

Internal Control System

The internal control system substantiates in the set of principles, strategies, policies, systems, processes, rules and procedures established in the Group aimed at ensuring:

- Efficient and profitable performance of the activity, in the medium and long-term, ensuring the effective use of the assets and resources, the business continuity and survival of the Group, namely through an adequate management and control of the activity risks, through a prudent and correct assessment of assets and liabilities, as well as through the implementation of mechanisms for prevention and protection against errors and fraud;
- The existence of financial and managerial information which is complete, pertinent, reliable and timely, to support decision-making and control processes, both at an internal and external level;
- Observance of the applicable legal and regulatory provisions issued by the supervision authorities, including those relative to the prevention of money laundering and financing of terrorism, as well as professional and ethical standards and practices, internal and statutory rules, codes of conduct and Customer relations, guidelines of the governing bodies and recommendations of the Basel Banking Supervisory Committee and European Banking Authority (EBA), so as to preserve the image and reputation of the institution before its Customers, Shareholders, Employees and Supervisors.

In order to achieve these objectives, the internal control system is based on the compliance function, the risk management function and internal audit function. The Heads of these three divisions are appointed by the Bank's Board of Directors - the body that has the capacity to approve the technical and professional profile of these top managers, as appropriate for the exercise of their respective functions -, by proposal of the Committee for Nominations and Remunerations, after an opinion from the Audit Committee and of the Committee for Risk Assessment.

The internal control system is based on:

- A control environment supported by high integrity and honesty standards, promoting a strict compliance with the laws and regulations, by the effective enforcement of a 'check and balance' system, including adequate segregation of duties, with the objective of preventing conflicts of interest, and also by process based operational management models and control activities, that allow for clear identification of the implemented controls and the assessment of their efficiency;
- A solid risk management system, aimed at the identification, evaluation, follow-up and control of all risks which might influence the Group's activities;
- An efficient information and communication system, designed to guarantee the collection, processing and transmission of relevant, encompassing and consistent data, within a timeframe and manner that allows for an effective and timely management and control of the institution's activity and risks;
- An effective monitoring and correction process, implemented with a view to ensuring the adequacy and effectiveness of the actual internal control system over time, to immediately identify any flaws (defined as the group of existing, potential or real defects, or opportunities for the introduction of improvements that will strengthen the internal control system), and ensuring the triggering of corrective action;
- Strict compliance with all the legal and regulatory provisions by the Group's employees in general, and by the people who hold senior or managerial positions, including members of the management bodies, to ensure compliance with the Group's Code of Conduct and other codes of conduct applicable to the Banking, financial, insurance and brokerage (of securities or derivatives) activities;
- A governance model that defines that the business areas are responsible for risk taking, ensuring the effective monitoring, control and management of the risks assumed, and supporting the independent review of the risk levels incurred as compliant with the Risk Appetite Framework.

The internal control system is consistently applied across all Group entities, taking into account and complying with local, legal or regulatory requirements of the countries where operations are based supported on a Group Code issued for this purpose.

The internal control system is based on the three lines of defence model, aiming at ensuring:

- A clear accountability of the business areas for their respective risk taking;
- An effective monitoring, control and management of the risks assumed; and
- An independent assessment, reported to the Board of Directors and its Executive Committee, of the incurred risk levels, their compliance with the Risk Appetite Framework and of the effectiveness of the control systems established.

The Risk Management System, the Information and Reporting System and the Internal Control Monitoring System

The internal control system includes the following subsystems: the risk management system, the information and reporting system and the internal control monitoring system among others.

The Chief Risk Officer of Banco Comercial Português is the executive director responsible for coordinating the risk management system at Group level, through the Risk Officers and Compliance Officers of each Entity that functionally report to him.

The Chief Financial Officer of Banco Comercial Português is the executive director responsible for coordinating the information system for the accounting and financial elements and for the planning process at Group level, supported with the collaboration of the risk management function.

The risk management system corresponds to the set of integrated and permanent processes which enable the identification, assessment, monitoring and control of all material risks, to which the Group's institutions are exposed, in order to keep them at levels that are predefined by the management and supervisory bodies, and takes into consideration the BCP risk taxonomy which includes the risks identified by the Regulatory and Supervisory Authorities, as well as all other risks which, in view of the specific situation of the Group's institutions, could become materially relevant. The Risk Office is responsible for keeping the BCP risks taxonomy updated as well as for promoting and conducting the regular risk identification process in the Group.

This system is suitably planned, reviewed and documented and is supported by risk identification, assessment, monitoring and control processes, which include appropriate and clearly defined policies and procedures, aimed at ensuring that the objectives of the institution are achieved and that the necessary measures are taken to respond adequately to previously identified risks.

The risk management system ensures the segregation between the risk management function and the risk-generating business activities, respectively the second and first lines of defence. The internal audit, as third line of defence, ensures independent analysis concerning the risk activity of the first and second lines.

The information and reporting system ensures the existence of information which is substantive, up-to-date, understandable, consistent, timely and reliable, so as to enable an overall and encompassing view of the financial situation, the development of the business, the achievement of the defined strategy and objectives, the risk profile of the institution and the behaviour and prospective evolution of relevant markets. For this purpose, each entity of the Group develops, implements and maintains formal processes for obtaining and processing information that is appropriate to the respective size, nature and complexity of the activity carried out, developing communication processes and reporting lines that ensure an adequate and swift transmission of relevant information to the due intervenient, both internal and external.

