



Annual Report of the Audit Committee



ANNUAL REPORT OF THE AUDIT COMMITTEE

I - Introduction

The Audit Committee (Commission) of Banco Comercial Português, S.A. (Bank) hereby presents the report of its supervisory action, related to the 2018 fiscal year, in compliance with the legally established in art. 423-F of the Commercial Companies Code.

II – Competences of the Audit Committee

The Audit Committee is the supervisory body of the Bank, responsible for monitoring the compliance with the law and of the articles of association and it has, namely, the following duties:

A. In General

- a) Supervising the Bank's management;
- b) Monitor the Group's management, which is understood as covering all the entities within the Bank's consolidation perimeter, notwithstanding the powers of the supervisory bodies of the local entities;
- c) Calling the General Meeting of Shareholders, whenever the Chairperson of the Board of the General Meeting fails to do so when he/she should;
- d) Verifying if the accounting processes and valuation criteria adopted by the Bank lead to a correct valuation of assets and results;
- e) Accessing call notices and minutes of the meetings of the Executive Committee and taking part in the meetings of the Executive Committee wherein the Bank's Annual Reports are appraised;

Comissão de Auditoria

Banco Comercial Português, S.A.

- f) Monitoring the entire procedure for the preparation and disclosure of financial information and present recommendations or proposals to ensure that such procedure is reliable;
- g) Overseeing the audit to the individual and consolidated financial statements, particularly its execution, taking into account possible analysis or guidelines issued by the supervision authorities and to verify that the financial statements are compliant with the applicable legal framework;
- h) Verifying the accuracy of the financial statements;
- i) Issuing an opinion on the report, the financial statements and the proposal for the application of results to be submitted to the Annual General Meeting;
- j) Analyse and monitor, periodically, the financial statements and the main prudential indicators, the risk report prepared by the Risk Office, the activity of the Compliance Office, the activity of the Internal Audit, handling of complaints and claims and the main correspondence exchanged with the Supervision Authorities;
- k) Issuing an opinion on the Bank's Annual Budget, in a medium and long-term perspective, focusing particularly on the meeting of the objectives set out in the Bank's Strategic Plan and on the compliance with the capital requirements;
- l) Drawing up an annual report to inform the Board of Directors of the results of the audit to the financial statements, explaining how the audit contributed to the integrity of the procedure for preparing and disclosing financial information, as well as describing the role the Committee played in that procedure, clearly stating its concurrence with the contents of the legal certification of accounts, when applicable;
- m) Issuing an opinion on the share capital increases resolved by the Board of Directors;
- n) Providing an opinion on the suspension of directors and on the appointment of substitute directors in accordance with the law and with the Bank's articles of association;
- o) Deciding, in accordance with the resolution of the Board of Directors, on the Group Codes that are within its competence.

Comissão de Auditoria

Banco Comercial Português, S.A.

B. Internal Control System

- p) Supervising the efficiency of the risk management system, of the internal control system and of the internal audit system, in what regards the procedure for preparing and disclosing financial information of the Bank's whole consolidation perimeter, notwithstanding the competences of the respective bodies of the local entities;
- q) Issuing a prior opinion on the external entity that aids in the assessment of the adequacy and efficiency of the internal control system and monitoring its work;
- r) Issuing an opinion on the work plans and resources allocated to the Internal Audit and Compliance Divisions, and monitor its respective execution, being the recipient of the reports made by these Divisions, especially when the issues in question relate to the presentation of financial statements, the identification and resolution of conflicts of interests and the detection of potential illegalities and/or irregularities;
- s) Analysing and commenting on the periodic reports drawn up by the internal control functions, in particular those related with situations of conflict of interest and reporting irregularities;
- t) Issuing an opinion on the technical and professional adequacy of the candidates for the position of Head of the Internal Audit Division and of Compliance Officer of the Bank;
- u) Receiving, handling and recording the communications of serious irregularities (whistleblowing) related with the management, accounting organization and internal supervision and of serious signs of infractions of duties provided for under the Legal Framework for Credit Institutions and Financial Companies, and the remaining Portuguese and European legislation in force, presented by shareholders, by the Bank's Employees or by other persons;
- v) Issue an opinion on the internal service order that regulates the internal reporting of irregularities, to be approved by the Board of Directors.

C. Monitoring of the External Auditor and the Statutory Auditor

Comissão de Auditoria

Banco Comercial Português, S.A.

