	(9,793,650)	-	(9,793,650)
Transfer to financial assets at fair value through other comprehensive income - equity instruments (IFRS 9)	(B)	-	(31,353)	-	(31,353)
Final balance in IFRS 9		11,471,847	(11,471,847)	-	-
Total financial assets at fair value through other comprehensive income		11,471,847	(1,640,221)	5,630	9,837,256

(Thousands of euros)

		Financial assets at fair value through profit or loss (FVTPL)			
	Notes	IAS 39 31 December 2017	Reclassifications	Remeasurement	IFRS 9 1 January 2018
Financial assets held for trading					
Opening balance in IAS 39		897,734	-	-	897,734
Transfer to financial assets at fair value through other comprehensive income	(D)	-	(6,623)	-	(6,623)
Final balance in IFRS 9		897,734	(6,623)	-	891,111
Financial assets not held for trading mandatorily at fair value through profit or loss					
Opening balance in IAS 39					
Transfer of available financial assets for sale (IAS 39)	(C)	-	1,118,754	-	1,118,754
Transfer from financial assets at amortised cost - Loans to customers (IAS 39) - Gross value	(G)	-	283,463	-	283,463
Transfer from financial assets at amortised cost - Loans to customers (IAS 39) - Impairment	(G)	-	(20,066)	-	(20,066)
Final balance in IFRS 9		-	1,382,151	-	1,382,151
Financial assets designated at fair value through profit or loss					
Opening balance in IAS 39 and final balance in IFRS 9		142,336	-	-	142,336
Hedging derivatives					
Opening balance in IAS 39 and final balance in IFRS 9		234,345	-	-	234,345
Total financial assets at fair value through profit or loss		1,274,415	1,375,528	-	2,649,943

Notes:

(A) Under the IFRS 9 criteria, additional impairments were calculated resulting from the application of the concept of expected loss and registered in Other reserves and retained earnings, for:

- financial assets at amortised cost (Loans and advances to credit institutions);
- financial assets at amortised cost (Loans and advances to customers);
- and debt instruments at fair value through other comprehensive income and at amortised cost.

(B) Designation of equity instruments at fair value through other comprehensive income: The Group opted for the irrevocable designation of equity instruments that are neither held for trading nor contingent retribution recognised by a buyer in a business combination to which it applies IFRS 3 as at fair value through other comprehensive income, as allowed by IFRS 9. These instruments were previously classified as "Financial assets available for sale". Changes in the fair value of these instruments will not be reclassified to profit or loss when derecognised.

(C) Classification of debt securities previously classified as "Financial assets available for sale ", which do not fall within the definition of SPPI and participation units in funds that do not fall within the definition of equity instruments: The portfolio of debt instruments that do not fall within the scope of SPPI definition was classified under " Financial assets not held for trading mandatorily at fair value through profit or loss " on the date of the initial application.

(D) Classification of debt securities previously classified under "Financial assets held for trading", whose business model is "held to collect and sell" and whose characteristics of contractual cash flows fall within the scope of SPPI definition.

(E) Classification of debt securities previously under "Financial assets available for sale ", whose business model is "held-to-collect" and whose characteristics of contractual cash flows fall within the scope of SPPI definition.

(F) Changes occurred in the categories provided for in IAS 39, without changing the measurement basis: In addition to the aforementioned, the following debt instruments were reclassified to new categories in accordance with IFRS 9, following the elimination of previous categories of IAS 39 , without changes in its measurement basis: (i) Instruments previously classified as available for sale, currently classified as financial assets at fair value through other comprehensive income; (ii) Instruments previously classified as held to maturity, currently classified as financial assets at amortised cost.

(G) The new classification and measurement model is mainly based on principles and requires the Bank to consider not only its business model for the management of financial assets but also the characteristics of the contractual cash flows of these assets (particularly if they represent solely payments of principal and interest ('SPPI')). Thus, a set of loans from customers previously classified as financial assets at amortised cost were transferred to financial assets not held for trading mandatorily at fair value through profit or loss.

The table below presents the reconciliation between the book values of impairment / provisions in balance sheet according with the measurement categories of IAS 39 and IFRS 9 as at 1 January 2018 (initial application date):

(Thousands of euros)

Measurement category	Impairment for credit IAS 39 / Provision IAS 37	Reclassifications (A)	Revaluation	Impairment loss / Provision in accordance with IFRS 9
Loans and accounts receivable (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Cash and deposits at Central Banks	-	-	-	-
Loans and advances to credit institutions repayable on demand	-	-	-	-
Loans and advances to credit institutions	-	-	703	703
Loans and advances to customers	3,279,046	8,508	235,548	3,523,102
Debt securities	42,886	-	5,163	48,049
Total	3,321,932	8,508	241,414	3,571,854
Held to maturity (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Debt securities	-	-	-	-
Available-for-sale financial instruments (IAS 39)/ Financial assets at fair value through other comprehensive income (IFRS 9)				
Debt securities	88,796	(83,646)	6,496	11,646
Commitments and financial guarantees issued	324,158	-	14,714	338,872
Total	3,734,886	(75,138)	262,624	3,922,372

(A) The reclassification recorded in impairment for financial assets at fair value through other comprehensive income (Debt securities) in the negative amount of Euros 83,646,000, refers to the write-off of impairment for securities that were transferred to FVTPL (fall within the scope of SPPI).

57. Application of IFRS 16 – Leases

As described in note 1 A. Basis of presentation and accounting policy 1 H, the Group adopted IFRS 16 – Lease transactions on 1 January 2019, replacing IAS 17 – Lease transactions, which was in force until 31 December 2018. IFRS 16 was approved by EU in October 2017. The Group did not adopt any of the requirements of IFRS 16 in prior periods.

This standard establishes the new requirements regarding the scope, classification/recognition and measurement of leases:
- from the lessor's perspective, leases continue to be classified as finance leases or operating leases;
- from the lessee's perspective, the standard defines a single model of accounting for lease contracts, which results in the recognition of a right-of-use asset and a lease liability for all leases, except for those which the lease term ends within 12 months or for those which the underlying asset is of low value and, in these cases, the lessee may opt for the exemption from recognition under IFRS 16, and shall recognise the lease payments associated with those leases as an expense.

The Group choose not to apply this standard to short-term lease contracts, i.e. contracts with a term shorter than or equal to one year, and to lease contracts in which the underlying asset's value is below Euros 5,000. Additionally, the option not to apply this standard to leases of intangible assets was also used.

