BCP Finance Bank, Ltd.

2019 First Half Report

A wholly owned subsidiary of BCP International B.V.
Incorporated in the Cayman Islands, B.W.I
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Grand Cayman, KY1-1201 Cayman Islands

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Management Report 1st half 2019

BCP Finance Bank, Ltd. ("the Bank") acts as an overseas finance vehicle of Banco Comercial Português, S.A. ("BCP") and is wholly-owned by BCP International B.V., which is wholly-owned by BCP. The registered office of the Bank is in the Cayman Islands.

The interim condensed financial statements as of 30 June 2019, have been prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), as well as with interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The interim condensed financial statements, for the six months ended 30 June 2019, were prepared in accordance with IAS 34 – Interim Financial Reporting, and therefore do not include all information published in the annual financial statements.

The share capital of the Bank as at 30 June 2019 and 31 December 2018 stood at USD 246.0 million, comprising 246 million ordinary shares, with a nominal value of USD 1 each, which have been issued and are fully paid.

Total assets of the Bank totalled USD 703.0 million as at 30 June 2019, compared with USD 698.4 million posted at the end of 2018, showing an increase explained by the rise in other loans and advances to credit institutions, that include other loans and advances granted to the parent company, Banco Comercial Português, S.A., and to Banco de Investimento Imobiliário, S.A., which amounted to USD 702.4 million as at 30 June 2019, a 0.6% increase from the USD 697.9 million presented as at 31 December 2018.

Total liabilities increased from USD 100.1 million as at 31 December 2018 to USD 109.3 million as at 30 June 2019, influenced by changes in subordinated debt.

Subordinated debt increased to USD 108.9 million as at 30 June 2019 from USD 99.7 million posted as at 31 December 2018.

Non subordinated debt securities issued decreased to USD 0.3 million as at 30 June 2019 compared to USD 0.4 million as at 31 December 2018.

Net income reported a loss of USD -2.2 million in the first half of 2019, a slight improvement comparing to a loss of USD -2.3 million reached in the same period of 2018, given that last year the Bank purchased non subordinated issued bonds to BCP, resulting in a loss of USD 0.7 million.

The Bank's interim condensed financial statements as at 30 June 2019 are consistent with its risk management and control policies, as referred in note 15 of the Notes to the Financial Statements.

The main risks and uncertainties that may affect the activity of the Bank are associated with the risk factors and uncertainties that may affect the activity of Banco Comercial

Português, S.A., which as a banking institution is inevitably influenced by the economic and markets environment. A more detailed description of such risks may be seen in the "Risk management" section reported in the Interim Financial Report of Banco Comercial Português, S.A. as at 30 June 2019.

BCP Finance Bank, Ltd.

Financial Statements

30 June 2019

(Unaudited)

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BCP FINANCE BANK, LTD.
INTERIM CONDENSED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019 AND 2018
(Unaudited)

(Thousands of USD)

	Notes	30 June 2019	30 June 2018
Interest and similar income	2	7,430	8,480
Interest expense and similar charges	2	(9,574)	(10,266)
NET INTEREST INCOME		(2,144)	(1,786)
Dividends from equity instruments	3	-	2
Net gains / (losses) from foreign exchange activity	4	40	273
Net gains / (losses) from hedge accounting	4	-	37
Net gains / (losses) from derecognition of financial assets and liabilities at amortised cost	4	-	(699)
Other operating income / (loss)		(50)	(51)
TOTAL OPERATING INCOME / (EXPENSES)		(2,154)	(2,224)
Other administrative costs		30	44
TOTAL OPERATING COSTS		30	44
OPERATING NET INCOME / (LOSS) BEFORE PROVISIONS AND IMPAIRMENTS		(2,184)	(2,268)
OPERATING NET INCOME / (LOSS)		(2,184)	(2,268)
NET INCOME / (LOSS) FOR THE PERIOD		(2,184)	(2,268)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to the income statement			
Exchange differences arising on translation of financial statements to the reporting currency	11	(2,499)	(17,352)
Fair value changes	11	(1)	(9)
OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		(2,500)	(17,361)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		(4,684)	(19,629)

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

(The accompanying notes are an integral part of the financial statements)

BCP FINANCE BANK, LTD.
INTERIM CONDENSED BALANCE SHEET AS AT 30 JUNE 2019 AND 31 DECEMBER 2018
(Unaudited)

(Thousands of USD)

	Notes	30 June 2019	31 December 2018
ASSETS			
Repayable on demand to credit institutions	5	533	571
Financial assets at amortized cost			
Loans and advances to credit institutions	6	702,351	697,852
Financial assets at fair value through other comprehensive income	7	5	6
Other assets		67	1
TOTAL ASSETS		702,956	698,430
LIABILITIES			
Financial liabilities at amortized cost			
Non subordinated debt securities	8	346	356
Subordinated debt	9	108,920	99,706
Other liabilities		27	21
TOTAL LIABILITIES		109,293	100,083
SHAREHOLDER'S EQUITY			
Share capital	10	246,000	246,000
Share premium	11	315,000	315,000
Reserves and retained earnings	11	34,847	41,450
Net income / (loss) for the period		(2,184)	(4,103)
TOTAL SHAREHOLDER'S EQUITY		593,663	598,347
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		702,956	698,430