The financial information process is supported by the accounting and management support systems which record, classify, associate and archive, in a timely, systematic, reliable, complete and consistent manner, all the operations carried out by the institutions and its subsidiaries, in accordance with the rulings and policies issued by the Board of Directors and the Executive Committee.

The monitoring process includes all the control and assessment actions developed with a view to ensure the effectiveness and adequacy of the internal control system, namely through the identification of deficiencies in the system, either in terms of its design, implementation and/or use. The control and monitoring actions are implemented on a continuous basis and as an integral part of the Group's routines, being complemented with regular or exceptional autonomous assessments. Any deficiencies of material impact which might be detected through the control procedures are duly registered, documented and reported to the appropriate management and supervisory bodies.

Within this context, the internal audit function is performed by the Audit Division on a permanent and independent basis, assessing, at all times and pursuant to the established plan, the adequacy and effectiveness of the different components of the internal control system, as a whole, issuing recommendations based on the outcome of those assessments. Within this scope, the Audit Division is informed of the conclusions of the inspection and internal audit actions carried out in each entity of the Group, especially from those that assess the effectiveness and integrity of the entity's internal control system.

In terms of risks' management, these subsystems of the internal control system are managed by the Risk Office and the Compliance Office, complemented, for information and reporting, by the Planning, Research and ALM Division, the Treasury, Markets and International Division, the Accounting and Consolidation Division and by the areas responsible for accounting in the different subsidiaries which ensure the existence of the necessary procedures to obtain all relevant information for the consolidation process, for the accounting and financial information and for other elements that support the management, as well as for the monitoring and control of risks at Group level.






The Risk Office's activity is essentially focused on ensuring the effective application of the Group's risk management system, namely, by developing, proposing, implementing and controlling the use of a set of assessment methodologies and metrics, that allow for a correct assessment of the risks incurred and arising from the Group's activities, which are documented by internal rules and regulations. It is also responsible for promoting and coordinating the policies and rules applicable to risk management and control at all entities of the Group, with the responsibility of ensuring the global monitoring of risk and the alignment of concepts, practices and objectives on a consolidated basis. Under this framework, the Risk Office has access to all the sources of information of the Group entities that are necessary for the exercise of the identification, measurement, limitation, monitoring, mitigation and reporting of the various types of risk at consolidated level.



The activity of the Compliance Office is transversal to all Institutions of the Group, in terms of applicable compliance policies, with observance of the legal specificities of each jurisdiction. The Compliance Office has access to the preventive information systems on money laundering and terrorism financing adopted by the different entities of the Group, being equally informed and giving an opinion on all changes to the IT alert systems and the processes for identifying Customers and communication of irregular cases verified in the Group's entities, within the scope of the control of money laundering and terrorism financing, in order to promote an alignment of systems, methodologies and criteria with those used by BCP. The Risk Office, the Compliance Office, the Accounting and Consolidation Division, the Planning, Research and ALM Division and Audit Division ensure the implementation of the procedures and means required to obtain all the relevant information for the information consolidation process at Group level - both of an accounting nature and relative to management support and risk monitoring and control - which should include:

- The definition of the contents and format of the information to be reported by the entities included in the consolidation perimeter, in accordance with the accounting policies and guidelines defined by the management body, as well as the dates when the reporting is required;
- The identification and control of the intra-Group operations;
- Assurance that the managerial information is consistent between the different entities, so that it is possible to measure and monitor the evolution and profitability of each business, verify compliance with the objectives that have been established, as well as evaluate and control the risks incurred by each entity, both in absolute and relative terms;
- Validating and monitoring the implementation of the corrective measures to resolve internal control deficiencies that have a material potential impact.

Main Risks and Uncertainties

Risk	Sources of risk	Risk level	Trend	Interactions
ENVIRONMENT				
Regulatory	<ul style="list-style-type: none"> Risks related to verdicts issued by Polish courts in individual lawsuits against banks (including Bank Millennium) raised by borrowers of FX-indexed mortgage loans and respective impact on impairments Regular practice of conducting Stress Tests by the ECB European Commission and ECB guidelines on NPL provisioning EBA's guidelines on IRB models 	High	↑	<ul style="list-style-type: none"> Provisioning for legal risk in Poland Proposal by the Polish Financial Regulator (KNF) to out-of-court settlement of the conflict between banks and borrowers Total CET1 requirements in 2020: 8.83% (9.27% fully implemented) Approval of a set of measures aimed at temporarily easing capital requirements, in order to enable European banks to support the economy during the crisis motivated by the short of COVID-19 Most guidelines have already been translated into our risk models, as a result of continuous dialogue with the ECB
Sovereign	<ul style="list-style-type: none"> Slow economic recovery in Portugal may lead to deterioration of public finances, to which must be added the high state exposure through the granting of guarantees in credit lines to support the economy Interruption of the budgetary consolidation process and the reduction of public and private sector indebtedness, in Portugal Lower capacity to implement fiscal and budgetary stimulus Low interest rates and compression of the spread for active interest rates in Portugal, mainly due to the COVID-19 credit lines Exposure to Portuguese, Mozambican and Angolan sovereign debt Slower than expected speed of execution of the vaccination, causing a delay in group immunity, with repercussions on economic recovery 	High	↑	<ul style="list-style-type: none"> Possible increase in bankruptcies and unemployment Share prices fall in capital markets Implementation of contingency measures at European and national level Recovery of profitability limited by the low nominal interest rates and by the low potential growth Still high level of NPA Increasing funding costs Uncertainty as regards the timing of normalization of the ECB's monetary policy Making vaccines available and increasing the efficiency of the COVID-19 vaccination plan in the Eurozone and Portugal
FUNDING AND LIQUIDITY				
Access to WSF markets and funding structure	<p>IMM operating irregularly</p> <p>Widening of spreads and lack of liquidity in the WSF debt markets, as a result of increased volatility in the financial markets related to COVID-19</p> <p>Cost of issuing debt to comply with MREL requirements</p> <p>Customers interest in off-BS applications due to the low level of interest rates</p>	Low	↔	<ul style="list-style-type: none"> Balance sheet customer deposits and funds paramount in the funding structure Significant growth in total Customers funds due to the pandemic and confinement periods Need for access to the financial markets to meet MREL requirements, although the gap is manageable