Transition

On 1 January 2019, the Group carried out a review of the existing contracts at this date and applied the practical expedient provided in IFRS 16, i.e., the standard was only applied to contracts previously identified as leases in accordance with IAS 17 – Leases and IFRIC 4.

As proposed in IFRS 16, the Group applied this standard retrospectively, with its transition impacts recognised on 1 January 2019. This way, comparative information has not been restated.

By applying the practical expedient provided on the transition to IFRS 16, the Group recognised a lease liability at the present value of the remaining lease payments, discounted at an incremental interest rate at the date of initial application and the underlying assets' right-to-use by the lease liability amount.

For contracts in which a sublease is identified, the Group recognised a lease liability at the present value of the remaining lease payments, discounted at an incremental interest rate at the date of initial application and a financial asset related to the sublease.

The following assumptions considered in the implementation of this standard were:
- lease term: this component was evaluated by categories of contracts, being each contract enforceable. In the evaluation of the enforceability, the particular clauses of the contracts as well as the current legislation regarding the urban lease (Arrendamento Urbano) are taken into consideration;
- discount rate: it was used the lessee's incremental rate, which incorporates the risk-free yield curve (swap curve), plus Group's risk spread, applied over the weighted average term of each lease contract. Regardless of the type of asset, the discount rate was calculated in the same way;
- non-application of the standard to lease contracts with a term under 12 months, neither to leases of low value assets (up to Euros 5,000).

Given the conditions mentioned above, the Group identified that the main lease contracts covered by this standard are contracts on real estate (branches and central buildings) and on a residual number of vehicles.

The adoption of the standard implies changes in the Group's financial statements, namely:
- in the consolidated income statement:
(i) in Net interest income, the record of interest expenses related to lease liabilities, as referred to in note 2. Net interest income, balance Interest and similar charges - Interest on leases;
(ii) in Other Administrative Expenses, the record of the amounts relating to short-term lease contracts and low value assets lease contracts, as referred to in note 8. Other administrative expenses, balance Rents and leases; and
(iii) in Amortisations, the record of depreciation costs of right-of-use assets, as referred in note 9. Amortisations and depreciations, balance item Right-of-use.
- in the consolidated balance sheet:
(i) in Financial assets at amortised cost - Loans and advances to customers, the recognition of financial assets related to sublease operations measured in accordance with IFRS 9, as referred to in note 21. Loans and advances to customers, balance Finance leases;
(ii) in Other tangible assets, the recognition of right-of-use assets, as referred in note 28. Other tangible assets, balance Right of use; and
(iii) in Other liabilities, the record of the amount of recognised lease liabilities, as referred in note 39. Other liabilities, balance Rents to pay.
- In the cash flow statement, Cash flows arising from operating activities - Payments (cash) to suppliers and employees includes amounts related to short-term leases and to leases of low-value assets. The balance Decrease in other sundry liabilities and non-controlling interests includes amounts relating to payments of capital portions of lease liabilities, as detailed in the Interim condensed consolidated statement of cash flows.

Until 31 December 2018, and according to IAS 17, every payment of operating leases was presented as Cash flows arising from operating activities. Following the IFRS 16's adoption, Cash flows arising from operating activities changed to Cash flows arising from financing activities in the amount of Euros 25,733,000. IFRS 16's adoption didn't cause an impact in the Group's net cash flows.

The reconciliation between the balance sheets of 31 December 2018 and 1 January 2019, according to IFRS 16, is detailed as following:

(Thousands of euros)

	IAS 17 31 Dec 2018	Impact of IFRS 16	IFRS 16 1 Jan 2019
ASSETS			
Cash and deposits at Central Banks	2,753,839	-	2,753,839
Loans and advances to credit institutions repayable on demand	326,707	-	326,707
Financial assets at amortised cost			
Loans and advances to credit institutions	890,033	-	890,033
Loans and advances to customers	45,560,926	9,835	45,570,761
Debt securities	3,375,014	-	3,375,014
Financial assets at fair value through profit or loss			
Financial assets held for trading	870,454	-	870,454
Financial assets not held for trading mandatorily at fair value through profit or loss	1,404,684	-	1,404,684
Financial assets designated at fair value through profit or loss	33,034	-	33,034
Financial assets at fair value through other comprehensive income	13,845,625	-	13,845,625
Assets with repurchase agreement	58,252	-	58,252
Hedging derivatives	123,054	-	123,054
Investments in associated companies	405,082	-	405,082
Non-current assets held for sale	1,868,458	-	1,868,458
Investment property	11,058	-	11,058
Other tangible assets	461,276	246,166	707,442
Goodwill and intangible assets	174,395	-	174,395
Current tax assets	32,712	-	32,712
Deferred tax assets	2,916,630	-	2,916,630
Other assets	811,816	-	811,816
TOTAL ASSETS	75,923,049	256,001	76,179,050
LIABILITIES			
Financial liabilities at amortised cost			
Resources from credit institutions	7,752,796	-	7,752,796
Resources from customers	52,664,687	-	52,664,687
Non subordinated debt securities issued	1,686,087	-	1,686,087
Subordinated debt	1,072,105	-	1,072,105
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	327,008	-	327,008
Financial liabilities at fair value through profit or loss	3,603,647	-	3,603,647
Hedging derivatives	177,900	-	177,900
Provisions	350,832	-	350,832
Current tax liabilities	18,547	-	18,547
Deferred tax liabilities	5,460	-	5,460
Other liabilities	1,300,074	256,001	1,556,075
TOTAL LIABILITIES	68,959,143	256,001	69,215,144
EQUITY			
Share capital	4,725,000	-	4,725,000
Share premium	16,471	-	16,471
Other equity instruments	2,922	-	2,922
Legal and statutory reserves	264,608	-	264,608
Treasury shares	(74)	-	(74)
Reserves and retained earnings	470,481	-	470,481
Net income for the period attributable to Bank's Shareholders	301,065	-	301,065
TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS	5,780,473	-	5,780,473
Non-controlling interests	1,183,433	-	1,183,433
TOTAL EQUITY	6,963,906	-	6,963,906
TOTAL LIABILITIES AND EQUITY	75,923,049	256,001	76,179,050

58. Acquisition of Euro Bank, S.A.

Bank Millennium S.A., owned 50.1% by Banco Comercial Português, S.A., has completed in May 2019, the acquisition of shares representing 99.787% of the share capital of Euro Bank S.A..