- w) Propose to the General Shareholders Meeting, in case of an initial engagement, the appointment of, at least, two statutory auditors and eligible external auditors and issue a duly grounded recommendation as to which it prefers, in abidance by the applicable Portuguese and European legislation. In case of the re-appointment for a new term-of-office, the Committee can issue only one duly grounded proposal;
- x) Issuing an opinion on the remuneration of the Statutory Auditor and of the External Auditor, and ensuring that both have all the conditions to exercise their functions;
- y) Supervising and evaluating, on a yearly basis, the independence and performance of the External Auditor and of the Statutory Auditor;
- z) Approve the tendering of services to the External Auditor for the provision of additional services, while guaranteeing that such services do not jeopardise its independence, in accordance with the national and European legislation and regulation;
- aa) Receiving the additional services report drawn up by the External Auditor, in compliance with art. 11 of EU Regulation No 537/2014 of the European Parliament and of the Council of 16 April 2014.

D. Related parties

2. Beyond all the remaining competences and attributions conferred to it by the law, the articles of association or delegated by the Board of Directors, the Audit Committee shall also be responsible for:

- a) Submitting an opinion to the Board of Directors on the agreements established between the Bank and holders of stakes above 2% of the Bank's share capital or entities that are in a controlling or group relationship with them or with members of the management or supervisory bodies, directly or through third parties, provided that one of the following conditions applies: (i) the object of the agreement is not encompassed in the Bank's business; (ii) the material engagement limit exceeds the total amount of €100.000/year per suppliers part of the same economic group or client group, for the same type of

Comissão de Auditoria

Banco Comercial Português, S.A.

assets and services; and (iii) no special advantage is given to the party to the agreement in question;

- b) Submitting an opinion to the Board of Directors on credit operations, regardless of their form, to: (i) members of the corporate bodies (ii) shareholders with stakes amounting to over 2% of the Bank's share capital, computed under the terms of art. 20 of the Securities Code, and (iii) natural or legal persons related to either of the aforementioned persons.

E. Other competences

3. The Audit Committee shall submit 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, to be presented to the Chairperson of the Board of Directors, notwithstanding the duty of reporting to it any and all situations the Committee finds and deems to be of high risk;

4. The Audit Committee may hire experts to assist one or more of its members in the performance of its functions being the respective costs paid for by the Bank.

III - Activities developed

In 2018, the Audit Committee had 13 meetings, and minutes of all meetings were drawn up. For invitation, the members of the Audit Commission also participated in meetings of the Risk Assessment Committee and the Executive Committee.

The Commission received timely and appropriate information from the Executive Board.

In carrying out its duties, the Committee met regularly with the Executive Director responsible for the Financial Area (CFO), the Executive Director responsible for the Risk Area, the Statutory Auditor and the External Auditor, the Risk Officer, the Compliance Officer, the Audit Officer Internal Affairs and the Head of Studies, Planning and ALM (DEPALM).

Comissão de Auditoria

Banco Comercial Português, S.A.

In addition, the Committee met with a number of other members of the Bank's Executive Committee during 2018, including its CEO and the Executive Director responsible for the Credit Area, and based on the prerogative of any Officer wishing to hear, met with those in charge of Accounting and Consolidation, Tax Advisory, Real Estate, Human Resources, Credit, Specialized Follow-up, Procurement and Means, and Treasury, Markets and International and with the Company Secretary.

As early as 2019 and in the period prior to the preparation of this Report, the Committee met with those responsible for the Accounting, Tax Advisory and Specialized Monitoring Departments.

In carrying out its duties, the Commission requested and obtained all relevant information and clarifications, which included, in particular, the appropriate verifications on compliance with the Statutes and the applicable legal and regulatory provisions, any constraint on their performance.

During the year of 2018, the Commission has developed, inter alia, the following activities:

Supervision of the preparation and disclosure of financial information

The Commission has assessed the main accounting policies adopted, particularly those reflected in the financial statements of the Bank and its subsidiaries.

Throughout the year, the Commission regularly monitored the Group's largest exposures to credit and impairment, as well as other impairments and provisions. Particular attention was paid to the Non Performing Exposures Reduction Plan (NPEs), and the Commission welcomed the reduction achieved until the end of 2018, which was above the targets announced to the market and regulators.

Comissão de Auditoria

Banco Comercial Português, S.A.

The accounting of deferred tax assets continued to receive particular attention from the Commission, as did the analysis of their recoverability studies. Also the implementation of the new accounting standards of IFRS 9, as of January 1, 2018, deserved particular attention on the part of the Audit Committee. In conjunction with the areas of the Bank most involved in this matter and with the CFO itself, the impacts of the implementation of IFRS 9 were analysed.

As early as January 2019, the new accounting standard IFRS 16 came into force, the introduction of which received special attention from the Audit Committee.