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

(The accompanying notes are an integral part of the financial statements)

BCP FINANCE BANK, LTD.
INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019 AND 2018
(Unaudited)

(Thousands of USD)

	Total Shareholder's equity	Ordinary shares	Share premium	Reserves and retained earnings	Net profit/ (loss) for the year
BALANCE AS AT 31 DECEMBER 2017	632,438	246,000	315,000	108,774	(37,336)
Net income / (loss) for the period	(2,268)	-	-	-	(2,268)
Other comprehensive income (note 11)	(17,361)	-	-	(17,361)	-
TOTAL COMPREHENSIVE INCOME	(19,629)	-	-	(17,361)	(2,268)
Transfers to other reserves and retained earnings (note 11)	-	-	-	(37,336)	37,336
BALANCE AS AT 30 JUNE 2018	612,809	246,000	315,000	54,077	(2,268)
Net income / (loss) for the period	(1,835)	-	-	-	(1,835)
Other comprehensive income (note 11)	(12,627)	-	-	(12,627)	-
TOTAL COMPREHENSIVE INCOME	(14,462)	-	-	(12,627)	(1,835)
BALANCE AS AT 31 DECEMBER 2018	598,347	246,000	315,000	41,450	(4,103)
Net income / (loss) for the period	(2,184)	-	-	-	(2,184)
Other comprehensive income (note 11)	(2,500)	-	-	(2,500)	-
TOTAL COMPREHENSIVE INCOME	(4,684)	-	-	(2,500)	(2,184)
Transfers to other reserves and retained earnings (note 11)	-	-	-	(4,103)	4,103
BALANCE AS AT 30 JUNE 2019	593,663	246,000	315,000	34,847	(2,184)

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

BCP FINANCE BANK, LTD.
INTERIM CONDENSED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019 AND 2018
(Unaudited)

(Thousands of USD)

	30 June 2019	30 June 2018
CASH FLOWS ARISING FROM OPERATING ACTIVITIES		
Interests received	134	912
Interests paid	(31)	(1,140)
Operating fees and other payments	(80)	(95)
	23	(323)
Decrease / (increase) in operating assets:		
Loans and advances to credit institutions	-	11,775
Increase / (decrease) in operating liabilities:		
Other liabilities	19	6
Other assets	199	1,381
	241	12,839
CASH FLOWS ARISING FROM INVESTING ACTIVITIES		
Dividends received (note 3)	-	2
	-	2
CASH FLOWS ARISING FROM FINANCING ACTIVITIES		
(Repayment) / proceeds from debt securities (note 8)	-	(12,784)
	-	(12,784)
Exchange differences arising on translation of financial statements to the reporting currency	(279)	-
Net changes in cash and equivalents	(38)	57
Cash and equivalents at the beginning of the period (note 5)	571	390
Cash and equivalents at the end of the period (note 5)	533	447

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

1. ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

BCP Finance Bank, Ltd. ("Bank") was incorporated in the Cayman Islands on 27 March 1998 and granted a Category "B" Unrestricted Banking Licence in 1998. The Bank acts as an overseas finance vehicle of Banco Comercial Português Group and its ultimate sole shareholder is Banco Comercial Português, S.A. ("BCP"). The ultimate sole shareholder of the Ordinary Shares of the Bank is Banco Comercial Português, S.A. ("BCP") through its wholly owned subsidiary BCP International B.V. headquartered in the Netherlands which owns 100% of the Bank's share capital (note 10).

The functional currency of the Bank is the Euro. The reporting currency of the financial statements is the United States Dollar ("USD") as this is the reporting currency commonly used by the Cayman Islands Monetary Authority. The Bank's functional currency is the Euro since this foreign operation of BCP Group was set up as a structure or special purpose entity, and its activities are conducted on behalf of the ultimate parent entity (BCP) and considered as an extention of the parent entity.

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union effective for the years beginning on or after 1 January 2019. 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), both as endorsed by the European Union.

The interim condensed 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 financial statements requires that it should be reading with the financial statements with reference to 31 December 2018.

The financial statements are prepared under the going concern assumption based on the accounting records of the Bank.

A1. Comparative information

The accounting policies have been applied consistently by the Bank and are consistent with those used in the the last complete financial statements referring to 31 December 2018.

The financial statements are prepared under the going concern assumption and under the historical cost convention, as modified by the application of fair value basis where applicable, except those for which a reliable measure of fair value is not available.

The preparation of the financial statements in accordance with IFRS requires the Board of Directors to make judgements, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and form the basis for making the judgements about 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 where assumptions and estimates are considered to be significant are presented in note 1 I.

As at 30 June 2019 and 31 December 2018, the Bank had no employees. The registered office of the Bank is located at the offices of Millennium bcp Bank & Trust (also a wholly owned Subsidiary of Banco Comercial Português, S.A.), 3rd Floor, Strathvale House, 90 North Church Street, George Town, PO Box 30124, Grand Cayman KY1-1201, Cayman Islands.

B. FINANCIAL INSTRUMENTS (IFRS 9)

B1. Financial assets

B1.1. Classification, initial recognition and subsequent measurement

At the initial recognition, financial assets are classified into one of the following categories:

- Financial assets at amortized cost;
- Financial assets at fair value through other comprehensive income; or
- Financial assets at fair value through profit or loss.