Merger of enterprises

During the settlement of merger, in which the Bank Millennium (Bank) acts as the acquirer, the acquisition method of acquisition is applied, according to IFRS 3 "Business Combinations".

In case of each acquisition, the acquirer and the acquisition date are determined. Acquisition date is the date when the entity acquired control over the entity being acquired. In addition, the acquisition method requires recognition and measurement of identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquired entity, as well as recognition and measurement of goodwill or bargain purchase gain. The acquirer measures the identifiable assets acquired and liabilities assumed at their fair values as at the acquisition date.

If the net amount of fair values of identifiable assets acquired and liabilities assumed exceeds the fair value of the consideration transferred, the Bank, as the acquirer, recognizes the gain on bargain purchase in profit or loss. Before recognizing the gain from a bargain purchase, the Bank reassesses whether all the acquired assets and liabilities assumed have been correctly identified and all additional assets and liabilities have been recognized.

If the value of the consideration transferred, measured at fair value as at the acquisition date, exceeds the net value of fair values of identifiable acquired assets and liabilities assumed as at the acquisition date, the goodwill is recognized. The determined value of goodwill is not subject to amortization, but at the end of each financial year and whenever there are impairment triggers identified, it is tested for impairment.

In accordance with IFRS 3, the Bank executes the final settlement of the acquisition in the period of maximum one year from the day of acquiring control.

Acquisition of Euro Bank, S.A.

Description of the transaction

On 5 November 2018, Bank Millennium (acquiring entity) announced and signed the preliminary agreement related to the acquisition of 98.787% shares of Euro Bank S.A. (acquired entity) from SG Financial Services Holdings ("Seller"), a wholly owned subsidiary of Societe Generale S.A. The transaction specified in the agreement is the direct acquisition of the shares by Bank Millennium.

The strategic rationale for the transaction

As a result of the transaction related to the acquisition of Euro Bank shares, Bank Millennium strengthened its important position in the Polish banking sector. The transaction increased the number of the Bank's clients by 1.4 million and will therefore allow the Bank to become one of the largest Polish bank in terms of the number of retail clients.

The acquisition of Euro Bank will allow the Bank to increase the segment of consumer loans, as well as the importance of this segment for the entire Group.

The acquisition of Euro Bank will enable Millennium Bank to acquire competences in the franchise model and will strengthen its presence in smaller cities, where Euro Bank is strongly located, and will contribute to increase of the geographical coverage of the Bank's distribution network.

Price

The parties to the contract have determined the price for the purchase of Euro Bank SA shares in the amount of PLN 1,833,000,000 (Euros 428,151,000), which is subject to the adjustment mechanism after closing the transaction (i.e. after transferring the legal title to the shares to Millennium Bank). At the date of preparation of the financial statements the preliminary price after adjustments amounted to PLN 1,844,017,000 (Euros 430,724,000). The final price will be adjusted on the basis of a comparison of the final audited net asset value of Euro Bank (calculated at the Closing Date) with the net asset reference value constituting the basis for determining the price. As a result of the mentioned mechanism, the final price actually paid by Millennium Bank for the shares may differ from the price indicated above.

Bank Millennium does not intend to increase the share capital in order to finance the Transaction.

Financing

The acquisition price, according to the agreement, was paid with cash and was financed from the internal means of the Bank. Additionally, the Agreement specified that the financing for Euro Bank from Societe Generale (including subordinated debt to SG), will be paid or refinanced by Euro Bank or Bank Millennium.

Completion of the acquisition

On 3 January 2019, the Bank received information on issuing by the President of the Office of Competition and Consumer Protection the decision on the consent for the concentration consisting in the Bank's acquisition of control over Euro Bank S.A. The consent was issued on 28 December 2018.

On 28 May 2019 the Polish Financial Supervision Authority issued the consent specifying that there is no basis for the objection raising, and therefore Bank Millennium together with its parent entity, Banco Comercial Português, were allowed to acquire the shares of Euro Bank S.A. in the number resulting in exceeding 50% of the total number of votes on the general meeting of Euro Bank and of the share in the share capital. The number of acquired shares exceeding 50% results also in becoming a parent entity of Euro Bank.

On 31 May 2019, by executing the share purchase agreement between the Bank and SG Financial Services Holdings of 5 November 2018, the Bank has acquired the majority of shares, constituting 99.787% of Euro Bank S.A. share capital from the seller.

Additionally, on 31 May 2019, the Bank has repaid the unsubordinated financing granted to Euro Bank by Societe Generale S.A. (“SG”) in the amount of about PLN 3,800,000,000 (Euros 887,602,000). It was preceded by Euro Bank’s repayment of a part of subordinated debt from SG in the amount of PLN 250,000,000 (Euros 58.395.000), after obtaining appropriate agreements from the PFSA in this particular area.

In order to limit the risk associated with the Euro Bank's portfolio of mortgage loans denominated in CHF or denominated in PLN, but indexed to CHF, Euro Bank and SG signed on 31 May 2019 an “CHF Portfolio Indemnity and Guarantee Agreement” as it was planned in the Share Purchase Agreement. Euro Bank, Bank Millennium and SG also concluded an agreement related to the provision of certain limited transitional services by SG for Euro Bank.

After finalizing the closure of the transaction, the Bank intends to include Euro Bank into its structure, under the condition of receiving appropriate regulatory consents in this area.

Merger plan

On 6 June 2019, the Management Board of Bank Millennium and the Management Board of Euro Bank agreed and signed the merger plan of Bank Millennium and Euro Bank (the "Merger"). The merger will be performed in accordance with art. 492 § 1 point 1 of the Commercial Companies Code (KSH) by transferring all assets and liabilities of Euro Bank (the acquired bank) to Bank Millennium (the acquiring bank), without increasing the share capital of Bank Millennium.

In accordance with the Merger, existing, dematerialized shares of Bank Millennium (“Merger Shares”) will be allocated to the minority shareholders of Euro Bank. The shares will be purchased on Warsaw Stock Exchange S.A. in the secondary trading, by Millennium Dom Maklerski S.A. [Millennium Brokerage House], by the order of Bank Millennium, pursuant to art. 515 § 2 of the Commercial Companies Code.

The following share exchange parity has been determined in the Merger Plan: in exchange for 1 (one) share of Euro Bank, a minority shareholder of Euro Bank will receive 4.1 Merger Shares.

