

# ANNUAL REPORT OF THE AUDIT COMMITTEE



## AUDIT COMMITTEE ANNUAL REPORT

### I – Introduction

The Audit Committee (Committee) of Banco Comercial Português, S.A. (Bank) hereby presents its annual report on its supervisory functions regarding the 2019 financial year, in compliance with the provisos of article 423-F (1) (g) of the Portuguese Companies Code.

### II - Powers 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 management of Group Banco Comercial Português (Group), which is understood as covering all the entities within the consolidation perimeter of the Bank, 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 accounts are appraised;
- f) Monitoring the entire procedure for preparing and disclosing financial information and presenting recommendations or proposals to ensure that such procedure is reliable;
- g) Overseeing the audit to the individual and consolidated financial statements of the financial year, especially its execution, taking into account eventual analyses 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, financial statements and proposal for the appropriation of profits to be submitted to the Annual General Meeting;

- j) Periodically assess and follow-up the financial statements and the main prudential indicators, the risk report prepared by the Risk Office, the activity pursued by the Compliance Office, the activity pursued by the Internal Audit, the handling of claims and complaints and the most significant correspondence exchanged with the Supervisory Authorities;
- k) Provide an opinion on the Bank's Annual Budget, in a medium and long-term perspective, focusing particularly on the observance 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) Provide an opinion on the suspension of directors and on the appointment of substitute directors in accordance with the law and the Bank's articles of association;
- o) Decide on the Group Codes that are within its competence.

## **B. Internal Control System**

- a) Supervising the effectiveness and efficiency of the internal control system including risk management, compliance, and internal audit , in what regards the procedure for preparing and disclosing financial information of the whole consolidation perimeter of the Bank, notwithstanding the competences of the respective bodies of the local entities;
- b) 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;
- c) 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;
- d) analyse and comment on the periodic reports drawn up by the internal control functions, in particular those related with situations of conflict of interest and reporting of irregularities.
- e) Issuing an opinion on the technical and professional adequacy of the candidates for the position of Head of the Internal Audit Division and Compliance Officer of the Bank;
- f) Receiving, handling and recording the communications of serious irregularities related with the management, accounting organization and internal supervision and of serious

signs of infractions of duties foreseen in the Legal Framework for Credit Institutions and Financial Companies, and remaining Portuguese and European legislation in force, presented by shareholders, Bank employees or other;

- g) 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**

- a) Propose to the General Meeting of Shareholders, 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 issue of a duly grounded proposal;
- b) 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;
- c) supervise and evaluate, every year, the independence and performance of the External Auditor and of the Statutory Auditor;
- d) 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;
- e) 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. Operations with related parties and other competences**

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) Issuing for the Board of Directors an opinion 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 members of the management and supervision body, directly or through third parties, provided that any 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 group of suppliers part of the same economic group or client group, for the same type of assets and services; and (iii) no special advantage is given to the party to the agreement in question;
- b) Issuing for the Board of Directors an opinion on credit operations, regardless of their form, to: (i) members of the corporate bodies (ii) shareholders with stakes over 2% of

the Bank's share capital, computed under the terms of art. 20 of the Securities Code, and to (iii) natural or legal persons related to either of them;

- c) 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, without prejudice to the duty of reporting to it any and all situations the Committee finds and deems to be of high risk;
- d) request the hiring of experts to assist one or more of its members in the performance of its functions being the respective costs paid by the Bank.

### **III - Activities carried out**

In 2019, the Audit Committee held 13 meetings with the participation of all its members, in person or through video conference, and minutes of meetings were drawn from the respective meetings and approved.

The new member of the Committee elected at the General Meeting of Shareholders of the Bank held on 22 May 2019, Mr. Fernando da Costa Lima, participated as a guest in the meetings held from July to November, during which the Bank was waiting for the disclosure of the non-opposition by the supervisory authorities for his exercise of the function as elected, and received notice by the European Central Bank on 5 December 2019.

