

AUDIT COMMITTEE ANNUAL REPORT



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I – Introduction

The Audit Committee (Committee) of Banco Comercial Português, S.A. (Bank) hereby presents the report on its supervisory functions relating to the 2017 financial year, in compliance with the legal requirements.

The Audit Committee is the Bank's supervision body, exercising the functions committed to it by the Law, the Articles of Association and its Regulations (available at https://ind.millenniumbcp.pt/pt/Institucional/governacao/Pages/normas_regulamentos.aspx).

The Audit Committee submits a quarterly report to the Board of Directors, in writing, informing on the work carried out by it and on the conclusions it has reached and an annual report of its activities, without prejudice to the duty of reporting, at any moment, to the Chairperson of the Board of Directors any and all situations the Committee finds and deems to be of high risk.

II - Activities carried out

In 2017, the Audit Committee met 20 times, having drawn up minutes of all the meetings. By invitation, the members of the Committee also attended several meetings of the Committee for Risk Assessment.

The Committee received from the Executive Committee, in a timely and appropriate manner, all the information requested.

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In the undertaking of its activities, the Committee held regular meetings with the Chief Financial Officer (CFO), the Director in charge of Risk, the Statutory Auditor and External Auditor, the Risk Officer, the Compliance Officer, the Head of Internal Audit and the Head of Research, Planning and ALM Division.

Apart from that, in 2017, the Committee met with several other members of the Bank's Executive Committee, namely its Chairman and the Director in charge of the Credit Area. Based on its power for summoning any Manager it wishes to hear, the Audit Committee met with the Heads of the Accounting and Consolidation, Tax Advisory and Quality and Network Support Divisions, as well as with the Company Secretary and the Client Ombudsman.

While drawing up this Report the Committee also met with the heads of the Human Resources, Logistics & Procurement, International, Treasury and Markets, Credit, and Real Estate Business Divisions and with the Shareholdings Department.

For the effective undertaking of its functions, the Audit Committee requested and obtained all the data and clarifications relevant for that purpose, which included the timely and appropriate monitoring of the compliance with the Bank's articles of association and with the applicable legal and regulatory provisions, meeting no constraints to its actions.

Throughout the financial year, the Committee undertook, among other, the following activities:

Recapitalisation Plan

The Committee monitored the implementation of the commitments of the Bank's Recapitalisation Plan within the scope of the access, in 2012, to public investment to increase Core Tier I own funds, including those in the attachment to the Decision nr.

8840-B/2012 and in the Decision of the European Commission and those established with the Directorate-General for Competition of the European Commission.

Capital Increases

The Committee appraised and resolved to issue a favourable opinion on the increase of the share capital of the Bank through new entries in cash, with a preferential reserve for shareholders, totalling €1,331,920,364.52 (one thousand three hundred and thirty-one million, nine hundred and twenty thousand, three hundred and sixty-four Euros and fifty-two cents) under the terms proposed by the Executive Committee.

After the share capital increase was concluded, the Committee also followed-up the early repayment of the convertible bonds held by the State.

The Committee monitored the issue of subordinated debt (Tier 2), issued at the end of 2017.

Supervision of the preparation and disclosure of the financial information

The Committee examined the main accounting policies adopted, in particular those that could have an impact on the financial statements of the Bank and of its subsidiaries.

The Audit Committee paid close attention to the introduction of the new accounting standard IFRS 9 – Financial Instruments, as of 1 January 2018. Together with the Bank's areas closer connected to these matters and the CFO himself, the AudC analysed the impacts of the implementation of IFRS 9.

Throughout the year the Committee also regularly monitored the largest credit exposures and impairments of the Group, as well as other impairment and provisions. The Plan for the Reduction of Non Performing Exposures (NPE) was closely monitored, having

attained results by the end of 2017 that surpassed the goals disclosed to the supervisors and presented to the market.

The Committee also continued to pay close attention to the accounting of deferred taxes, as well as the assessment of the respective studies on their recovery.

The Committee reviewed the information relative to the Pension Fund of the Group BCP and the actuarial assumptions used to determine the liabilities with retirement pensions.

The valuation of the real estate properties classified as non-recurrent assets held for sale and through participation units in Real Estate Investment Funds wherein the Bank is the majority holder was one of the other matters followed by the Committee throughout the year.

The Committee followed the evolution of the Bank's exposure to Corporate Recovery Funds (FRE).

The Audit Committee was always informed on the process for the sale of Novo Banco by the Resolution Fund and requested and obtained information from the Executive Committee, namely on the potential and effective impacts, direct and indirect, on Group BCP.

The Committee appraised, on a monthly basis, the financial statements, on an individual and consolidated basis, and the earnings and key financial indicators of the Group companies. It also regularly analysed the Bank's liquidity, cost-to-income and solvency ratios,

In April 2017, and with reference to 2016, the Committee issued an opinion on the Bank's Annual Report. In the beginning of 2018, and with reference to 2017, the Committee appraised the Annual Report drawn up by the Executive Committee and the Legal Certifications of the Accounts and Audit Reports prepared by Deloitte &

Associados – SROC, S.A. (Deloitte), on the individual and consolidated financial statements, which were issued without reservations or emphases.

In accordance with article 420 (5) of the Companies Code, the Committee confirmed that the Corporate Governance Report, included in the Bank's Annual Report, with reference to 2017, contains the data mentioned in article 245-A of the Securities Code.