As a result of the Merger, Bank Millennium will assume all the rights and obligations of Euro Bank, and Euro Bank will be dissolved without liquidation proceedings and its entire assets will be transferred to Bank Millennium. The merger will take place on the day of its entry into the register of entrepreneurs of the National Court Register of Bank Millennium.

The merged Bank will operate under the name Bank Millennium S.A. based on the provisions of the Act of 15 September 2000 - Code of Commercial Companies ("KSH").

The merger will be performed only after obtaining all the appropriate consents and permits required by law, i.e.:
(i) - permission of the Polish Financial Supervision Authority ("PFSA") for the Merger, pursuant to art. 124 paragraph 1 of the Act of 29 August 1997 - Banking Law ("Banking Law");
(ii) - permission of the PFSA to amend the Statute of Millennium Bank pursuant to art. 34 paragraph 2 of the Banking Law.

Provisional Transaction settlement

Transaction settlement was performed applying the purchase method, in accordance with the International Financial Reporting Standard 3 "Business combinations" ("IFRS"), which requires, among others, recognition and measurement of identifiable assets acquired, and liabilities assumed measured at fair value as at the acquisition date, and any non-controlling interest in the acquired entity (if any) and separate recognition and measurement of goodwill or gain on bargain purchase.

Considering that acquiring control over Euro Bank S.A. occurred on 31 May 2019, the provisional settlement of the Transaction was based on the data from the acquired company as at that date, considering the adjustments required by IFRS 3. The zloty to euros conversion rate used was the reference rate as at 31 May 2019, ie 4.2812. In accordance with the requirements of IFRS 3, the Bank will perform a final settlement of the acquisition within a maximum period of one year from the date of acquiring control, ie. 31 May 2019.

Payment transferred in the acquired entity

	Identifiable assets acquired and liabilities assumed measured at fair value	
	thousands zloty	thousands euros
Price transferred in accordance with the Agreement	1,833,000	428,151
Preliminary price adjustment	11,000	2,569
Preliminary price adjustmentPrice after adjustment	1,844,000	430,720

Payments for shares was a cash payment.

Recognition and measurement of identifiable assets acquired liabilities assumed measured in accordance with IFRS

The following data regarding the fair value measurement of the acquired assets and assumed liabilities were based on the identification from the point of view of Bank Millennium and the adopted assumptions regarding the materiality threshold.

	Identifiable assets acquired and liabilities assumed measured at fair value	
	million zloty	million euros
ASSETS		
Cash and deposits at Central Banks	242	57
Loans and advances to credit institutions repayable on demand	85	20
Financial assets at amortised cost		
Loans and advances to customers	12,626	2,949
Financial assets at fair value through profit or loss		
Financial assets not held for trading mandatorily at fair value through profit or loss	18	4
Financial assets at fair value through other comprehensive income	1,386	324
Other tangible assets	113	26
Goodwill and intangible assets	50	12
Deferred tax assets	132	31
Other assets	72	16
TOTAL ASSETS	14,724	3,439
LIABILITIES		
Financial liabilities at amortised cost		
Resources from credit institutions	4,087	955
Resources from customers	7,975	1,863
Non subordinated debt securities issued	506	118
Subordinated debt	100	23
Hedging derivatives	6	1
Provisions	1	-
Other liabilities	341	80
TOTAL LIABILITIES	13,016	3,040
TOTAL EQUITY	1,708	399
TOTAL LIABILITIES AND EQUITY	14,724	3,439

The audit of the special purpose financial statements of Euro Bank S.A. prepared as at 31 May 2019 is currently underway, as a result of which additional adjustments to the purchase price may be identified. Upon completion of the audit, it is anticipated that arrangements will be made between the parties to the Transaction as regards the confirmation of book values of particular assets and liabilities of Euro Bank S.A. Thus, both the balance sheet amounts of Bank Millennium S.A. as at 31 May 2019, as well as the amount of fair value adjustment of these items and exclusions may change in the course of ongoing talks. Therefore, the value of identifiable assets acquired and liabilities assumed measured at fair value may change, which may affect the value of goodwill recognized within the Transaction.

The adjustments to the fair value for temporary differences constituted the basis for the calculation of deferred tax (recognized in the amount of PLN 37,373,000 (Euros 8,730,000).

The portfolio of loans and advances to customers acquired as part of the Transaction related to the purchase of shares of Euro Bank S.A. as at the acquisition date, measured at fair value, was presented in the financial statements in net value, i.e. the fair value adjustment was recognized.

Fair value measurement methods

Performing loans and advances to customers

The portfolio of loans and advances to customers acquired as part of the Transaction related to the purchase of shares of Euro Bank S.A. was measured at fair value as at the acquisition date in accordance with the requirements of IFRS 3 and IFRS 13. The fair value was determined using the present value technique of discounting future cash flows resulting from the acquired assets, considering expectations on possible fluctuations in the amount and timing of cash flows, the time value of cash flows and other factors that market participants would consider relevant in similar circumstances.

The measurement of portfolio components was based on the following assumptions:

1. For each asset, the parameterization of the valuation model was determined based on its individual characteristics. For assets included in stage 1, contractual future cash flows were subject to provision for the effect of prepayments. In the absence of contractual cash flows, future capital flows were estimated based on the pace of debt repayment resulting from a statistical-behavioural model. For the exposures in stage 1, the real capital and interest flows were subject to adjustment resulting from the impact of credit risk parameters.

2. Future interest flows for performing loans were determined based on the curve of forward rates for components related to the variable rate. Future values of the variable rate were determined based on a yield curve constructed from financial instruments indexed to a given reference rate.

3. For performing loans with a payment schedule in the valuation model, contractual cash flows were subject to adjustment for prepayment factors.

4. For performing loans without contractual maturity date, future cash flows were estimated in the behavioural life cycle of the product. This concerned the portfolio of credit cards and the portfolio of current account limits.

5. For performing loans, capital-interest cash flows determined in previous steps were subject to adjustment for the PD and LGD parameter vectors throughout the lifetime of the exposure. In this way, the impact of credit risk on fair value considering the valuation model for exposures included in stage 1.

6. The fair value of the exposure was determined by discounting the expected future cash flows. The discount rate components were the following: zero-coupon rate derived from the right yield curve, capital cost overhead and margin component, representing all cost-revenue elements for given product groups, not included under other parameters of the valuation model, e.g.: liquidity margin, administrative costs, residual profit margin required on the market.