The classification is made taking into consideration the following aspects:

- the Bank's business model for the management of financial asset; and
- the characteristics of the contractual cash flows of the financial asset.

Business Model Evaluation

With reference to 1 January 2018, the Bank 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 Bank 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 Bank 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 nominal value;
- the prepayment represents substantially the nominal amount of the contract plus accrued contractual interest, but not paid (may include reasonable compensation for prepayment); and
- the prepaid fair value is insignificant at initial recognition.

B1.1. 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 Bank accepts to acquire them.

Financial assets at amortized 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 B1.5.), which are recorded in "'Impairment of financial assets measured at amortized 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 B3.

Gains or losses generated at the time of derecognition are recorded in the caption "Net gains / (losses) from derecognition of financial assets and liabilities at amortized cost".

B1.1. 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 Bank 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 B1.5.). 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 B3.

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.

B1.2. 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.

B1.3. Modification and derecognition of financial assets

General principles

i) The Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank retains substantially all the risks and rewards of ownership of the financial asset, it shall continue to recognize the financial asset;
- if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it shall determine whether it has retained the control of the financial asset. In this case:

a) if the Bank 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 Bank 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 Bank’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 Bank 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 Bank 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 Bank 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.

B1.4. 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 B1.3.) and the 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 recognized as POCI (difference between the initial balance and the total discounted cash flows).

B1.5. Impairment losses

B1.5.1. Financial instruments subject to impairment losses recognition

The Bank recognises impairment losses for expected credit losses on financial instruments recorded in the following accounting items:

B1.5.1.1. Financial assets at amortized cost

Impairment losses on financial assets at amortized cost reduce the balance sheet value of these financial assets against the balance "Impairment for financial assets at amortized cost" (in statement of income).

B.1.5.2. 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 Bank 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 B1.5.3.), but are not impaired. 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.

B1.5.3. 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.

B2. Financial liabilities

B2.1. Classification, initial recognition and subsequent measurement

At initial recognition, financial liabilities are classified in one of the following categories:

- Financial liabilities at amortized cost;
- Financial liabilities at fair value through profit or loss.

B2.1.1. Financial liabilities at amortized cost

Classification

Financial liabilities that were not classified at fair value through profit or loss, or correspond to financial guarantee contracts, are measured at amortized cost.

The category "Financial assets at amortized 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.

B2.2. Reclassification between categories of financial liabilities

Reclassifications of financial liabilities are not allowed.

B2.3. Derecognition of financial liabilities

The Bank derecognises financial liabilities when they are cancelled or extinct.

B3. 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 Bank 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.

B4. Hedge accounting

As allowed by IFRS 9, the Bank opted to continue to apply the hedge accounting requirements set forth in IAS 39.

The Bank 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 Bank. 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.

B4.1. 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 hedged item recognised until the discontinuance of the hedge accounting are amortised through profit and loss over the residual period of the hedged item.

B4.2. Hedge effectiveness

For a hedge relationship to be classified as such according to IFRS 9, effectiveness has to be demonstrated. As such, the Bank 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.

C. EQUITY INSTRUMENTS

A financial instrument is an equity instrument only if (a) 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 (b) 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 Bank are considered as an equity instrument when redemption of the shares is solely at the discretion of the Bank and dividends are paid at the discretion of the Bank.

Income from equity instruments (dividends) are recognised when the obligation to pay is established and are deducted to equity.

D. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents include cash balances and loans and advances to credit institutions repayable on demand.

Cash and cash equivalents exclude restricted balances.

E. OFFSETTING

Financial assets and liabilities are offset and recognized at their net book value when: i) the Bank has a legal right to offset the amounts recognized and transactions can be settled at their net value; and ii) the Bank intends to settle on a net basis or perform the asset and settle the liability simultaneously. Considering the current operations of the Bank, 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.

F. 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 (other than the Bank's functional currency), are translated at the foreign exchange rate at the reporting date. Foreign exchange differences arising on translation are recognised in the statements of profit and loss and other comprehensive income. 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 at the foreign exchange rate at the date that the fair value was determined against profit or loss, except for financial assets available-for-sale, for which the difference is recognised against equity.

Although the Bank’s functional currency is the Euro, it uses US Dollars ("USD") as its reporting currency. In translating the financial statements from Euro into US Dollars, the assets and liabilities, both monetary and non-monetary, are translated at the exchange rate ruling at the balance sheet date. Income and expenses are translated at the average exchange rate of the period which is considered to reflect approximately the exchange rate at the date of the transactions. All resulting exchange differences are recognised directly in equity as Other reserves and retained earnings.

G. INCOME TAXES

There are no taxes on income or gains in the Cayman Islands. Furthermore, the Bank has received an undertaking from the Governor in Cabinet of the Cayman Islands exempting it from all local taxation on future profits, income or gains if these taxes would be levied in the Cayman Islands in the future.

This undertaking is valid for a period of twenty years until 25 April 2038. Accordingly, no provision for income taxes is included in these financial statements.

H. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

H1. Provisions

Provisions are recognized when (i) the Bank 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 (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 derecognized through their use for the obligations for which they were initially accounted for the cases that the situations have not been already observed.

H2. 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 Bank 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 Bank; 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.

H3. Contingent assets

Contingent assets are not recognised in the financial statements and are disclosed when a future economic inflow of resources is probable.

I. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

IFRS set forth a range of accounting treatments and require the Board of Directors and Management 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 Bank's reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by Management, the Bank's reported results would differ if a different treatment was chosen. Management believes that the choices made are appropriate and that the financial statements present the Bank'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.

IFRS 13 Fair value measurement

IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

IFRS 13 seeks to increase consistency and comparability in fair value measurements and disclosures through a "fair value hierarchy" which categorises the inputs used in valuation techniques into three levels. These levels are detailed in note 13. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment losses on a regular basis, as described in note B.

The evaluation process in determining whether an impairment loss should be recorded in the Statements of Profit and Loss and Other Comprehensive Income is subject to estimates and judgments.

In evaluating the impairment of loans and advances to credit institutions, the Bank considers the fact that all the amounts were either with the ultimate parent Banco Comercial Português, S.A. or with one of its wholly owned subsidiaries.

J. SUBSEQUENT EVENTS

The Bank analyses events occurring after the balance sheet date, that is, favourable 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 financial statements.

2. NET INTEREST INCOME

The amount of this account is comprised of:

(Thousands of USD)

	June 2019	June 2018
Interest and similar income		
Interest on financial assets at amortized cost		
Loans and advances to credit institutions (note 14)	7,430	8,361
Interest on hedging derivatives (note 14)	-	119
	7,430	8,480
Interest expense and similar charges		
Interest on financial liabilities at amortized cost		
Non subordinated debt securities	(9)	(438)
Subordinated debt	(9,565)	(9,828)
	(9,574)	(10,266)
Net interest income / (loss)	(2,144)	(1,786)

3. DIVIDENDS FROM EQUITY INSTRUMENTS

As at 30 June 2018, Dividends from equity instruments refers to dividends received from Banco Millennium Atlântico, S.A. (notes 7 and 14).

4. NET GAINS / (LOSSES) ON FINANCIAL OPERATIONS

The amount of this account is comprised of:

(Thousands of USD)

	June 2019	June 2018
Net gains / (losses) from foreign exchange activity	40	273
Net gains / (losses) from hedge accounting	-	37
Net gains / (losses) from derecognition of financial assets and liabilities at amortised cost (note 8)	-	(699)
	40	(389)

The amount of this account is comprised of:

(Thousands of USD)

	June 2019	June 2018
Net gains / (losses) from foreign exchange activity		
Gains	40	708
Losses	-	(435)
	40	273
Net gains / (losses) from hedge accounting		
Gains		
Hedging derivatives	-	160
Hedged item	-	48
	-	208
Losses		
Hedging derivatives	-	(171)
	-	37
Net gains / (losses) from derecognition of financial assets and liabilities at amortised cost		
Gains		
Security portfolio		
Debt securities issued	-	818
Losses		
Security portfolio		
Debt securities issued	-	(1,517)
	-	(699)

5. REPAYABLE ON DEMAND TO CREDIT INSTITUTIONS

This balance, in the amount of USD 533,000 (31 December 2018: USD 571,000) refers to deposits repayable on demand held at Banco Comercial Português, S.A. (note 14).

6. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

This balance is analysed as follows:

(Thousands of USD)

	June 2019	December 2018
Other loans and advances to credit institutions abroad (note 14)		
Banco de Investimento Imobiliário, S.A.	569,667	572,042
Banco Comercial Português, S.A.	132,684	125,810
	702,351	697,852

As at 30 June 2019, Loans and advances to credit institutions include accrued interest amounting to USD 10.529.000 (31 December 2018: USD 3.184.000).

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This balance is analysed as follows:

(Thousands of USD)

	June 2019	December 2018
Financial assets at fair value through other comprehensive income		
Banco Millennium Atlântico, S.A.	5	6
	5	6

With the adoption of IFRS 9, as at 1 January 2018, the Financial assets available for sale portfolio accounted under IAS 39 were reclassified for Financial assets at fair value through other comprehensive income, under IFRS 9 (note 16).

As at 30 June 2019, equity investments refer to shares of Banco Millennium Atlântico, S.A. (note 14) in the amount of USD 5,000 (31 December 2018: USD 6,000) representing 0.0024% of the share capital of this entity. At 30 June 2019, BCP Group held a total participation interest of 22.5% in Banco Millennium Atlântico, S.A., a bank incorporated in Angola.

During the first semester of 2018, dividends were received from these shares, amouting to USD 2,000 (note 3).

8. NON SUBORDINATED DEBT SECURITIES

This balance is analysed as follows:

(Thousands of USD)

	June 2019	December 2018
Debt securities at amortized cost		
Bonds	342	343
Accruals, deferred expense and income, other adjustments	4	13
	346	356

For the purpose of applying hedge accounting to the hedged risk (interest rate risk), debt securities were measured in accordance with internal valuation techniques considering mainly non-observable market inputs. In accordance with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments were classified in level 3 (note 13).

On 8 October 1998, the Bank established a USD 1,500,000,000 Note Programme under which it could issue notes unconditionally and irrevocably guaranteed by Banco Comercial Português, S.A. This program was redenominated to Euro in September 2006.