At the Committee's meetings participated, on a regular basis and as guests, the Executive Director responsible for the Financial Area, the Executive Director responsible for the Risk and Compliance areas, Deloitte & Associados - SROC, S.A. (Deloitte), Statutory Auditor and the Bank's External Auditor, the Risk Officer, the Compliance Officer, the Head of the Audit Division, the Head of the Research, Planning and ALM Division and the Head of the Quality and Support to the Network, to whom pertains the analysis and handling of complaints and claims. Throughout 2019, the Committee also invited to take part in its meetings, when it deemed necessary, other members of the Bank's Executive Committee, namely the Chief Executive Officer, the Executive Director in charge of the Credit Area.

In addition, and based on the powers it has to summon any employee of the Bank to obtain information on the activity developed by the respective areas, the Committee held meetings with the Heads of the Specialized Monitoring, Tax Advisory, Accounting and Consolidation, Credit, Specialized Credit and Real Estate, Rating, Retail Credit Recovery, Specialized Recovery, Human Resources and Treasury, Markets and International Divisions.

In 2020 and during the time this report was being prepared, the Committee held meetings with the Heads of the Accounting and Consolidation and Tax Advisory Divisions to obtain some additional information regarding the accounts closing process.

The members of the Committee also participated in meetings of the Committee for Risk Assessment to analyse matters of common interest and in the meeting of the Executive

Committee for the appraisal of the Bank's annual financial statements, as set forth in article 3 (1) (e) of the Regulations of the Audit Committee.

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

From the activities developed by the Audit Committee in the 2019 financial year, the following stand out:

#### **A. 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. Particular attention was given to the impact of the implementation of IFRS 16, in force since 1 January 2019, which proved to be a minor impact, as well as to the additional adjustments due to the entry into force, in 2018, of IFRS 9.

Throughout the year, the Committee regularly monitored the performance of the major credit exposures and impairments, at an individual and collective level, and the execution of the Plan for Reducing Non-Performing Exposures (NPE).

The stock and the accounting of deferred taxes (DTA), the new tax legislation (Law no 98/2019, of 4 September) and the studies to assess the recoverability of the DTA were also object of analysis and debate by the Committee. In this item, and as a result of the new tax legislation and of a negative interest rates policy, there was a strong decrease in the stock of DTA with a consequent impact on taxes on profits and, consequently, on the earnings of the financial year.

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 also regularly reviewed the information relative to the Pension Fund of BCP Group and the actuarial assumptions used to determine the liabilities with retirement pensions, particularly the decrease in the discount rate.

The Committee also 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 periodically analysed the Bank's liquidity, cost-to-income and solvency ratios,

The Committee appraised the 2018 directors report and financial statements, 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 2018, contains the data mentioned in article 245-A of the Securities Code.

Following the analysis made on 22 April 2019, the Committee issued a favourable opinion on the approval by the Bank's General Meeting of Shareholders of the Management Report and the other financial reporting documents regarding the 2018 financial year and on the proposal on the appropriation of profits, and of the dividend stabilisation reserve, presented by the Board of Directors.

The Committee analysed the project for the merger by incorporation of Banco de Investimento Imobiliário, S.A. into Banco Comercial Português, S.A., regarding which it issued a favourable opinion on 12 September 2019, underlining the absence of impact of the merger on the interests of the Bank's shareholders since it represents the incorporation of a company which was 100% held by BCP.

By the end of 2019, the Committee also appraised the Group Budget for 2020, examining the assumptions used, the earnings and activity indicators forecast, the risk factors, the market shares, the investments and the evolution of own funds as well as the sensitivity analysis prepared, which presented a set of adverse scenarios. As a result of the analysis made, the Audit Committee issued an opinion underlining the quite significant deviations between the Budget and the Strategic Plan, pointing out, however, that the Bank foresees complying with the medium- and long-term capital requirements, even in the most adverse scenarios.

## **B. 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 also monitored the activities performed by Banco Millennium Atlântico (Angola), an entity which is 22.5% owned by BCP.