7. The zero-coupon rate, being an element of the discount rate, was based on the swap curve appropriate for the currency of the contract.

8. The market cost of capital was determined using the CAPM model and the risk weights assigned to individual asset components.

9. The margin component was determined based on newly granted loans with similar characteristics on the market. The margin was determined numerically for each exposure group, homogeneous in terms of factors identified as affecting the valuation.

IT systems

Fair value of IT systems acquired as part of the Transaction related to the purchase of Euro Bank S.A. shares was determined as follows:

1. Assuming market depreciation rates (5 years for main systems and 3 years for other systems), the net book value of systems was calculated. The calculation was based on the assumption that the market rates would be effective from the moment of acquisition of a particular IT system for use.

2. For the 20 IT systems that are the largest in terms of net book values as at the acquisition date, an individual valuation was performed from the perspective of the average market participant.

3. IT systems that were classified as intangible asset in progress as at the acquisition date were measured from the market participant's perspective and their value was determined considering the decision whether to continue individual projects. For projects were it was considered to be continued in similar circumstances was assumed that the capitalized cost as it accurately reflects the current value of the assest, as well as its level of finish. For IT systems was decided not to continue, it was considered that the fair values was set to a null value.

Property, plant and equipment

For all fixed assets containing Euro Bank trademarks and logo the fair value was considered to be null. Fair value of assets classified as leasehold improvements related to adaptation and modernization of space in premises aimed at adapting them to Euro Bank standards (logo etc.) was considered an amortization of 10-month in accordance with market depreciation rates. The remaining fixed assets were measured at the net value, assuming market depreciation rates from the moment these assets are available for use.

Relations with clients in the area of deposits and loans

Relationships with clients holding a CDI (core deposit intangible) have been determined using the favourable source of funds method, as the current value of the difference between the lower cost of financing the acquired savings accounts and the higher alternative cost of financing operations (including interest costs and costs administrative burden) that the Bank would have to incur if it did not have a portfolio of such accounts. For each year of the cash flow forecast, considering the estimated rate of customer outflow, the difference between the alternative financing cost and the cost of the acquired accounts is calculated, and is discounted using an adequate discount rate.

Relations with customers who have credit accounts have been estimated using the Multi-Period Excess Earning Method (MEEM). The value of the relationship is determined based on the current value of discounted future cash flows resulting from additional income generated for the Bank having a given intangible asset, after taking into account the rate of departure customers, costs and encumbrances on capital assets.

The discount rate applied to value customer relationships takes into account the time value of money, the cost of equity and bonuses for specific risks identified in the relationship. The cost of the Bank's equity is determined in accordance with the CAMP model (Capital Asset Pricing Model).

The estimated value of CDI was considered irrelevant, mainly due to the relatively high interest rate on the acquired savings accounts and the possibility of alternative financing of the Bank at a relatively low margin. Due to the above, CDI did not meet the disclosure criterion as a separate asset related to the acquisition. With exception of cash loans there were also no significant relationships with customers having credit products, mainly due to the relatively low level of additional revenues generated by these products, in relation to the corresponding costs of risk, administrative costs and capital charges.

Lease/rental agreements

The conditions included in signed agreements regarding the rental of office space for the needs of branches and headquarters were compared to the conditions of the agreements currently concluded in the market with relation to office areas of a similar area and location. The difference between the rental rate of the acquired branches and headquarters and rental rate of similar areas available on the market was calculated. The amount of the difference was discounted by the discount rate of Millennium Bank, applied for the models of assets measurement under IFRS 16 for the period remaining until the completion of individual contracts. The value of unfavourable agreements adjusted the book value of lease assets' right of use.

Guarantee agreement regarding CHF Mortgage loans portfolio

Fair value of the guarantee determined using income method was estimated as present value of future cash flows expected to be received from Societe Generale S.A. to cover losses related to acquired CHF Mortgage loans portfolio resulting from the future defaults or from the cost of risk of already defaulted loans. In the valuation the value of market spread paid for the similar financial instruments was considered.

Other adjustments

Other adjustments to fair value and the so-called adjustments of net assets resulting from the adjustments to accounting principles concerned, among others, unification of bonds and derivatives measurement, as well as write-off of some other assets items.

The determination of the fair value of the assets and liabilities acquired and the identification and recognition of intangible assets resulting from the acquisition were based on the available information and the best estimates as at the date of preparation of the financial statements.

Calculation of goodwill

As at the date of the present report, the Bank did not complete the process of calculating goodwill as at 31 May 2019.

The Bank made a provisional settlement of the acquisition and a preliminary calculation of goodwill in in result of the acquisition of Euro Bank S.A. shares. In accordance with the requirements of IFRS 3, Bank Millennium will perform the final settlement of the acquisition within a maximum period of one year from the date of acquiring the control (31 May 2019). During this time, the acquirer may adjust retrospectively the provisional fair values of assets and liabilities recognized as at the acquisition date to reflect any new information obtained in relation to facts and circumstances that existed as at the acquisition date and, if known, would affect the measurement of those assets and liabilities. Such adjustments refer to the recognized value of the firm or gain on bargain purchase.

	Identifiable assets acquired and liabilities assumed measured at fair value	
	thousands zloty	thousands euros
Price transferred in accordance with the Agreement	1,833,000	428,151
Preliminary price adjustment	11,000	2,569
Price after adjustment	1,844,000	430,720
Fair value of acquired net assets	1,708,355	399,036
Goodwill	135,664	31,688

The preliminary price adjustment results from the changes and preliminary corrections made in accordance with the provisions of the Transaction Agreement.

This provisional purchase price allocation has been prepared by the Bank's Management Board based on calculations resulting from the concluded Transaction Agreement. As stated in the Transaction Agreement, the final settlement will be subject to final arrangements between Bank Millennium and SG Financial Services Holdings, disposing the shares of Euro Bank S.A.

In connection to the above, the purchase price allocation performed as at 31 May 2019 shall be considered as provisional and may be subject to changes if the Bank acquires new information as at 31 May 2019, which are not known at the date of preparation of the consolidated financial statements for the first half of 2019. In accordance with IFRS 3.45, the maximum period for making changes to the purchase price allocation expires after 12 months from the date of the acquisition, i.e. on 31 May 2020. Any changes will be made retrospectively (i.e. they will be recognized in other comprehensive income). The currently determined difference of the fair value of acquired assets and assumed liabilities at the acquisition date over the purchase price is recognized by the Bank in accordance with the provisions of IFRS 3.32 as goodwill in intangible assets).