Since its inception the programme has been updated as follows:

Date of increase and update	Currency	New amount
1999	USD	4,000,000,000
2000	USD	6,000,000,000
2001	USD	8,000,000,000
2003	USD	10,000,000,000
2004	USD	12,000,000,000
2005	USD	15,000,000,000
2006	EUR	20,000,000,000
2007	EUR	25,000,000,000

Under the above mentioned program, as at 30 June 2019 and 31 December 2018, the detail of the notes issued is as follows:

(Thousands of USD)

Issue	Issue date	Maturity date	Interest rate	June 2019	December 2018
BCP Fin.Bank – EUR 10 m	2004	2024	Fixed rate of 5.01%	342	343
Accruals				4	13
				346	356

On 27 June 2018, the Bank purchased issued bonds to Banco Comercial Português, S.A. in the amount of USD 12,784,000 (nominal value of USD 11,324,000), resulting a loss of USD 699,000 as referred on note 4. This transaction was executed at prevailing market conditions at the time of the trade (being its pricing based on comparable).

These bonds are listed in the London Stock Exchange.

The currency exposure related with these operations is analysed as follows:

(Thousands of USD)

Currency	June 2019	December 2018
EUR	346	356

9. SUBORDINATED DEBT

As at 30 June 2019 and 31 December 2018, the subordinated debt issued by the Bank is detailed as follows:

(Thousands of USD)

				June 2019	December 2018
Currency	Maturity	Interest rate	Nominal value	Book value	Book value
Euro	2021	13%	98,850,000	112,556	113,025
Accruals				10,463	3,220
Prepaid and deferred costs				(14,099)	(16,539)
				108,920	99,706

These notes are guaranteed by Banco Comercial Português, S.A. and listed in the London Stock Exchange.

10. SHARE CAPITAL

The authorised share capital of the Bank is analysed as follows:

(Thousands of USD)

	June 2019	December 2018
Ordinary shares	246,000	246,000

The ultimate sole shareholder of the Ordinary Shares of the Bank is Banco Comercial Português, S.A. ("BCP") through its wholly owned subsidiary BCP International B.V. headquartered in the Netherlands which owns 100% of the Bank's share capital.

As at 15 January 2010 and following a resolution of BCP Internacional II, Sociedade Unipessoal SGPS, Lda. (during 2010, BCP Internacional II, Sociedade Unipessoal SGPS changed its name to Millennium bcp Participações, SGPS, Sociedade Unipessoal, Lda.), the previous sole shareholder of the Bank, and as previously approved by the Cayman Islands Monetary Authority (CIMA), the Bank converted the 31,500,000 preference shares into ordinary shares with a nominal value of 1 USD each.

As at 30 June 2019 and 31 December 2018, the authorised capital of the Bank is represented by 246,000,000 ordinary shares with a nominal value of USD 1 each, and is fully paid.

The Bank has complied with all externally imposed capital requirements throughout the period, namely the capital adequacy ratio and the minimum capital requirements.

The Bank manages its capital struture and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to mantain or adjust the capital struture, the Bank may adjust the amount of dividend payment to its shareholder, return capital to its shareholder or apply for qualifying subordinated debt. No changes were made in the objectives, policies and process from the previous years.

11. SHARE PREMIUM AND RETAINED EARNINGS

This balance is analysed as follows:

(Thousands of USD)

	June 2019	December 2018
Share premium	315,000	315,000
Fair value changes	(20)	(19)
Other reserves and retained earnings	34,867	41,469
	34,847	41,450
	349,847	356,450

As approved on the general meeting held on 17 December 2018, the net loss for the year ended 31 December 2017 was transferred to retained earnings.

No dividends were declared and paid in the first semester ended 30 June 2019 and in the year ended 31 December 2018.

The changes occured in the first semester of 2019 in Other reserves and retained earnings as detailed in the Statement of Changes in Shareholder's Equity, is explained by:
- reduction of USD 2,500,000 to Other comprehensive income due to the exchange rate effect arising from the translation of the financial statements prepared in Euros to the presentation currency (USD) (note F.);
- reduction of USD 4,103,000 regarding the application of 2018 results.

The changes occured in 2018 in Other reserves and retained earnings as detailed in the Statement of Changes in Shareholder's Equity, is explained by:
- reduction of USD 29,969,000 to Other comprehensive income due to the exchange rate effect arising from the translation of the financial statements prepared in Euros to the presentation currency (USD) (note F.);
- reduction of USD 37,336,000 regarding the application of 2017 results.

12. SUBSEQUENT EVENTS

There were no events subsequent to the balance sheet date that should be recorded or disclosed in the financial statements as of 30 June 2019.

13. FAIR VALUE

Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through internal models based on cash-flow discounting techniques. Cash-flows for the different instruments sold are calculated according with its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the pricing policy in the Bank.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model that have some degree of judgement and reflect exclusively the value attributed to different financial instruments. However it does not consider prospective factors, like the future business evolution. Therefore the values presented cannot be understood as an estimate of the economic value of the Bank.

The main methods and assumptions used in estimating the fair value for the financial assets and financial liabilities of the Bank are presented as follows:

Loans and advances to credit institutions repayable on demand

Considering the short term nature of these financial instruments, the amount in the balance sheet is considered a reasonable estimate of its fair value.

Other loans and advances to credit institutions

The fair value of these financial 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. The discount rate used reflects the current conditions applied by the Bank in identical instruments for each of the different residual maturities. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market, at the end of the year). As at 30 June 2019, the average discount rate was 0.08% for loans and advances. As at 31 December 2018, the average discount rate was 0.32% for loans and advances.