Risk	Sources of risk	Risk level	Trend	Interactions
CAPITAL				
Credit risk	<ul style="list-style-type: none"> Possible interruption of the downward trend in NPAs, due to the economic impact of COVID-19 Increase in defaults by companies and individuals, in a scenario of slow economic recovery Increase in corporate indebtedness due to the usage of moratoriums and COVID-19 credit lines Still high NPA stock Execution Risk of the NPA Reduction Plans, including reduction of exposure to CRFs Exposure to real estate assets, directly or by participating in real estate investment or restructuring funds Significant exposure to sovereign debt, in a context of high indebtedness by countries Credit to Mozambican companies Exposure to emerging countries strongly dependent on commodities 	High		<ul style="list-style-type: none"> NPA reduction plan execution is critical, considering capital requirements (SREP) and regular assessments by Rating Agencies Significant participation in the distribution of COVID-19 credit lines (positively) and NPEs reduction (negatively) influencing loan book growth Need to reduce the length of credit and/or companies recovery processes Need to decrease exposure to real estate risk, despite the positive trend in real estate prices Need to reduce the exposure to CRFs Deterioration of the quality of loans granted directly to emerging countries or to companies in those countries or to Portuguese companies with business relationships with those countries
Market risk	<ul style="list-style-type: none"> Volatility in capital markets Increase of funding costs, risk premiums and refinancing risk, as a result of the increased volatility caused by the pandemic Decrease of short-term interest rates to more negative values Decrease of fair value of assets and collaterals 	Low		<ul style="list-style-type: none"> Market uncertainty Central Banks monetary policies Profitability of the assets of the pension fund Lower trading income
Operational risk	<ul style="list-style-type: none"> Restrictions on the normal working of financial institutions, as a result of the impact of COVID-19 Inherent to the Group's business Growth of cyber-risk 	Low		<ul style="list-style-type: none"> Service restrictions at branches Remote work Streamlining processes Degrading controls Increased risk of fraud Data base security / cybersecurity Business Continuity
Concentration risk	<ul style="list-style-type: none"> Concentration of assets in some dimensions 	Medium		<ul style="list-style-type: none"> Need to reduce the weight of the main Customers in the total credit portfolio
Reputational, legal and compliance risk	<ul style="list-style-type: none"> Inherent to the Group's business Development of Off-BS applications and investments activity Individual losses incurred on legal disputes with Customers related to mortgage loans indexed to foreign currency, in Poland 	Medium		<ul style="list-style-type: none"> Possible complaints from Customers Possible sanctions or other unfavourable procedures resulting from inspections Instability and more demanding regulatory framework applicable to financial activity AML and counter terrorism financing rules Development of possible solutions for conversion of mortgage loans indexed to foreign currency, in Poland

Risk	Sources of risk	Risk level	Trend	Interactions
CAPITAL				
Profitability	<ul style="list-style-type: none"> Possible impacts on net interest income, commissions and cost of risk as a result of the impacts of COVID-19 Possible deterioration of asset quality may constrain profitability, mainly through provisioning Interest rates at low levels in nominal terms Risks related to decisions issued by Polish courts in lawsuits, instituted against banks (including Bank Millennium) by borrowers on mortgage loans indexed to foreign currency Imposition of asymmetric regulatory limitations on the pricing policy for assets and liabilities More limited space to reduce fees on time deposits in new production Regulatory limitations and mediatic pressure on commissioning Imposition of limitations on the coverage of problematic assets due to impairments Exposure to emerging economies Competition from other market players as Bigtechs and Fintechs 	Medium		<ul style="list-style-type: none"> Negative impacts on net interest income: price effect, volume effect and overdue credit effect Negative impacts on commissions, in the event of a slowdown in banking activity or extraordinary measures taken to support companies Need to continue control over operating costs Increase in cost of risk Maintaining adequate coverage of problematic assets by provisions Reinforcement of provisioning related to legal risks associated to mortgage loans indexed to foreign currency Reformulation of the business model and digital transformation
ESG risk	<ul style="list-style-type: none"> Regulatory initiatives for the reporting of ESG related impacts, with impacts not completely defined yet, namely in terms of capital requirements or RWAs Increasing inclusion of ESG criteria in the decision to invest in stocks or bonds Increasing scrutiny by analysts, including Rating Agencies, on the impact of ESG risks Legal risk associated with CHF loan book 	Low		<ul style="list-style-type: none"> 2021 Sustainability Master Plan with objectives and metrics that guide performance in the three ESG dimensions ESG criteria incorporated in Risk Appetite Statement Creation of a Sustainability Committee and an ESG-dedicated division Reinforcement of innovation and development of ESG solutions for Customers across segments Adoption of measures with environmental impact Improvement of the Gender Equality Plan

Risk management

Framework

Risk appetite

The BCP Group carries out its business activities in a controlled, prudent and sustainable manner, always based on the adequacy and compatibility between the objectives set for the business and the levels of risk tolerance defined in terms of sustainability and profitability, in the long-term.