As at the balance sheet date, no impairment allowances for goodwill were recognized in intangible assets nor there were any changes in the reporting period in the initially recognized goodwill.

The difference between the book value of the acquired assets and liabilities of Euro Bank S.A. and their fair value measurement will be subject to settlement through the profit or loss account - in the economic life of the individual components of the assets and liabilities acquired.

Additional disclosures

The consolidated statement of Profit and loss of the Bank Millennium Capital Group for the first semester of 2019 includes the net result of Euro Bank that amounted to PLN 4,088,000 (Euros 955,000).

The Bank Millennium Group's statment of income, presented as if the acquisition date was the beginning of the reporting period, i.e. on 1 January 2019 was presented below. This data are for reference purposes only, in fact the Bank Millennium Group's statment of income, includes the Euro Bank's result from the date of the merger (May 31, 2019), that is for June 2019 only:

	30 June 2019	
	thousands zloty	thousands euros
Interest and similar income	1,860,201	434,372
Interest expense and similar charges	(517,345)	(120,804)
NET INTEREST INCOME	1,342,856	313,568
Dividends from equity instruments	2,708	632
Net fees and commissions income	357,090	83,383
Net gains / (losses) from financial operations at fair value through profit or loss	45,667	10,664
Net gains / (losses) from foreign exchange	81,470	19,024
Net gains / (losses) from hedge accounting operations	(10,138)	(2,367)
Net gains / (losses) from derecognition of financial assets and liabilities at amortised cost	(1,298)	(303)
Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive income	30,641	7,155
Other operating income / (losses)	(222,239)	(51,895)
TOTAL OPERATING INCOME	1,626,757	379,861
Staff costs	474,515	110,803
Other administrative costs	269,283	62,880
Amortisations and depreciations	101,635	23,733
TOTAL OPERATING EXPENSES	845,433	197,416
NET OPERATING INCOME BEFORE PROVISIONS AND IMPAIRMENTS	781,324	182,445
Impairment for financial assets at amortised cost	(278,178)	(64,957)
Impairment for other assets	(1,270)	(297)
Other provisions	244	57
NET OPERATING INCOME	502,120	117,249
Gains / (losses) arising from sales of subsidiaries and other assets	(2,799)	(654)
NET INCOME BEFORE INCOME TAXES	499,321	116,595
Income taxes		
Current	(182,048)	(42,510)
Deferred	36,894	8,615
NET INCOME FOR THE PERIOD	354,167	82,700

(*) exchange rate PLN /EUR = 4,28250833

59. List of subsidiary and associated companies of Banco Comercial Português Group

As at 30 June 2019, 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	Activity	% economic interests	% effective held	% direct held
Banco de Investimento Imobiliário, S.A.	Lisbon	17,500,000	EUR	Banking	100.0	100.0	100.0
Banco ActivoBank, S.A.	Lisbon	64,500,000	EUR	Banking	100.0	100.0	100.0
Bank Millennium, S.A.	Warsaw	1,213,116,777	PLN	Banking	50.1	50.1	50.1
Banque Privée BCP (Suisse) S.A.	Geneva	70,000,000	CHF	Banking	100.0	100.0	100.0
BCP África, S.G.P.S., Lda.	Funchal	682,965,800	EUR	Holding company	100.0	100.0	100.0
BCP Capital - Sociedade de Capital de Risco, S.A.	Oeiras	1,000,000	EUR	Venture capital	100.0	100.0	100.0
BCP International B.V.	Amsterdam	18,000	EUR	Holding company	100.0	100.0	100.0
BCP Investment B.V.	Amsterdam	5,000	EUR	Holding company	100.0	100.0	100.0
BCP Finance Bank, Ltd.	George Town	246,000,000	USD	Banking	100.0	100.0	–
BCP Finance Company	George Town	31,000,785	EUR	Financial	100.0	100.0	–
BG Leasing, S.A.	Gdansk	1,000,000	PLN	Leasing	74.0	37.1	–
BIM - Banco Internacional de Moçambique, S.A.	Maputo	4,500,000,000	MZN	Banking	66.7	66.7	–
Euro Bank S.A.	Wroclaw	563,096,032	PLN	Banking	99.8	50.0	–
Millennium bcp Bank & Trust	George Town	340,000,000	USD	Banking	100.0	100.0	–
Millennium BCP - Escritório de Representações e Serviços, Ltda.	São Paulo	54,127,006	BRL	Financial Services	100.0	100.0	100.0
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Funchal	25,000	EUR	Holding company	100.0	100.0	100.0
Interfundos - Gestão de Fundos de Investimento Imobiliários, S.A.	Oeiras	1,500,000	EUR	Investment fund management	100.0	100.0	100.0
Adelphi Gere, Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A.	Oeiras	12,106,743	EUR	Real-estate management	100.0	100.0	100.0
Monumental Residence - Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A.	Oeiras	30,300,000	EUR	Real-estate management	100.0	100.0	100.0
Millennium bcp - Prestação de Serviços, A.C.E.	Lisbon	331,000	EUR	Services	96.4	96.0	86.0
Millennium bcp Teleserviços - Serviços de Comércio Electrónico, S.A.	Lisbon	50,004	EUR	E-commerce	100.0	100.0	100.0
Millennium Dom Maklerski, S.A.	Warsaw	16,500,000	PLN	Brokerage services	100.0	50.1	–
Millennium Goodie Sp.z.o.o.	Warsaw	500,000	PLN	Consulting and services	100.0	50.1	–
Millennium Leasing, Sp.z o.o.	Warsaw	48,195,000	PLN	Leasing	100.0	50.1	–
Millennium Service, Sp.z o.o.	Warsaw	1,000,000	PLN	Services	100.0	50.1	–
Millennium Telecommunication, Sp.z o.o.	Warsaw	100,000	PLN	Brokerage services	100.0	50.1	–
Millennium TFI - Towarzystwo Funduszy Inwestycyjnych, S.A.	Warsaw	10,300,000	PLN	Investment fund management	100.0	50.1	–
Piast Expert Sp. z o.o (in liquidation)	Tychy	100,000	PLN	Marketing services	100.0	50.1	–
Millennium bcp Imobiliária, S.A.	Oeiras	50,000	EUR	Real-estate management	99.9	99.9	99.9
MULTI24, Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A.	Oeiras	44,919,000	EUR	Real-estate management	100.0	100.0	100.0
Servitrust - Trust Management Services S.A.	Funchal	100,000	EUR	Trust services	100.0	100.0	100.0

