

42. Transfers of assets

The Bank performed a set of transactions of sale of financial assets (namely loans and advances to customers) for Funds specialized in the recovery of loans. These funds take the responsibility for management of the borrower companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of the companies/assets.

The specialized funds in credit recovery that acquired the financial assets are closed funds, in which the holders of the participation units have no possibility to request the reimbursement of its participation units throughout the useful life of the Fund. These participation units are held by several banks, which are the sellers of the loans, in percentages that vary through the useful life of the Funds, ensuring however that, separately, none of the banks hold more than 50% of the capital of the Fund.

The Funds have a specific management structure (General Partner), fully independent from the assignor banks and that is selected on the date of establishment of the Fund. The management structure of the Fund has as main responsibilities to: (i) determine the objective of the Fund and (ii) administrate and manage exclusively the Fund, determining the objectives and investment policy and the conduct in management and business of the Fund. The management structure is remunerated through management commissions charged to the Funds.

These funds (in which the Group holds minority positions) establish companies in order to acquire the loans to the banks, which are financed through the issuance of senior and junior securities. The value of the senior securities fully subscribed by the Funds that hold the share capital match the fair value of the asset sold, determined in accordance with a negotiation based on valuations performed by both parties.

The value of the junior securities is equivalent to the difference between the fair value based on the valuation of the senior securities and the value of the transfer of credits. These junior securities, when subscribed by the Group, provide the right to a contingent positive value if the recovered amount for the assets transferred is above the nominal value amount of senior securities plus its related interest. Thus, considering these junior assets reflect a difference between the valuations of the assets sold based on the appraisals performed by independent entities and the negotiation between the parties, the Group performs the constitution of impairment losses for all of them.

Therefore, as a result of the transfer of assets occurred operations, the Group subscribed:

- Senior securities (participation units) of the funds, for which the cash-flows arise mainly from a set of assets transferred from the participant banks. These securities are booked in Financial assets not held for trading mandatorily at fair value through profit or loss portfolio and are accounted for at fair value based on the last available Net assets value (NAV), as disclosed by the Management companies and audited at year end, still being analysed by the Bank;
- Junior securities (with higher subordination degree) issued by the Portuguese law companies held by the funds and which are fully provided to reflect the best estimate of impairment of the financial assets transferred.

Within this context, not withholding control but maintaining an exposure to certain risks and rewards, the Group, in accordance with IFRS 9 3.2 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the transaction, having concluded that it does not hold substantially all the risks and rewards. Considering that it does not hold control and does not exercise significant influence on the funds or companies' management, the Group performed, under the scope of IAS IFRS 9 3.2, the derecognition of the assets transferred and the recognition of the assets received.

The results are calculated on the date of transfer of the assets. During 2019 and 2018, no credits were sold to specialized funds in credit recovery. The amounts accumulated as at 31 December 2019 and 2018, related to these operations are analysed as follows:

	Assets transferred	Net assets transferred	Received value	Net gains / (losses)
Fundo Recuperação Turismo FCR (a)	304,400	268,318	294,883	26,565
Fundo Reestruturação Empresarial FCR (b)	84,112	82,566	83,212	646
FLIT-PTREL (c)	577,803	399,900	383,821	(16,079)
Fundo Recuperação FCR (b)	343,266	243,062	232,267	(10,795)
Fundo Aquarius FCR (c)	132,635	124,723	132,635	7,912
Discovery Real Estate Fund (c)	211,388	152,155	138,187	(13,968)
Fundo Vega FCR (d)	113,665	113,653	109,599	(4,054)
	1,767,269	1,384,377	1,374,604	(9,773)

The Restructuring of the Fund activity segments are as follows: a) Tourism; b) Diversified; c) Real estate and tourism; and d) Property.