Thus, the Group establishes and implements controls and limits on the material risks to which its activities are subject, based on its “Risk Appetite Statement” (RAS) which concurs, in a relevant way, for a standing of prudence and sustainability of the business, in view of its profitability, as well as of the satisfaction of the different stakeholders: Shareholders, Customers and Employees.

The RAS is composed by a set of 27 indicators that are considered of primary importance and representative of several risks classified as “material”, within the formal risks’ identification and quantification process, carried out at least once a year.

For each of the indicators concerned, two levels of limitation are established: an ‘alert level’, up to which the level of risk represented is acceptable and from which corrective measures must be taken immediately (in order to that the level of risk regained to an acceptable level) and a

‘level of breach’, which requires immediate measures with significant impact, aimed at correcting a risk situation considered unacceptable.

Stemming from the RAS indicators, other lower-level indicators (and respective limits) are established, with a higher level of granularity, ensuring a more detailed monitoring, appropriate for a day-to-day approach to the risks’ control of business processes, based on specialised metrics and with a marked technical nature. All risk limits are approved by the competent Governance bodies defined in the internal and are periodically reviewed and updated.

For the main geographies in which the Group operates, specific risk appetite indicators (“individual” RAS) are also established. Thus, the definition of RAS involves indicators for Portugal, Poland, Mozambique and Switzerland, some of which are part of the Corporate RAS, being obligatory metrics for all geographies (but with appropriate limits for each of the operations and structure in question), disaggregating the Group’s risk appetite into the local geographies risk appetite. Besides the Corporate RAS metrics, local RAS include other metrics aiming to measure idiosyncratic risks in each geography.

Risk strategy

The above definition of RAS - as the primary set of indicators that render and materialise the risk appetite - is one of the guiding vectors of the Group's "Risk Strategy", which is approved by the Board of Directors, by proposal of the Committee for Risk Assessment. Based on the RAS, several lines of action are established, to be developed by different organizational units of the Group, in order to address the mitigation or control of all material risks identified within the risks' identification and assessment process. These lines of action formally constitute the Group's Risk Strategy.

Hence, the RAS and the Risk Strategy are inseparable and central elements of the Group's risk management, both aiming to control and mitigate risks classified within the risks' identification process.

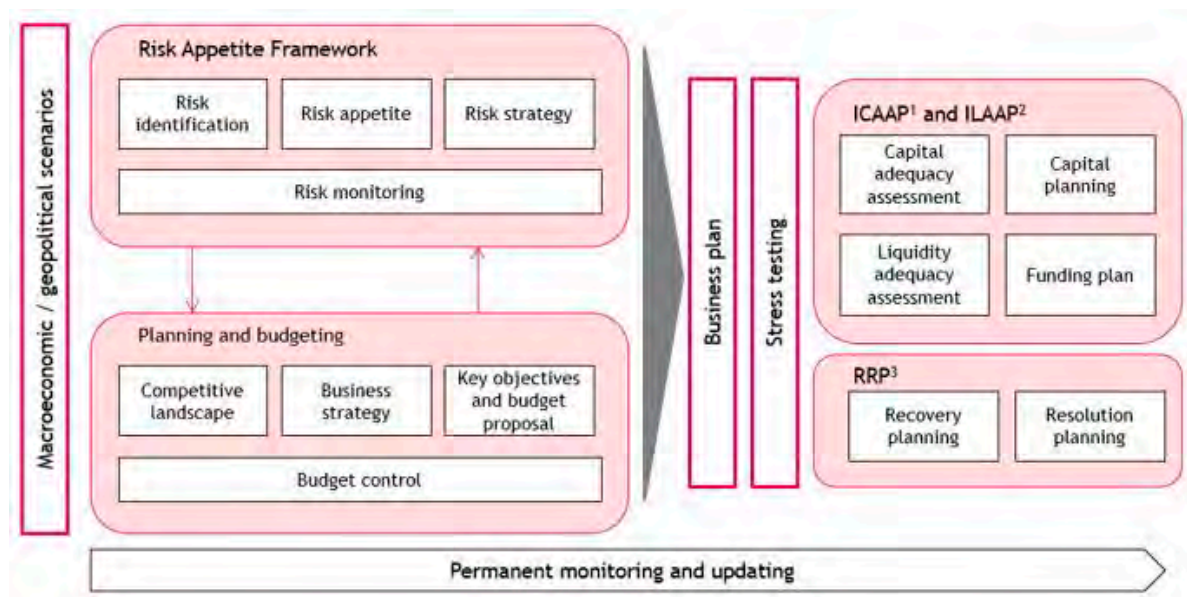
Integration between the business and risk management

The risk appetite structure - which includes the identification of material risks, the RAS and the Risk Strategy and is reviewed at least once a year or whenever the quarterly risks' monitoring so advises (e.g. conclusion that there are new material risks) - provides a reference framework for the permanent monitoring of risks affecting the business and business support activities developed, for the monitoring of all variables, indicators and respective limits that are derived from RAS. Therefore, the permanent follow-up based on this structure is the result of a strong link between the risk management framework thus defined and the great diversity of methods and indicators applicable to the various activities carried out, this link being essential for the performance of the Group's risk management.