The Committee received monthly information on the performance of the subsidiary companies abroad, on the respective financial statements and main business indicators, giving a particular attention, concerning Poland, to the monitoring of the legislative instability regarding the proceedings related with loans in Swiss francs in Bank Millennium and the need of accounting for a provision, and also to the integration of Eurobank in this Bank and associated impacts. In Mozambique, the performance of the credit portfolio and the amount of impairments was also monitored. In Angola, the value of the stake in Banco Millennium Atlântico was regularly assessed and shows the effects of the performance of the Asset Quality Assessment, as well as the depreciation of Kwanza versus Euro that occurred in 2019.

Whenever justified, the Committee analysed, together with the Executive Directors, the main risks presented by each operation and country.

### **C. Supervision of the effectiveness of the internal control system including risk management, compliance and internal audit**

The Committee monitored the works for the revision of the internal control system, which included an analysis and evaluation made by Deloitte within the scope of the audit works specifically contracted for this purpose since 2011 regarding some of the aspects of the internal control system which are not related with financial reporting. It also monitored the drafting of the Internal Control Reports, under the responsibility of the Board of Directors, 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 2019, as set forth in Notice 5/2008 of Banco de Portugal.

The Committee also monitored the preparation of the Prevention of Money Laundering and Terrorism Financing Report required by Notice 2/2018 of Banco de Portugal, on which it also issued an opinion addressed to the Board of Directors and took cognizance of the conclusions of the supporting work developed by the Boston Consulting Group on the prevention of money laundering and terrorism financing (AML).

Throughout the year, the Committee appraised the implementation of the recommendations made in the Internal Control and the Prevention of Money Laundering and Terrorism Financing Reports.

Regarding the risk management system, the Committee 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 reputation risks, regarding all the countries where the Group operates. Therein, we point out the special follow-up of Non-Performing Exposures (NPE), Non-Performing Loans (NPL), Corporate Restructuring Funds (FRE), Pension Fund, Cost to core income, stock of legal proceedings of loans in Swiss francs, exposure to Mozambique and the value of the Bank's stake in Banco Millennium Atlântico.

The Committee analysed and approved the Activities Plan of the Audit Division for the 2019 financial year as well as the proposal to adjust the such Plan due to the additional audits to be made and of the changes occurred, in the meantime, in the staff of the Audit Division. It also approved the annual report of the activity developed by that Division during 2018 and the quarterly reports of 2019 and followed up on the status of the implementation of the recommendations issued due to the internal audit actions carried out, especially those resulting from deficiencies classified as of high or medium risk. On this regard, the Committee noticed a decrease in the stock of recommendations, particularly the ones with low risk, and stresses, however, that the Bank needs to continue with this process, giving a special attention to older recommendations and those in delay.

The Head of the Audit Division informed the Committee, every month, on the prudential inspection actions carried out by the supervisory entities and on the status of implementation of the recommendations resulting from those inspections.



At the beginning of 2019 the Committee issued a favourable opinion on the hiring of a new Compliance Officer, Mr. Pedro Dias, after analysing the technical and professional suitability of the candidate, taking into consideration his curriculum vitae. The new Compliance Officer initiated functions on 1 March 2019.

The Committee debated the migration of operational risk management from Risk Office to Compliance Office.

The Committee analysed and approved the Activities Plan for 2019 of the Compliance Office as well as the annual report on the activity developed by that area in 2018 and the 2019 quarterly reports. The Compliance Officer provided monthly information to the Committee on the behavioural inspection actions carried out by the supervisory entities and on the status of implementation of the recommendations resulting from those inspections.

Within the scope of the gifts policy, the Committee followed-up and decided on the communication of gifts received by the Bank's employees, as well as by the members of the governing bodies. Moreover, the Committee intervened in the process of reviewing and approval of article 14 – Gifts of the Group Code GR0021 – Code of Conduct.

Throughout the year, the Committee received regular information on the correspondence exchanged between the Bank and supervisory authorities and asked the Executive Committee and the Bank's various areas for additional clarifications and information on the issues handled in that correspondence, whenever deemed necessary.

The Committee was also informed on the main legislative and regulatory alterations, updated its Regulations and issued an opinion on the group codes regarding which its opinion was requested or is regulatorily required.

#### **D. 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. In order to ensure a closer monitoring of the handling of claims and complaints, the correspondent provision of information to the Committee began to be made through summary monthly reports and detailed quarterly reports submitted by the coordinating-manager responsible for the area.