As at 31 December 2019, the assets received under the scope of these operations are comprised of:

(Thousands of euros)

	2019			Total
	Senior securities	Junior securities		
	Participation units (note 21)	Capital supplies (note 28)	Capital supplementary contributions (note 28) (*)	
Fundo Recuperação Turismo FCR				
Gross value	276,247	32,669	-	308,916
Impairment and other fair value adjustments	(51,360)	(32,669)	-	(84,029)
	224,887	-	-	224,887
Fundo Reestruturação Empresarial FCR				
Gross value	88,402	-	33,280	121,682
Impairment and other fair value adjustments	(44,698)	-	(33,280)	(77,978)
	43,704	-	-	43,704
FLIT-PTREL				
Gross value	247,354	38,154	-	285,508
Impairment and other fair value adjustments	(7,587)	(38,154)	-	(45,741)
	239,767	-	-	239,767
Fundo Recuperação FCR				
Gross value	187,741	82,947	-	270,688
Impairment and other fair value adjustments	(101,496)	(82,947)	-	(184,443)
	86,245	-	-	86,245
Fundo Aquarius FCR				
Gross value	139,147	-	-	139,147
Impairment and other fair value adjustments	(9,153)	-	-	(9,153)
	129,994	-	-	129,994
Discovery Real Estate Fund				
Gross value	155,328	-	-	155,328
Impairment and other fair value adjustments	2,149	-	-	2,149
	157,477	-	-	157,477
Fundo Vega FCR				
Gross value	48,076	77,366	-	125,442
Impairment and other fair value adjustments	(5,661)	(77,366)	-	(83,027)
	42,415	-	-	42,415
Total Gross value	1,142,295	231,136	33,280	1,406,711
Total impairment and other fair value adjustments	(217,806)	(231,136)	(33,280)	(482,222)
	924,489	-	-	924,489

(*) Corresponds to supplementary capital contributions initially recorded for the amount of Euros 33,280,000, and was made a negative fair value adjustment of the same amount.

The book value of these assets resulted from the last communication by the respective management company of the NAV of the Fund which, as at 31 December 2019, corresponds to the NAV at that date. In addition, the valuation of these funds includes, among others, the following aspects: (i) these are funds whose latest Audit Reports available (with reference to 31 December 2018 for 2 funds and Limited Revision Report with reference to 30 June 2019 for 5 funds), do not present any reservations except for Fundo de Reestruturação Empresarial whose Limited Review Report of 30 June 2019 includes a reserve by scope limitation whose potential negative impact was considered in the valuation reflected in the consolidated accounts as at 31 December 2019; (ii) the funds are subject to supervision by the competent authorities.

Within the scope of the transfer of assets, the junior securities subscribed which carry a subordinated nature and are directly linked to the transferred assets, are fully provided for. Although the junior securities are fully provisioned, the Bank still holds an indirect exposure to financial assets transferred, under the minority investment that holds in the pool of all assets transferred by financial institutions involved, through the holding of participation units of the funds (denominated in the table as senior securities).

As at 31 December 2018, the assets received under the scope of these operations are comprised of:

	2018			Total
	Senior securities	Junior securities		
	Participation units (note 21)	Capital supplies (note 28)	Capital supplementary contributions (note 28) (*)	
(Thousands of euros)				
Fundo Recuperação Turismo FCR				
Gross value	287,930	32,206	-	320,136
Impairment and other fair value adjustments	(49,074)	(32,206)	-	(81,280)
	238,856	-	-	238,856
Fundo Reestruturação Empresarial FCR				
Gross value	106,690	-	33,280	139,970
Impairment and other fair value adjustments	(31,336)	-	(33,280)	(64,616)
	75,354	-	-	75,354
FLIT-PTREL				
Gross value	268,645	38,154	-	306,799
Impairment and other fair value adjustments	(3,899)	(38,154)	-	(42,053)
	264,746	-	-	264,746
Vallis Construction Sector Fund				
Gross value	193,730	80,938	-	274,668
Impairment and other fair value adjustments	(89,971)	(80,938)	-	(170,909)
	103,759	-	-	103,759
Fundo Recuperação FCR				
Gross value	139,148	-	-	139,148
Impairment and other fair value adjustments	(10,974)	-	-	(10,974)
	128,174	-	-	128,174
Fundo Aquarius FCR				
Gross value	152,864	-	-	152,864
Impairment and other fair value adjustments	1,075	-	-	1,075
	153,939	-	-	153,939
Discovery Real Estate Fund				
Gross value	47,694	74,751	-	122,445
Impairment and other fair value adjustments	(5,534)	(74,751)	-	(80,285)
	42,160	-	-	42,160
Total Gross value	1,196,701	226,049	33,280	1,456,029
Total impairment and other fair value adjustments	(189,712)	(226,049)	(33,280)	(449,041)
	1,006,988	-	-	1,006,988