In addition, there is an interaction, in both ways, between the definition of the Group's risk appetite structure and its business objectives, represented in the business planning and budgeting. Thus, the risk appetite structure conditions the definition of the business objectives, since the business plan as to respect the risk limits established by the Board of Directors.

In its turn, the business objectives and risk appetite structures are the foundations for all activities and lines of business carried out, also setting out the global controls on the Group's financial strength, such as the stress tests and the internal processes to assess capital (ICAAP) and liquidity adequacy (ILAAP) as well as the recovery plan and the activities in the scope of the resolution planning.

The following figure summarises the relationships described above, providing a graphic representation of the integration of risk management within the scope of the business developed by the BCP Group.



¹ Internal Capital Adequacy Assessment Process
² Internal Liquidity Adequacy Assessment Process
³ Recovery and Resolution Planning

Internal control

The Risk Management function is an integral part of the Group's Internal Control System (ICS), along with the Compliance and Internal Audit functions, contributing for a solid control and risk-limiting environment upon which the Group carries out its business (and business support) activities.

Within the ICS, the Risk Management and Compliance functions form the Group's Risk Management System (RMS), which substantiated in an integrated and comprehensive set of resources, standards and processes that ensure an appropriate framework to the nature and materiality of the risks underlying the activities carried out, so that the Group's business objectives are achieved in a sustainable and prudent manner.

In this sense, the ICS and the RMS provide the Group with the ability to identify, evaluate, monitor and control the risks - internal or external - to which the Group is exposed, in order to ensure that they remain at acceptable levels and within the limits defined by the management body.

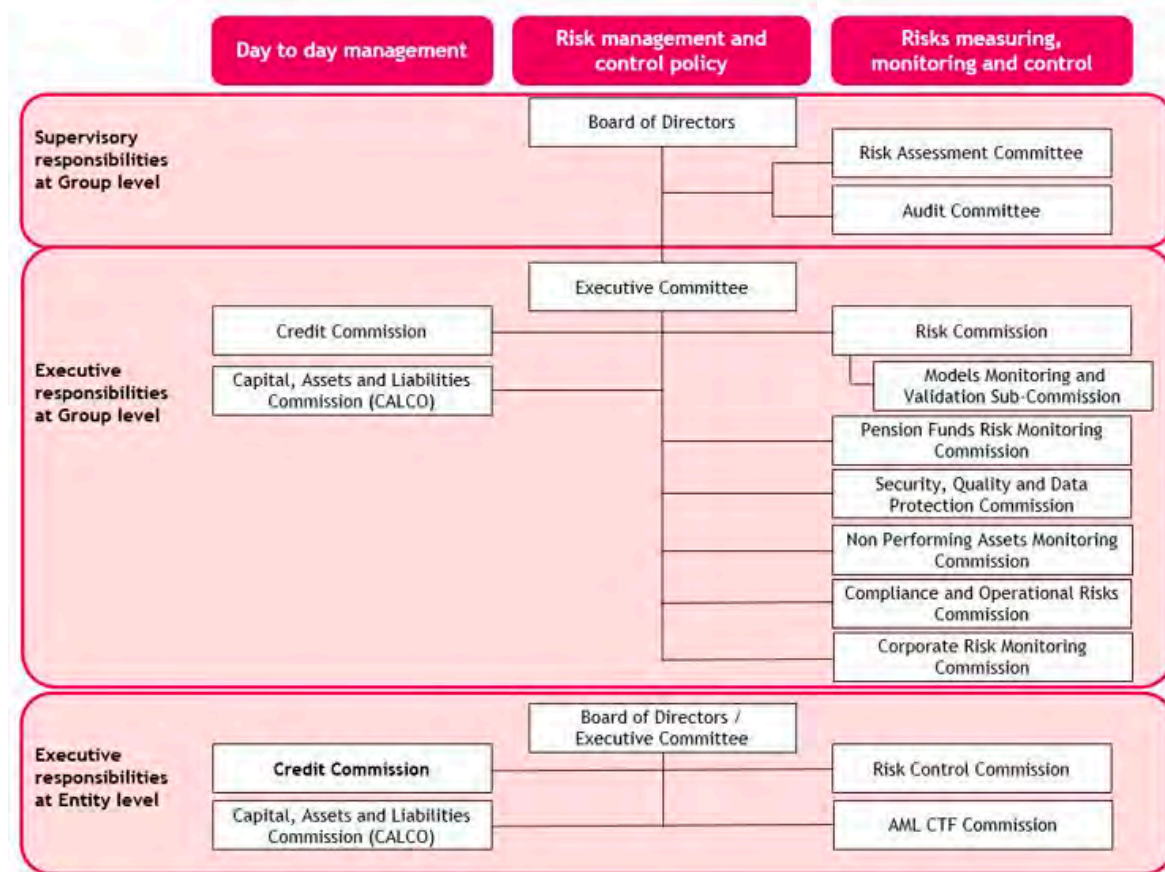
Thus, the RMS embodies the second Line of Defence in relation to the risks that impend over all the Group's activities. Under this approach, the first Line of Defence is ensured, on a day-to-day basis, by all of the Group's organizational units - based on adequate training and awareness of risks, as well as on the framing of activities through a complete and detailed regulations' structure - while the third Line of Defence is developed through the internal supervision/internal review function (IRF) ensured by the Internal Audit function.