The Commission has analysed the information on the BCP Group Pension Fund and the actuarial assumptions used for the purpose of determining pension liabilities.

The valuation of real estate classified as non-current assets held for sale and through units of Real Estate Investment Funds in which the Bank holds majority ownership was another matter monitored by the Commission throughout the year.

On a monthly basis, the members of the Committee assessed the information on the financial statements, on an individual and consolidated basis, and the results and main financial indicators of Group companies. They also periodically analysed the Bank's liquidity, efficiency and solvency ratios.

In April 2018, and for the year 2017, the Commission issued an opinion on the Bank's Report and Accounts. As early as 2019, and in relation to 2018, the Commission assessed the Management Report and Accounts prepared by the Executive Committee and the Legal Certifications of the Accounts and Audit Reports of Deloitte & Associados - SROC, SA (Deloitte), on the financial statements financial statements, on an individual and consolidated basis, issued without reservations or emphasis.

The Commission confirmed that under the terms of article 420, paragraph 5, of the Portuguese Companies Code, the Corporate Governance Report, included in the Bank's Report and Accounts for the year 2018, contains the elements referred to in article 245-A of the Portuguese Securities Code.

Comissão de Auditoria

Banco Comercial Português, S.A.

Taking into account the results of the work carried out, the Committee issued a favourable opinion on the Management Report and the Bank Accounts, which include the financial statements, on an individual and consolidated basis, for the year ended December 31, 2018.

The Commission also assessed the Group's Budget for 2019, focusing on the assumptions used, the expected evolution of results and activity indicators, risk factors, market shares, investments and the evolution of own funds. In order to carry out this exercise, the Commission also took into account the prepared sensitivity analyzes, which presented a number of adverse scenarios. The Audit Committee noted an alignment between the 2019 Budget Proposal and the Bank's Strategic Plan 2018-2021, with respect to the following aspects: net income growth; operational costs; capital and liquidity requirements; and, finally, in the continuity of the bet in the reduction of NPEs.

Monitoring of international operations

During the year, the Commission regularly monitored the performance of its international operations, notably due to its size and relevance to the Group of Millennium Bank in Poland and Millennium bim in Mozambique. It also followed the activity of Banco Millennium Atlantico, an entity in which BCP holds 22.5% of the Capital. On a monthly basis, it followed the most relevant business indicators and financial statements of these operations and, where appropriate, analysed the main risks of each operation and country with the Executive Directors. In the case of Millennium bim, the Commission closely monitored the country's macroeconomic developments and the Bank's main credit exposures.

In the case of Bank Millennium in Poland, the Commission has followed the process of acquiring EuroBank, a transaction which will allow the Polish operation to diversify and increase its activity, with significant synergies and gains in market share.

Comissão de Auditoria

Banco Comercial Português, S.A.

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

The Committee monitored the review of the internal control system, which included an analysis and evaluation carried out by Deloitte, a firm of external consultants specially contracted for this purpose since 2011. It also monitored the preparation of the internal control reports of the CA's responsibility, which have been contributed by the Risk Office, the Compliance Office and the Audit Department - and issued the opinions addressed to the Board on these reports, sent in June 2018 to the supervisory authorities.

Similarly, the Commission regularly monitored the implementation of the recommendations contained in the Internal Control Reports and the determinations relating to the Prevention of Money Laundering and the Financing of Terrorism.

It appreciated the activity developed by the Risk Office, namely that reflected in the monthly impairment reports and the evolution of the main risk indicators, which contain, in particular, information on credit, liquidity, market, operational, compliance and reputational risk.

It reviewed the Business Plan of the Audit Department for the year 2018, as well as the annual report of the activity carried out in 2017 and the quarterly activity reports for 2018. The Audit Officer informed the Commission on a monthly basis on the inspection actions carried out by supervisory bodies.

Also with respect to the Compliance Office, the Commission assessed its Activity Plan for 2018 and the annual activity report developed in 2017 and the quarterly reports for 2018. The Commission kept up to date on the main legislative and regulatory changes and updated its Rules of Procedure.

Comissão de Auditoria

Banco Comercial Português, S.A.

The Commission regularly took note of the correspondence between the Bank and the supervisory authorities, requesting the Executive Board and the various areas of the bank further information and clarification where this was deemed necessary.

In the course of 2019, the Commission analysed the issue of Additional Tier 1, an operation that allowed the Bank to strengthen its total capital ratio.

Also in 2019, the Commission issued a favorable opinion for the hiring of the Group Head of Compliance.