(*) Corresponds to supplementary capital contributions initially recorded for the amount of Euros 33,280,000, and was made a negative fair value adjustment of the same amount.

As at 31 December 2019, the detail of the commitments of subscribed and unpaid capital for each of the corporate restructuring funds is analysed as follows:

(Thousands of euros)

Corporate restructuring funds	2019			2018		
	Subscribed capital	Capital realized	Subscribed and unpaid capital	Subscribed capital	Capital realized	Subscribed and unpaid capital
Fundo Recuperação Turismo FCR	292,000	276,246	15,754	303,683	287,929	15,754
Fundo Reestruturação Empresarial FCR	74,263	67,409	6,854	101,133	86,419	14,714
FLIT-PTREL	241,358	241,358	-	262,231	262,231	-
Fundo Recuperação FCR	206,805	187,742	19,063	213,635	193,729	19,906
Fundo Aquarius FCR	156,100	139,148	16,952	156,100	139,148	16,952
Discovery Real Estate Fund	156,121	156,121	-	153,243	153,243	-
Fundo Vega FCR	49,616	46,601	3,015	49,616	46,233	3,383
	1,176,263	1,114,625	61,638	1,239,641	1,168,932	70,709

In 2019, there are also additional subscription commitments for the funds FLIT-PTREL and Discovery, in the amount of Euros 18,227,000 and Euros 3,977,000, respectively.

Additionally, are booked in Loans and advances to customer's portfolio and in balances Guarantees granted and Irrevocable credit lines, the following exposures and respective impairment:

(Thousands of euros)

Items	2019	2018
Loans and advances to customers	232,892	282,480
Guarantees granted and irrevocable credit lines	49,327	55,089
Gross exposure	282,219	337,569
Impairment	(88,337)	(85,884)
Net exposure	193,882	251,685

43. Relevant events occurred during 2019

Issue of perpetual subordinated (Additional Tier 1) notes by Banco Comercial Português, S.A.

Banco Comercial Português, S.A. proceeded, on 31 January 2019, to an issue of perpetual bonds, representing subordinated debt, classified as additional Tier 1 core capital instrument ("Additional Tier 1" or "AT1").

The operation, in the amount of Euros 400 million and with no fixed term, has the option of early repayment by the Bank as of the end of the 5th year, and an interest rate of 9.25% per annum during the first 5 years. As an instrument classified as AT1, the corresponding interest payment is decided by the Bank at its discretion and is still subject to compliance with a set of conditions, including compliance with the combined requirement of capital reserve and the existence of Distributable Funds in sufficient amount. The payment of interest may also be cancelled by imposition of the competent authorities.

The issuance, the first of its kind denominated in euros on the European market in 2019, was part of the Bank's strategy to strengthen and diversify the components of its capital base, contributing significantly to the strengthening of its eligible liabilities to meet the minimum requirement for eligible own funds and liabilities and to strengthen its presence in the capital market.

Issue of W-Series subordinated bonds of the Bank Millennium, S.A. (Poland)

On 30 January 2019 the Bank Millennium, S.A. (Poland) issued 1,660 series W subordinated bonds in the total amount of PLN 830 million (Euros 193 million). The maturity of the bonds is 30 January 2029 and the interest rate is variable, based on WIBOR 6M plus a margin of 2.30% per annum.

After the assent of Polish Financial Supervision Authority, the bonds were considered instruments in the Bank's Tier 2 capital in the meaning of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.