It should also be mentioned that the ICS:

- Is supported by an information and communication system that ensures the collection, processing, sharing and disclosure - both internal and external - of relevant, comprehensive and consistent data about the business, the activities carried out and the impending risks on the latter, in a timely and reliable way. This data processing and management information infrastructure is aligned with the principles of the Basel Committee with respect to efficient aggregation of risk and risk reporting data (BCBS 239 - Principles for effective risk data aggregation and risk reporting);
- Is continuously monitored by the Group, and any situation of, insufficient internal control is registered - under the form of recommendations/ deficiencies or improvement opportunities - for correction/ elimination and regulatory reporting.

Risk management Governance

The following figure represents the RMS's Governance, as at 31/12/2020, exerted through various organizational bodies and units with specific responsibilities in the area of risk management or internal supervision.



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The composition, capacities and responsibilities of the management and control bodies that intervene in the risk management governance - besides those of the Board of Directors (BoD) and its Executive Committee (EC) - are the following:

Committee for Risk Assessment

The Committee for Risk Assessment, appointed by the BoD, is composed by three to five non-executive Directors and has, among others, the following capacities:

- Advising the BoD on risk appetite and risk strategy, accompanying and intervening in the definition and review of the Group's Risk Appetite Framework and providing an opinion on its adequacy to the BoD;
- Monitoring the evolution of the RAS metrics, verifying their alignment with the defined thresholds and levels and monitoring the action plans designed to ensure compliance with the established risk limits;
- Advising the BoD on the policies regarding the risks' identification, management and control within the Group, monitoring the global risk levels in order to ensure that those are compatible with the goals, the available financial resources and the approved strategies for the development of the Group's activities;
- Monitoring the capital and liquidity planning processes (ICAAP and ILAAP), providing an opinion to the BoD concerning the respective conclusions, as well as analysing and approving the conclusions of the regular follow-up on these processes;
- Monitoring and intervening in the Recovery Plan review, providing an opinion to the BoD on the respective adequacy.

Within the resolution planning, the Committee for Risk Assessment approves its annual work plan and monitors its execution.

The Risk Officer functionally reports to this Committee and participates in its meetings, presenting the evolution of the key risk metrics and indicators, as well as all incidences, changes and evolutions relative to the RMSS.

Audit Committee

The BoD's Audit Committee is elected by the Shareholders' General Meeting and is composed by three to five non-executive Directors. Within the risk management governance, this Committee has global corporate supervising capacities - e.g. in what concerns the risk levels follow-up - as well as those that are attributed within the ICS, namely:

- Supervising and controlling of the RMS's and the ICS's effectiveness (and, also, of the Internal Audit System);
- Analysing and regularly following-up of the financial statements and the main prudential indicators, the risk reports prepared by the Risk Office, the Compliance Office's activity, the handling of claims and complaints and the main correspondence exchanged with the Supervisory Authorities;
- Issuing an opinion in relation to operations of acquisition of goods and services and involving related parties, aiming to avoid conflicts of interests.

The Audit Committee holds regular meetings with the Heads of the Audit Division, the Risk Office and the Compliance Office.

The Risk Officer participates in this Committee's regular meetings, reporting on the evolution of the main indicators and metrics concerning risks and credit impairment, as well as on the implementation status of the recommendations that concern the RMS, issued within the scope of internal control or by the supervisory/regulatory authorities.

Risk Commission

This Commission is appointed by the EC and has the responsibility for defining, at an executive level, the framework and the risk management policies and instruments within the Group, establishing the respective principles, rules, limits and practices for the Group Entities, considering the defined risk thresholds.

The Risk Commission monitors the overall levels of credit, market, liquidity and operational risk, as well as all other risks considered materially relevant for the Group, ensuring that the risk levels are compatible with the goals, available financial resources and strategies that have been approved for the development of the Group's activity. This Commission also validates the compliance of risk management with all the applicable laws and regulations.

The Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO), as well as, optionally, the Chief Operations Officer (COO) and the EC members responsible for the Corporate/Investment Banking and the Retail business (Chief Corporate Officer/CCorpO and Chief Retail Officer/CRetO, respectively) are members of this Commission.

Other members of the Commission are the Risk Officer, the Compliance Officer and the Heads of the following Divisions: Treasury, Markets and International (DTMI), Credit (DCR), Rating (DRAT), Models Monitoring and Validation Office (GAVM) and Regulatory and Supervision Monitoring Office (GARS). The Head of the Audit Division (DAU) is a permanently invited member of the Risk Commission, without voting rights.