Financial assets at fair value through other comprehensive income (IFRS 9) and Financial assets available for sale (IAS 39)

These financial instruments are carried at fair value. 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 interest rate curve adjusted for related factors, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

Other financial assets and liabilities held for trading at fair value through profit or loss

These financial instruments are carried at fair value. 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 interest rate curve adjusted for related factors, predominantly the 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", methods and models applied are 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 quotes - Reuters and Bloomberg - more specifically for prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources 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.

Financial liabilities at amortized cost - Non subordinated debt securities 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 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. 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 costumers 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.

As at June 2019 the average reference rates used in the calculation of the fair value of senior and collateralised issues was 0.05% (31 December 2018: 0.10%) and for subordinated issues 3.92% (31 December 2018: 6.01%).

As at 30 June 2019, the following table presents the values of the interest rates used in the definition of the interest rate curves of main currencies, namely EUR and USD used to determine the fair value of the assets and liabilities of the Bank:

	Currencies	
	EUR	USD
1 day	-0.44%	2.55%
7 days	-0.44%	2.53%
1 month	-0.44%	2.52%
2 months	-0.41%	2.41%
3 months	-0.39%	2.40%
6 months	-0.35%	2.42%
9 months	-0.30%	2.36%
1 year	-0.37%	1.98%
2 years	-0.39%	1.77%
3 years	-0.36%	1.71%
5 years	-0.23%	1.73%
7 years	-0.08%	1.81%
10 years	0.17%	1.93%
15 years	0.49%	2.08%
20 years	0.65%	2.15%
30 years	0.72%	2.18%

The following table shows the carrying value and the fair value of the financial assets and liabilities of the Bank as at 30 June 2019 and 31 December 2018:

(Thousands of USD)

	June 2019			
	Fair value through reserves	Amortised cost	Book value	Fair value
Assets				
Repayable on demand to credit institutions	-	533	533	533
Financial assets at amortized cost				
Loans and advances to credit institutions	-	702,351	702,351	735,627
Financial assets at fair value through other comprehensive income	5	-	5	5
	5	702,884	702,889	736,165
Liabilities				
Financial liabilities at amortized cost				
Non subordinated debt securities (note 8)	-	346	346	400
Subordinated debt	-	108,920	108,920	150,205
	-	109,266	109,266	150,605

(Thousands of USD)

	December 2018			
	Fair value through reserves	Amortised cost	Book value	Fair value
Assets				
Repayable on demand to credit institutions	-	571	571	571
Financial assets at amortized cost				
Loans and advances to credit institutions	-	697,852	697,852	735,983
Financial assets at fair value through other comprehensive income	6	-	6	6
	6	698,423	698,429	736,560
Liabilities				
Financial liabilities at amortized cost				
Non subordinated debt securities (note 8)	-	356	356	388
Subordinated debt	-	99,706	99,706	144,225
	-	100,062	100,062	144,613

The Bank uses the following hierarchy for fair value with 3 levels in the valuation of financial instruments (assets or liabilities), which reflects the level of judgment, the observability of the data used and the importance of the parameters used in determining the fair value measurement of the instrument, as referred in IFRS 13:

- Level 1: Fair value is determined based on unadjusted quoted prices, captured in transactions in active markets involving identical instruments to the ones being valued. If there is more than one active market for the same financial instrument, the relevant price is what prevails in the main market of the instrument, or most advantageous market for which there is access.
- Level 2: Fair value is determined based on valuation techniques supported by observable inputs in active markets, being direct data (prices, rates, spreads, etc.) or indirect data (derivatives), and valuation assumptions similar to what an unrelated party would use in estimating the fair value of that financial instrument.
- Level 3: Fair value is determined based on unobservable inputs in active markets, using techniques and assumptions that market participants would use to evaluate the same instruments, including assumptions about the inherent risks, the valuation technique used and inputs used and review processes to test the accuracy of the values obtained.

The level of the fair value of the financial instruments, in accordance with IFRS 13, as at 30 June 2019 and 31 December 2018, is detailed as follows:

(Thousands of USD)

	June 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Repayable on demand to credit institutions	533	-	-	533
Financial assets at amortized cost				
Loans and advances to credit institutions	-	-	735,627	735,627
Financial assets at fair value through other comprehensive income	-	-	5	5
	533	-	735,632	736,165
Liabilities				
Financial liabilities at amortized cost				
Non subordinated debt securities (note 8)	-	-	400	400
Subordinated debt	-	-	150,205	150,205
	-	-	150,605	150,605

(Thousands of USD)

	December 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Repayable on demand to credit institutions	571	-	-	571
Financial assets at amortized cost				
Loans and advances to credit institutions	-	-	735,983	735,983
Financial assets at fair value through other comprehensive income	-	-	6	6
	571	-	735,989	736,560
Liabilities				
Financial liabilities at amortized cost				
Non subordinated debt securities (note 8)	-	-	388	388
Subordinated debt	-	-	144,225	144,225
Financial liabilities held for trading	-	-	-	-
	-	-	144,613	144,613

As at 30 June 2019, equity investments refer to securities of Banco Millennium Atlântico, S.A. in the amount of USD 5,000 (31 December 2018: USD 6,000) are accounted at fair value (note 7).