In view of the result of the work carried out, the Committee issued a favourable opinion on the Bank's Annual Report, which includes the individual and consolidated financial statements for the year ended on 31 December 2017.

The Committee also appraised the Group Budget for 2018, examining the assumptions used, the earnings and activity indicators forecast, the risk factors, the market shares, investments and the evolution of own funds. The budget exercise included a sensitivity analysis based on a set of adverse scenarios.

Follow-up of international operations

Throughout the year, the Committee regularly monitored the performance of the international operations, namely due to its size and relevance for the Group, of Millennium Bank in Poland and of Millennium bim, in Mozambique. It carried out a monthly evaluation of the most relevant business indicators and financial statements of these operations and, whenever justified, assessed, with the Executive Directors, the main risks presented by each operation and country.

Regarding Millennium bim, the Committee closely monitored the country's macroeconomic evolution and the main credit exposures of that Bank.

Supervision of the effectiveness of the risk management, internal control and internal audit systems

The Committee followed the annual revision of the internal control system, a revision complemented by the analysis and evaluation made by the external consultant chosen for this purpose since 2011, Deloitte. It also monitored the drafting of the Internal Control Reports, under the responsibility of the BofD - with contributions from the Risk Office, Compliance Office and Audit Division -, and issued the opinions addressed to the Board of Directors on those Reports, which were sent to the supervision authorities in June 2017.

Likewise, the Committee also monitored the making of the Report on the Prevention of Money Laundering and Terrorism Financing, foreseen in Notice nr. 9 of 2012 of Banco de Portugal on which it issued an opinion for the BofD. It also appraised the result of the Bank's self-assessment on the prevention of money laundering and terrorism financing.

Regularly, it appraised the execution of the recommendations made in the Internal Control and Prevention of Money Laundering and Terrorism Financing Reports.

It appraised the activities developed by the Risk Office, namely those included in the monthly reports on impairments and on the evolution of the main risk indicators that contain information on credit, liquidity, market, operational, compliance and reputational risks.

It assessed the Activity Plan of the Audit Division for 2017, as well as the 2016 activity report and the 2017 quarterly reports. On a monthly basis, the head of the internal Audit informed the Committee on the inspection actions carried out by the supervision authorities of the different markets where the Group operates.

In what regards the Compliance Office, the Committee also assessed the Activity Plan for 2017, as well as the 2016 activity report and the 2017 quarterly reports.

The Committee received ongoing information on all legislative and regulatory main alterations and updated its Regulations.

It was regularly informed on the correspondence exchanged between the Bank and supervision authorities and asked the Executive Committee and the Bank's various areas for additional clarifications and information whenever deemed necessary.

Supervision of the activities of the Statutory Auditor and of the External Auditor

The Committee analysed the conclusions of the audit work on the individual and consolidated financial statements of 2016, carried out by the Statutory Auditor and External Auditor. Throughout 2017, it analysed the conclusions of the Desktop Review on the financial statements for the first and third quarters and of the Limited Review of the interim financial statements for the first half-year. In the beginning of 2018, the Committee analysed the conclusions of the audit analysis to the 2017 financial statements on an individual and consolidated basis, carried out by the Statutory Auditor and by the External Auditor.

Concerning other reports made by the external auditors, the Committee analysed: (i) the report on the impairment of the loan portfolio as at 30 June 2016, 31 December 2016 and 30 June 2017; (ii) the Reports on the Internal Control System; and (iii) the Report on the Prevention of Money Laundering and Terrorism Financing.

The Committee appraised the proposals for contracting additional services to be provided by the External Auditor, within the scope of the "Policy for the Approval of Audit Services provided by External Auditors".

In 2017, the Audit Committee revised the Group Regulation GR0022, which provides the framework for the policy for the approval of the services provided by external auditors. This new version entered into force in 2018. This revision incorporated the new legislation in effect regarding this matter.

The Committee supervised Deloitte's independence as Statutory Auditor and External Auditor by means of an ongoing evaluation of the respective performance. In the 2017 financial year, the Audit Committee concluded that Deloitte exercised its activity in an independent manner and that its performance was globally positive. However, the quality of the services provided has room for improvement, especially in what regards the timely delivery of the assignments. This conclusion was supported by a formal assessment of independence and performance, made by the Committee in the beginning of 2018, which included, among other elements, surveys especially designed for that purpose and the independence confirmation statement provided by the Deloitte itself.

Issue of opinions on operations made with members of corporate bodies and holders of stakes above 2% or more in the Bank's share capital

The Committee assessed the Bank's credit exposure to members of the BofD and to qualified shareholders and entities related to them and issued an opinion on nineteen credit operations that were presented to the BofD. The Committee also issued an opinion on five other contracts established with entities related with members of the BoD and qualified shareholders.

Complaints and claims

The Committee was regularly informed on the handling of complaints and claims from customers by the Client Ombudsman's Office and by the Quality and Network Support Division. It also monitored two claims addressed to it through the channel "Report irregularities - Whistleblowing", yet without significant relevance.

III – Acknowledgements

The Committee expresses its gratitude to the remaining Corporate Bodies and Services of the Bank it contacted and with which it collaborated throughout 2017, in particular, the Head of the Support Office of the Board of Directors, for all the collaboration provided in the performance of its duties.

Comissão de Auditoria
Banco Comercial Português, S.A.

Lisbon, 23 April 2018

João Matos Loureiro (Chairman)

Jaime Santos Bastos (Member)

Cidália Mota Lopes (Member)

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