The Models Monitoring and Validation Sub-Commission monitors the performance and confirms the validity of the rating systems and models used by the Bank within the scope of its risk management functions (e.g. PD, LGD, CCF, market risk and ICAAP) and informs the Risk Commission on their adequacy. Moreover, it presents the model's risk management results and suggests improvement measures to increase the model's performance and adequacy.

Non-performing Assets (NPA) Monitoring Commission

This Commission is appointed by the EC and has the responsibility of monitoring the evolution of credit risk, under various aspects:

- Monitoring of the NPA/NPE Reduction Plan, including its operational scope and the fulfilment of the quantitative goals assumed; besides the Non Performing Exposures (NPE) reduction, the Commission also monitors the disinvestment process of the real estate portfolio and other assets received in lieu of payment as the result of credit recovery processes (foreclosed assets) and other non-performing assets;
- Analysis of the credit recovery processes' performance;
- Portfolio's quality and main performance and risk indicators;
- Impairment, including the main cases of individual impairment analysis.

The CEO, the CRO, the CRetO and the COO are members of this Commission, as well as, optionally, the CFO. Any other executive Directors may participate in this body's meetings if they deem convenient to do so. The Heads of the following Divisions are also members of this Commission: Risk Office (ROFF), DCR, DRAT, Specialised Monitoring (DAE), Retail Recovery (DRR), Specialised Recovery (DRE), Legal Advisory and Litigation (DAJC), Management Information (DIG) and Specialised and Real-Estate Credit (DCEI). The Head of DAU is a permanently invited member of the Risk Commission, without voting rights.

Pension Funds Risk Monitoring Commission

This Commission is appointed by the EC and has the following competences:

- Assessing the performance and risk of the Group's Pension Funds in Portugal;
- Establishing, for these, the appropriate investment policies and hedging strategies.

The Commission members are the CEO, the CFO, the CRO. Any other members of the EC may participate in the Commission's meetings, if they deem convenient to do so. The other Commission's members are the Heads of the following Divisions: ROFF, Research, Planning and ALM (DEPALM), Wealth Management (DWM) and Human Resources (DRH). Representatives of the Pension Funds management entity and of Ocidental Pensões also participate in the Commission's meetings, by invitation and without voting rights.

Compliance and Operational Risks Commission

This Commission is appointed by the EC and has the following capacities and responsibilities, in order to ensure that the Bank's activity contributes to an adequate culture of risk and internal control:

- Monitoring of the Bank's activities, as well of those of the other Group entities, regularly coordinating and managing the policies and the duties of the Bank and its branches/subsidiaries, in order to ensure the compliance with the legal and internal rulings, the alignment of Group strategies and the definition of priorities in Compliance matters;
- Monitoring of the operational risks management framework, which encompasses the management of IT and the Outsourcing risks;
- Monitoring of the exposures to operational risks, as well as the implementation status and the effectiveness of the risks mitigation measures and of those that aim at the reinforcement of the internal control environment;
- Follow-up of the management and improvement of the Bank's processes, in order to monitor and reduce the level of exposure to compliance and operational risks.

The Commission members are the CEO, the COO, the CRO and the CRetO. Any other members of the EC may participate in the Commission's meetings, if they deem convenient to do so. The Heads of the following Divisions are also members of the Commission: COFF, ROFF, IT (DIT), Operations (DO), Quality and Network Support (DQAR). The Head of DAU, the AML^(*) Officer and the managers responsible for the COFF areas that deal with the matters under discussion are also permanently invited members of this Commission, without voting rights.

^(*) Anti-money laundering.

Quality, Security and Data Protection Commission

This Commission is appointed by the EC and has the following capacities and responsibilities:

- Definition of guidelines and approval of the management policies for IT systems, data management and quality, physical security, business continuity and data protection;
- Regular review of the emerging threats and most relevant trends in terms of data security and information technologies, with a particular focus upon cyber-security;
- Analysis of the periodical security incident's reports (regarding systems/data and physical), identifying the appropriate remediation and improvement measures;
- Follow-up of initiatives and projects in the area of systems/data security, physical security and data protection and monitoring of the respective performance metrics;
- Approval of the annual plans for the exercises of security assessment, Disaster Recovery Plan (DRP) and business continuity, and their respective quantitative/qualitative evaluation.

The Commission members are the COO, the CRO and the CRetO. Any other members of the EC may participate in the Commission's meetings, if they deem convenient to do so. The Heads of the following Divisions are also members of this Commission: COFF, ROFF, DIT, DQAR, and Data Security (DSI). The head of the Physical Security and Business Continuity Department (DSFCN), the Data Protection Officer (DPO) and the Chief Data Officer (CDO) are also permanent members of this Commission, along with the Head of DAU (the latter, without voting rights).

Corporate Risk Monitoring Commission

This Commission is appointed by the EC and has the following duties and responsibilities:

- Monitor the evolution recorded by the main performing corporate Clients credit exposures, particularly assessing the implications from the COVID-19 pandemic versus the specific risk factors of each client (sector of activity, prior COVID-19 financial standing, cost structure, etc.), issuing opinions regarding the credit strategy to adopt;
- The members of this committee are: the CEO, CRO, CCorpO and CRetO. Any other members of the EC may participate in the meetings of this Committee, whenever they consider it convenient to do so. Members of this Committee are also primarily responsible for the following directorates: ROFF, Corporate Network North and South, Large Corporates, Investment Banking Division, Institutional Banking Division, DRE, DCR, DRAT and Corporate and Business Marketing.