Subsidiary companies	Head office	Share capital	Currency	Activity	Group % economic interests	Group % effective held	Bank % direct held
Setelote - Aldeamentos Turísticos S.A.	Oeiras	400,000	EUR	Real-estate company	90.0	90.0	–
Irgossai - Urbanização e Construção, S.A.	Oeiras	50,000	EUR	Construction and real estate	100.0	100.0	–
Bichorro – Empreendimentos Turísticos e Imobiliários S.A.	Oeiras	2,150,000	EUR	Real-estate company	100.0	100.0	–
Finalgarve – Sociedade de Promoção Imobiliária Turística, S.A.	Oeiras	250,000	EUR	Real-estate company	100.0	100.0	–
Fiparso – Sociedade Imobiliária S.A	Oeiras	50,000	EUR	Real-estate company	100.0	100.0	–

During the first semester of 2019, the Group sold the Planfipsa Group and settled Imábida - Imobiliária da Arrábida, S.A and MB Finance. As referred in note 47, Euro Bank start to consolidate in the Group.

As at 30 June 2019, 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	99,038,784	EUR	Real estate investment fund	100.0	100.0	100.0
Fundo de Investimento Imobiliário Gestão Imobiliária	Oeiras	4,353,444	EUR	Real estate investment fund	100.0	100.0	100.0
Fundo de Investimento Imobiliário Imorenda	Oeiras	97,894,785	EUR	Real estate investment fund	100.0	100.0	100.0
Fundo Especial de Investimento Imobiliário Oceânico II	Oeiras	304,320,700	EUR	Real estate investment fund	100.0	100.0	100.0
Fundo Especial de Investimento Imobiliário Fechado Stone Capital	Oeiras	3,336,555,200	EUR	Real estate investment fund	100.0	100.0	100.0
Fundo Especial de Investimento Imobiliário Fechado Sand Capital	Oeiras	16,149,800,900	EUR	Real estate investment fund	100.0	100.0	100.0
Fundo de Investimento Imobiliário Fechado Gestimo	Oeiras	6,664,172	EUR	Real estate investment fund	100.0	100.0	100.0
Fundo Especial de Investimento Imobiliário Fechado Intercapital	Oeiras	7,791,600	EUR	Real estate investment fund	100.0	100.0	100.0
Millennium Fundo de Capitalização - Fundo de Capital de Risco	Oeiras	18,307,000	EUR	Venture capital fund	100.0	100.0	100.0

Investment funds	Head office	Participation units	Currency	Activity	Group % economic interests	Group % effective held	Bank % direct held
Funsita - Fundo Especial de Investimento Imobiliário Fechado	Oeiras	8,834,000	EUR	Real estate investment fund	100.0	100.0	100.0
Multiusos Oriente - Fundo Especial de Investimento Imobiliário Fechado	Oeiras	73,333,000	EUR	Real estate investment fund	100.0	100.0	100.0
Grand Urban Investment Fund - Fundo Especial de Investimento Imobiliário Fechado	Oeiras	3,404,600	EUR	Real estate investment fund	100.0	100.0	100.0
Fundial – Fundo Especial de Investimento Imobiliário Fechado	Oeiras	21,850,850	EUR	Real estate investment fund	100.0	100.0	100.0
DP Invest – Fundo Especial de Investimento Imobiliário Fechado	Oeiras	8,860,000	EUR	Real estate investment fund	54.0	54.0	54.0
Fundipar – Fundo Especial de Investimento Imobiliário Fechado	Oeiras	10,170,000	EUR	Real estate investment fund	100.0	100.0	100.0
Domus Capital– Fundo Especial de Investimento Imobiliário Fechado	Oeiras	5,200,000	EUR	Real estate investment fund	50.0	50.0	50.0
Predicapital – Fundo Especial de Investimento Imobiliário Fechado (*)	Oeiras	83,615,061	EUR	Real estate investment fund	60.0	60.0	60.0

(*) - Company classified as non-current assets held for sale.

The Group held a set of securitization transactions regarding mortgage loans which were set through specifically created SPE. As referred in accounting policy 1 B), when the substance of the relationships with the SPEs indicates that the Group holds control of its activities, the SPE are fully consolidated, following the application of IFRS 10.

As at 30 June 2019, the SPEs included in the consolidated accounts under the full consolidation method are as follows:

Special Purpose Entities	Head office	Share capital	Currency	Activity	Group % economic interests	Group % effective held	Bank % direct held
Magellan Mortgages No.2 Limited	Dublin	40,000	EUR	Special Purpose Entities	100.0	100.0	100.0
Magellan Mortgages No.3 Limited	Dublin	40,000	EUR	Special Purpose Entities	82.4	82.4	82.4

As at 30 June 2019, the Group's subsidiary insurance companies included in the consolidated accounts under the full consolidation method were as follows:

Subsidiary companies	Head office	Share capital	Currency	Activity	Group % economic interests	Group % effective held	Bank % direct held
SIM - Seguradora Internacional de Moçambique, S.A.R.L.	Maputo	295,000,000	MZN	Insurance	92.0	61.4	–

As at 30 June 2019, the Group's associated companies included in the consolidated accounts under the equity method are as follows:

					Group		Bank
Associated companies	Head office	Share capital	Currency	Activity	% 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	155,054,747	EUR	Banking	19.8	19.8	19.8
Beiranave Estaleiros Navais Beira SARL	Beira	2,850,000	MZN	Naval shipyards	22.8	14.0	–
Cold River's Homestead, S.A.	Lisbon	36,838,000	EUR	Agricultural and livestock products, services, animation and rural tourism	50.0	50.0	50.0
Constellation, S.A.	Maputo	1,053,500,000	MZN	Property management	20.0	12.3	–
Exporsado - Comércio e Indústria de Produtos do Mar, S.A.	Setúbal	744,231	EUR	Trade and industry of sea products	35.0	35.0	–
Lubuskie Fabryki Mebli, S.A. (in liquidation)	Swiebodzin	13,400,050	PLN	Furniture manufacturer	50.0	25.1	–
PNCB - Plataforma de Negociação Integrada de Créditos Bancários, A.C.E	Lisbon	1,000,000	EUR	Services	33.3	33.3	33.3
Projepolska, S.A.	Cascais	9.424.643	EUR	Real-estate company	23.9	23.9	23.9
SIBS, S.G.P.S., S.A.	Lisbon	24,642,300	EUR	Banking services	23.3	21.9	–
Sicit - Sociedade de Investimentos e Consultoria em Infra-Estruturas de Transportes, S.A	Oeiras	50,000	EUR	Consulting	25.0	25.0	25.0
UNICRE - Instituição Financeira de Crédito, S.A.	Lisbon	10,000,000	EUR	Credit cards	32.0	32.0	0.5
Webspectator Corporation	Delaware	950	USD	Digital advertising service	25.1	25.1	25.1

The Group sold, in May 2019, the investment held in the associated company Mundotêxtil - Indústrias Têxteis, S.A.