14. RELATED PARTIES

The companies included in BCP Group are considered as related parties of the Bank as defined by IAS 24 as well as its Pension Fund, its members of the Executive Committee and the non-executive Board of Directors and key elements of management including any entity in which such person has significant influence. The first line Directors are also considered key management elements.

As at 30 June 2019, the balances with related parties are as follows:

(Thousands of USD)

	Assets		
	Repayable on demand to credit institutions (note 5)	Loans and advances to credit institutions (note 6)	Financial assets at fair value through other comprehensive income (note 7)
Banco Comercial Português, S.A.	533	132,684	-
Banco Investimento Imobiliário, S.A.	-	569,667	-
Banco Millennium Atlântico, S.A.	-	-	5
	533	702,351	5

(Thousands of USD)

	Liabilities
	Subordinated debt (note 9)
Banco Comercial Português, S.A.	2,987

As at 31 December 2018, the balances with related parties are as follows:

(Thousands of USD)

	Assets		
	Repayable on demand to credit institutions (note 5)	Loans and advances to credit institutions (note 6)	Financial assets at fair value through other comprehensive income (note 7)
Banco Comercial Português, S.A.	571	125,810	-
Banco Investimento Imobiliário, S.A.	-	572,042	-
Banco Millennium Atlântico, S.A.	-	-	6
	571	697,852	6

(Thousands of USD)

	Liabilities
	Subordinated debt (note 9)
Banco Comercial Português, S.A.	2,822

As at 30 June 2019, the transactions with related parties are as follows:

(Thousands of USD)

	Statements of profit and loss and other comprehensive income/(loss)	
	Interest and similar income	Interest expense and similar charges
	Loans and advances to credit institutions (note 2)	Subordinated debt (note 2)
Banco Comercial Português, S.A.	7,430	175

As at 30 June 2018, the transactions with related parties are as follows:

(Thousands of USD)

	Statements of profit and loss and other comprehensive income/(loss)					
	Interest and similar income		Interest expense and similar charges			
	Loans and advances to credit institutions (note 2)	Interest on hedging derivatives (note 2)	Non subordinated debt securities (note 2)	Subordinated debt (note 2)	Dividends from equity instruments (note 3)	Net gains / (losses) from hedge accounting (note 4)
Banco Comercial Português, S.A.	8,266	119	214	188	-	12
Banco Investimento Imobiliário, S.A.	95	-	-	-	-	-
Banco Millennium Atlântico, S.A.	-	-	-	-	2	-
	8,361	119	214	188	2	12

The subordinated debt are guaranteed by Banco Comercial Português, S.A. (note 8).

15. RISK MANAGEMENT

The Bank is subject to several risks throughout the course of its business. The risks incurred by the various companies of the BCP Group are managed centrally, in co-ordination with the local departments and considering the specific risks of each business.

The group's risk-management policy is designed to ensure, at all times, an adequate relationship between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line.

The Bank's financial statements are consistent with its risk management and control policies, as integrated in the centralised framework of the BCP Group, which is described in some detail in the BCP Group's Annual Report.

The main risks incurred by the Bank are:

Credit Risk

Since all of the financial assets of the Bank relate to two counterparties – Banco Comercial Português, S.A. and Banco Investimento Imobiliário, S.A. – credit risk is totally contained and represented within this intra-group relationship.

Liquidity Risk

Currently, the Bank has a treasury surplus and has no funding needs. In the event that this situation is inversed, Banco Comercial Português, S.A., will cater to all funding needs.

The contractual maturities of the financial liabilities are disclosed in the respective notes.

Market Risks

The main measure used by the Bank in evaluating market risk for its trading portfolios is the Value at Risk (VaR), representing the maximum estimated loss that will arise on a 10-day holding period, with a 99% confidence level. As at 30 June 2019, this indicator amounted to USD 240,000 (31 December 2018: USD 301,000).

Another relevant market risk measure, related to interest rate risk, is the repricing gap amount of the Bank's assets, which is estimated considering a scenario of exchanging market interest rates. In this sense, the interest rate sensitivity of the balance-sheet is calculated as the difference between the present value of the interest rate mismatch (after discounting the market interest rates) and the discounted value of the same cash flows considering parallel shifts of the market interest rates (of +/- 100 and +/- 200 basis points).

The following tables show the expected impact on the banking book economic value due to parallel shifts of the yield curve:

(Thousands of USD)

	June 2019			
Currency	**- 200 pb**	**- 100 pb**	**+ 100 pb**	**+ 200 pb**
EUR	565	565	1,501	2,917
USD	16	8	(8)	(15)
	581	573	1,493	2,902

(Thousands of USD)

	December 2018			
Currency	**- 200 pb**	**- 100 pb**	**+ 100 pb**	**+ 200 pb**
EUR	(45)	(45)	(107)	(213)

16. 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 Bank applied IFRS 9 and adopted in advance the modifications made to IFRS 9 in the period beginning as at 1 January 2018. There was no impact of the adoption of IFRS 9 on the Bank's equity.

The accounting policies in force in the Bank at the level of financial instruments after adoption of IFRS 9 as at 1 January 2018 are described in note 1B.

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 amortized 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 Bank (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.