Claims and Complaints

The Commission regularly took note of the information on the handling of customer claims and complaints by the Customer Ombudsman and the Directorate for Quality and Network Support. He also accompanied the complaints addressed to him under the channel "Reporting Irregularities - whistleblowing".

The Audit Committee approved the updating of the Internal Service Order OS0131 - Irregularities Reporting Regulation, which results from the new EBA guidelines and its impact on the Bank's internal and external whistleblowing policies and participation; as well as the updating of the Internal Service Order OS0016 - Concession, Monitoring and Recovery of Credit.

Renewal of the mandate of the Statutory Auditor and External Auditor

The Audit Committee conducted, within the scope of its powers, the process of renewal of the External Auditor and after receiving the technical and financial proposal for the renewal / contracting of Deloitte and ROC, and weighted the efficiency costs resulting from the change of ROC and External Auditor, the Committee decided, in compliance with the provisions of article 3 of Law no. 148/2015, of September 9, which will recommend to the shareholders the reappointment of Deloitte for a new mandate as Chartered Accountant and External Auditor, for the term of office at the date set forth in the Bank's articles of association.

Comissão de Auditoria

Banco Comercial Português, S.A.

Supervision of the activity of the Statutory Auditor and External Auditor

The Commission has analysed the conclusions of the audit of the financial statements for the year 2017, on an individual and consolidated basis, by the Statutory Auditor and by the External Auditor. Throughout 2018, it reviewed Desktop Review's findings for the first quarter and third quarter financial statements and the First Quarter and Limited Review financial statements. As early as 2019, it analysed the conclusions of the audit work on the financial statements for the year 2018, on an individual and consolidated basis, carried out by the Statutory Auditor and by the External Auditor.

With regard to other reports produced by the external auditors, the Commission analysed: (i) the report on the impairment of the loan portfolio by the end of 2018, and (ii) the reports on the Internal Control System.

The Commission considered the proposals for the award of additional services provided by the External Auditors and their compliance with the "Approval Policy for Services Provided by External Auditors". During the 2018 financial year, the Audit Committee revised the group code GR0022, which is in line with the policy of approving the services of external auditors. It has been published in the course of 2018.

The Commission supervised the independence of Deloitte as Official Auditor and External Auditor, continuing to evaluate its performance. Regarding the 2018 financial year, the Audit Committee concluded that Deloitte was independent and that its performance was positive overall, although there is room for improvement in the quality of the services rendered and in the communication and interaction of the external auditor with the bank. This conclusion was supported by a formal assessment of independence and performance, promoted by the Commission as early as 2019, which included, inter alia, special inquiries and Deloitte's confirmation of independence.

Comissão de Auditoria

Banco Comercial Português, S.A.

Merger Project to incorporate Sadamora and Enerparcela companies into the BCP group

The Audit Committee issued a favourable opinion on the merger of Sadamora - Investimentos Imobiliários, SA (Sadamora) and Enerparcela - Empreendimentos Imobiliários, SA (Enerparcela) into Banco Comercial Português, SA (BCP), underlining the greater efficiency in results by reducing the costs of a common structure, as well as the fact that the interests of the shareholders of the acquiring company, BCP, are not affected; since companies that were already wholly and wholly owned by the acquiring company were incorporated.

Capital reduction

The Audit Committee, as an independent oversight body, monitored the capital reduction process on November 5, 2018, and assuming that the Bank's ordinary course has been maintained, confirmed the existence of sufficient balances in the balance sheet items that will be the reduction of capital; whereas the reduction of the capital of the bank is intended to free funds and is therefore a nominal reduction of capital; that the company's net worth allows for a reduction, given that the new capital stock will exceed by at least 20%, as stipulated in the Commercial Companies Code.

Issuance of opinions on operations with members of corporate bodies and holders of more than 2% of the Bank's share capital

The Commission monitored the Bank's credit exposure to members of the Board of Directors and to holders of qualifying holdings and related entities, and has pronounced on fifteen credit operations submitted to the Board of Directors. It also ruled on a contract with an entity related to CA members and holders of qualifying holdings.

Comissão de Auditoria

Banco Comercial Português, S.A.

III - Thanks

The Commission expresses its thankfulness to the other Bodies and Services of the Bank, in particular to Dr. Ricardo Valadares, responsible for the CA Support Office, for all the collaboration, dedication and well performance of their duties during the financial year of 2018.

Lisbon, 10th April 2019

Cidália Mota Lopes
(Acting Chairwoman)

Valter Barros
(Member)

Wan Sin Long
(Member)

Comissão de Auditoria
Banco Comercial Português, S.A.