As at 30 June 2019, the Group's associated insurance companies included in the consolidated accounts under the equity method were as follows:

					Group		Bank
Associated companies	Head office	Share capital	Currency	Activity	% economic interests	% effective held	% direct held
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Oeiras	50,002,375	EUR	Holding company	49.0	49.0	49.0
Ocidental - Companhia Portuguesa de Seguros de Vida, S.A.	Oeiras	22,375,000	EUR	Life insurance	49.0	49.0	–
Ocidental - Sociedade Gestora de Fundos de Pensões, S.A.	Oeiras	1,200,000	EUR	Pension fund management	49.0	49.0	–

60. Subsequent events

There were no facts or events subsequent to 30 June 2019 and until the approval of the financial statements, that requires additional judgments, disclosures or records.

Declaration of Compliance

DECLARATION OF COMPLIANCE

It is hereby declared that, to the best of the knowledge of the undersigned, the interim condensed individual and consolidated financial statements of Banco Comercial Português, S.A. ("BCP" or "Bank"), which include (i) the interim condensed individual and consolidated balance sheets as at 30 June 2019, (ii) the interim condensed individual and consolidated income statements for the six months ended on 30 June 2019, (iii) the interim condensed individual and consolidated statement of changes in equity and cash flow statement for the six months ended on 30 June 2019, (iv) a summary of the significant accounting policies, and (v) the individual and consolidated explanatory notes, give a true and appropriate image of the individual and consolidated financial situation of the Bank as at 30 June 2019, the individual and consolidated results of their operations, and the individual and consolidated changes in equity and cash flow for the six months ended on that date, in accordance to the International Accounting Standard 34 – Interim Financial Reporting (IAS 34), endorsed by the European Union.

At the Board Meeting of March 1, 2012, the Board of Directors, except for the annual report and accounts, has delegated to the Executive Committee the approval of all the other financial statements.

The Bank's interim condensed individual and consolidated financial statements relative to 30 June 2019 were approved by the Executive Commitee on 2 August 2019.

Furthermore, it is also declared that the 1st half management report of BCP faithfully presents the evolution of the business, performance and situation of the Bank and companies included in the consolidation perimeter and contain a description of the principal risks and uncertainties facing them. The management report was approved by the Executive Committee on 2 August 2019.

Porto Salvo, 2 August 2019

Miguel Maya Dias Pinheiro
(Chairman)

Miguel de Campos Pereira de Bragança
(Vice-chairman)

João Nuno Oliveira Jorge Palma
(Vice-chairman)

Rui Manuel da Silva Teixeira
(Member)

José Miguel Bensliman Schorcht da Silva Pessanha
(Member)

Maria José Henriques Barreto de Matos de Campos
(Member)

External Auditors' Report

LIMITED REVIEW REPORT OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of euros – t.euros)

(Translation of a report originally issued in Portuguese – in the case of discrepancies, the original version in Portuguese prevails – Note 1A)

Introduction

We have performed a limited review of the accompanying interim condensed consolidated financial statements of Banco Comercial Português, S.A. (the Bank) and its subsidiaries (the Group) for the six month period ended June 30, 2019 which comprise the interim condensed consolidated balance sheet as of June 30, 2019 that presents a total of 80,873,238 t.euros and total shareholders' equity of 7,565,122 t.euros, including a consolidated net profit attributable to the shareholders of the Bank of 169,779 t.euros, the interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended and a selected set of notes to the interim condensed consolidated financial statements.

Board of Directors' Responsibilities

The Board of Directors of the Bank is responsible for the preparation of interim condensed consolidated financial statements of the Bank in accordance with International Accounting Standard 34 – Interim Financial Reporting (IAS 34) as endorsed by the European Union, and for the design and maintenance of appropriate systems of internal control in order to permit the preparation of interim condensed consolidated financial statements exempt from material misstatement due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express a conclusion on the accompanying interim condensed consolidated financial statements. Our work was performed in accordance with ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity and the applicable technical and ethical standards and guidelines of the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). These standards require that our work be performed in order to conclude as to whether anything has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared in all material respects in accordance with International Accounting Standard 34 - Interim Financial Reporting (IAS 34) as endorsed by the European Union.

A limited review of financial statements is a limited assurance engagement. The procedures that we have performed consist mainly of inquiries and analytical procedures and subsequent assessment of the evidence obtained.

A limited review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA). Accordingly, we do not express an audit opinion on these interim condensed consolidated financial statements.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements of Banco Comercial Português, S.A. and its subsidiaries for the six month period ended June 30, 2019 have not been prepared in all material respects in accordance with International Accounting Standard 34 – Interim Financial Reporting as endorsed by the European Union.

Lisbon, August 2, 2019

Deloitte & Associados, SROC S.A.
Represented by Paulo Alexandre de Sá Fernandes, ROC

EXPLANATION ADDED FOR TRANSLATION

(This report is a translation of a report originally issued in Portuguese. Therefore according to Deloitte & Associados, SROC S.A. internal procedures, the report should not be signed. In the event of discrepancies, the Portuguese language version prevails.)

1st H 2019 Report & Accounts

www.millenniumbcp.pt

Banco Comercial Português, S.A.,
Company open to public investment

Registered Office:
Praça D. João I, 28
4000-295 Porto

Share Capital:
Euros 4,725,000,000.00

Registered at
Commercial Registry Office of Oporto
under the Single Registration and
Tax Identification Number 501 525 882
LEI BCP: JU1U6S0DG9YLT7N8ZV32

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