There was no impact of the adoption of IFRS 9 in the Bank's equity related to impairment losses on financial assets, guarantees and other commitments.

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) are recognised in the income statement, while under IFRS 9 these fair value changes will be presented as follows: the amount related to the variation in the fair value attributable to changes in the credit risk of the liability will be presented in OCI and the remaining value of the change in fair value will be presented in profit or loss.

The Bank 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 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 will be recognised in OCI and the amount recognised in OCI in each year will be variable. The accumulated amount recognised in OCI will be null if these liabilities are repaid at maturity.

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 Bank 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 Bank 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 Bank's financial statements is described below.

a) Impact of the adoption of IFRS 9 on the Bank's equity

There was no impact on the Bank's equity arising from the implementation of IFRS 9 with reference to 1 January 2018.

(b) Reconciliation of balance sheet amounts in IAS 39 and IFRS 9

The impacts on the Bank's balance sheet arising from the implementation of IFRS 9 with reference to 1 January 2018 are detailed as follows:

(Thousands of USD)

	IAS 39 31 Dec 2017	Reclassifications	Remeasurement	IFRS 9 1 Jan 2018
ASSETS				
Loans and advances to credit institutions repayable on demand	390	-	-	390
Financial assets at amortised cost				
Loans and advances to credit institutions	744,145	-	-	744,145
Financial assets at fair value through other comprehensive income	n.a.	25	-	25
Financial assets available for sale	25	(25)	-	n.a.
Hedging derivatives	1,378	-	-	1,378
TOTAL ASSETS	745,938	-	-	745,938
LIABILITIES				
Financial liabilities at amortised cost				
Non subordinated debt securities issued	13,178	-	-	13,178
Subordinated debt	100,314	-	-	100,314
Other liabilities	8	-	-	8
TOTAL LIABILITIES	113,500	-	-	113,500
EQUITY				
Share capital	246,000	-	-	246,000
Share premium	315,000	-	-	315,000
Reserves and retained earnings	108,774	-	-	108,774
Net income / (loss) for the year	(37,336)	-	-	(37,336)
TOTAL EQUITY	632,438	-	-	632,438
	745,938	-	-	745,938

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 USD)

IAS 39			IFRS 9		
Category	Measurement	Book value	Category	Measurement	Book value
Loans and advances to credit institutions repayable on demand	Amortised cost	390	Loans and advances to credit institutions repayable on demand	Amortised cost	390
Loans and advances to credit institutions	Amortised cost	744,145	Loans and advances to credit institutions	Amortised cost	744,145
Financial assets available for sale	FVOCI (available for sale)	25	Financial assets at fair value through other comprehensive income	FVOCI	25
Hedging derivatives	FVTPL	1,378	Hedging derivatives	FVTPL	1,378

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 Bank'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 will be 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 USD)

	Notes	Financial assets at amortised cost (Amortised Cost)			
		IAS 39 31 December 2017	Reclassifications	Remeasurement	IFRS 9 1 January 2018
Loans and advances to credit institutions repayable on demand					
Opening balance in IAS 39 and final balance in IFRS 9		390	-	-	390
Loans and advances to credit institutions					
Opening balance in IAS 39 and final balance in IFRS 9		744,145	-	-	744,145
Total of financial assets at amortised cost		744,535	-	-	744,535

(Thousands of USD)

	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 - equity instruments					
Opening balance in IAS 39					
Transfer: of available financial assets for sale (IAS 39)	(A)		25	-	25
Final balance in IFRS 9		-	25	-	25
		-	25	-	25
Financial assets available for sale					
Opening balance in IAS 39		25	-	-	25
Transfer: to financial assets at fair value through other comprehensive income - equity instruments (IFRS 9)	(A)	-	(25)	-	(25)
Final balance in IFRS 9		25	(25)	-	-
Total financial assets at fair value through other comprehensive income		25	-	-	25

(Thousands of USD)

	Notes	Financial assets at fair value through profit or loss (FVTPL)			
		IAS 39 31 December 2017	Reclassifications	Remeasurement	IFRS 9 1 January 2018
Hedging derivatives					
Opening balance in IAS 39 and final balance in IFRS 9		1,378	-	-	1,378
Total financial assets at fair value through profit or loss		1,378	-	-	1,378

Notes:

(A) Designation of equity instruments at fair value through other comprehensive income: The Bank 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.

Statement of Directors' Responsibilities

To the best of our knowledge, the interim condensed financial statements of BCP Finance Bank, Ltd., which comprise the balance sheet as at 30 June 2019, the income statement and other comprehensive income, the statement of changes in equity and the statements of cash flows for the six month period ended 30 June 2019, have been prepared in accordance with the International Financial Reporting Standards, give a fair view, in all material respects, of the assets, liabilities, financial position and profit or loss of BCP Finance Bank, Ltd., and the management report includes a fair review of the development, business performance and financial position of the Bank, together with a description of the principal risks and uncertainties that may affect its activity.

The Board of Directors,

Filipe Maria de Sousa Ferreira Abecasis, *Chairman and Director*
Nuno Maria Lagoa Ribeiro de Almeida, *Vice-Chairman and Director*
Belmira Abreu Cabral, *Director*
José Carlos de Castro Monteiro, *Director and Secretary*
Alex António Urtubia, *Director and Assistant Secretary*