The Committee also monitored the claims addressed to it by the whistleblowing channel “Comunicar Irregularidades” and gave the proper follow-up to each situation reported. The detailed information on the claims received through this channel and respective processing is presented in a separate report, in accordance with article 116-AA (7) of the Legal Framework for Credit Institutions and Financial Companies.

## **E. Supervision and monitoring of the activities of the Statutory Auditor and of the External Auditor**

In 2019, the Audit Committee analysed the conclusions of the audit to the financial statements, on an individual and consolidated basis, made by Deloitte, the Bank's Statutory Auditor and External Auditor, and the corresponding legal certifications of accounts and audit reports, as well as the conclusions of the Desktop Review of the financial statements of the 1st and 3rd quarters of 2019 and the Limited Review of the half-year interim financial statement.

In what regards other reports made by Deloitte, the Committee analysed: (i) the opinion from the Statutory Auditor on the adequacy and efficiency of the internal control system underlying the process of preparation and disclosure of financial information; (ii) the reports from the External Auditor on impairment of the credit portfolio as of December 2018 and June 2019; and (iii) the report from the External Auditor on the safeguard of the customers' assets.

Following the process initiated in the previous year and the acceptance by Deloitte of the conditions imposed by the Committee regarding the proposal for the provision of services, the Committee presented to the General Meeting of Shareholders of the Bank a recommendation for the re-appointment of Deloitte as Statutory Auditor and External Auditor of the Bank for an additional mandate, for the minimum period of time set forth by the articles of association of the company at the moment of the election. This proposal was approved by the shareholders.

Pursuant to the re-appointment of Deloitte, the Committee made and approved a "Policy for the Selection and Evaluation of the External Auditors" in order to formalize procedures in future processes with a similar nature, which adopted the form of a service order (OS0209, which was approved by the Board of Directors on 23 April 2019).

The Committee supervised Deloitte's independence in the exercise of their functions as Statutory Auditor and External Auditor by means of an ongoing evaluation of the respective performance. From the evaluation made regarding its performance as Statutory Auditor and External Auditor throughout the 2018 financial year, resulted, as positive, an adequate evaluation regarding its independence, objectivity and professional scepticism, and as points to improve, the compliance with the terms set by the regulator and by the Bank, as well as the resources allocated to the performance of their activities. The Committee made a summary report on the evaluation made and this report was debated with Deloitte.

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".

## **F. Issue of opinions on credit operations and other contracts established with members of corporate bodies and holders of stakes above 2% in the Bank's share capital and on other specific situations**

Throughout the financial year, the Committee issued its opinion on sixteen credit operation proposals (including revisions of lines and limits) and two proposals for the contracting of

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goods and services, which were submitted, for approval, to the Board of Directors, regarding shareholders holding stakes above 2% in the Bank's share capital, members of its administration and supervisory bodies and entities related with them.

The Committee monitored the performance of the Bank's exposure to holders of qualified stakes and entities that are in a control or group relation with them, ensuring the compliance with the prudential limits defined in article 109 of the Legal Framework for Credit Institutions and Financial Companies.

Within the scope of its responsibilities and competences, as defined in article 3 (1) (n) of the Committee's Regulation, "*Provide an opinion on the suspension of directors and on the appointment of substitute directors in accordance with the law and the Bank's articles of association*", the Committee analysed the request received on 22 November 2019 from the director Mr. Elias da Costa, to temporarily suspend his functions as a non-executive director, for acceptable reason, until 15 January 2020, when the Committee and reassessed the situation and the request.

### III – Acknowledgements

The Committee wishes to express its gratitude to the Corporate Bodies and Services of the Bank it contacted and with which it collaborated throughout 2019, especially to Mr. Ricardo Valadares and Mr. Mário Neves, for all the collaboration provided and commitment shown in the performance of their duties in the Support Office of the Board of Directors.

Porto Salvo, 26 March 2020



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Cidália Mota Lopes



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Valter de Barros



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Wan Sin Long



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Fernando da Costa Lima