Credit Commission

This Commission is appointed by the EC and its functions are to assess and decide on credit granting to Customers of Banco Comercial Português, in accordance with the competences established by internal regulation ('Credit Granting, Monitoring and Recovery'). This commission may also issue advisory opinions on credit proposals from the subsidiary companies of the Group entities.

The members of this Commission are the CEO, the CFO (optional), the CCorpO, the CRetO (optional), the CRO (with veto rights) and the COO (optional), as well as the Heads of the following Divisions: DCR, DAJC, DRAT, DCEI, Companies Network Coordination (North/South), Large Corporates, DAE, DRE and Investment Banking Coordination (DCBI), as well as Level 3 credit managers and, depending on the proposals to be decided upon, the coordination managers of other proposing areas (e.g., Private Banking, Retail, DRR) or members of the subsidiaries' Credit Commissions. The Company's Secretary, the Risk Officer and the Compliance Officer are permanently invited members of this Commission, without voting rights. Other Group Employees may also be invited to participate (without voting rights), if they are relevant for the matters under discussion.

Group CALCO

The Group CALCO - also referred to as the Capital, Assets and Liabilities Management Commission - is responsible for the management of the Group's overall capital, for assets and liabilities management and for the definition of liquidity management strategies at a consolidated level. Specifically, the Group CALCO is responsible for the structural management of interest rate and liquidity risks, including, among others, the following aspects:

- Establishment of management guidelines for assets, liabilities and off-balance sheet items at consolidated level;
- Definition of the capital allocation and risk premium policies;
- Definition of transfer pricing policy, in particular with regard to liquidity premiums;
- Monitoring of the capital and liquidity indicators, of the Recovery Plan indicators and of the execution of the Liquidity Plan;
- Definition of policies and strategies to access wholesale funding markets and definition of the liquidity buffer composition;
- Definition of the investment policy of the Investment Portfolio and monitoring of its performance;
- Definition of the strategy and positioning within the scope of the interest rate risk management, as well as of the respective policies and limits, taking into account the market conditions at any given moment.

The Group CALCO meets every month and is composed of the following executive Directors: CEO (optional), CFO, CCorpO, CReto, CRO and COO (optional). The other members of the Group CALCO are the Risk Officer, the Chief Economist and the Heads of DEPALM, DIG, DTMI and DWM, the responsible for the ALM Department of DEPALM and 2 representatives nominated by the Retail and the Corporate & Investment Banking Commissions.

Risk Office

The Risk Office (ROFF) is the structure unit responsible for the risk control function at Group level, promoting the overall alignment of concepts and procedures concerning risk monitoring and assessment. The ROFF is responsible for informing the Executive Committee, the Committee for Risks Assessment and the Risk Commission on the general risk level, for proposing measures to improve the control environment and for the implementation of controls which assure compliance with the approved limits. The ROFF has the following functions:

- Supporting the establishment of risk management policies and methodologies for the identification, measurement, limitation, monitoring, mitigation and reporting of the different types of risk;
- Promoting the revision of the Group's Risk Appetite and the risk identification process;
- Issuing opinions related with the compatibility of the risk management decisions considering the approved RAS limits;
- Participate in the definition of the risk strategy and decisions related with risk management;
- Coordinating the NPA (non-performing assets) Reduction Plan and of the ICAAP and ILAAP processes;
- Ensuring the existence of a body of rules and procedures, of an effective IT platform and of a database for the robust and complete management of risk;
- Controlling, on an ongoing basis, the evolution of the different risks and compliance with the applicable policies, regulations and limits;
- Participating in the Internal Control System;
- Preparing information relative to risk management for internal and market disclosure;
- Supporting the works of the following Commissions: Risk, NPA Monitoring, Pension Funds Risk Monitoring, Compliance and Operational Risk.

The Risk Officer is appointed by the BoD, reporting on a line basis to that body and its EC, also reporting functionally to the Committee for Risks Assessment.

Compliance Office

The Compliance Office (COFF) ensures typical functions of a second line of defence functions, within the scope of the so-called "3 Lines of Defence Model", in relation to compliance risk, i.e., the risk of non-compliance with applicable laws and regulations.

COFF's main missions, in relation to all Group entities, are the following:

- To foster the adoption and compliance with the internal and external regulations that frame the Group's activity, watching over the fulfilment of the relevant contractual commitments assumed;
- To promote the organization's ethical values and to contribute for an internal control culture, in order to mitigate the risk of sanctions being imposed or of the occurrence of property or reputational damages.

The Compliance Officer is appointed by the BoD, reports hierarchically to the EC and, functionally, to the Audit Committee, exercising his/her functions in an independent, permanent and effective manner, defining the policies, guidelines and tools that are appropriate for a proactive and preventive risks' assessment.

As a second line of defence structure responsible for compliance risk, for the risks associated with money laundering and the financing of terrorism, with conduct and market abuse and for other risks of an operational nature, the COFF issues decisions, with binding force for its recipients, aiming at the legal and regulatory compliance of the various business and business support areas. The COFF's action is based on an approach to the risks of business, Customers and transactions, thus contributing for the promotion an effective internal control environment.

Within the scope of opinions and the associated analyses produced at request of several Group areas and Divisions, the COFF:

- Identifies and evaluates the various types of risks - either concerning in what refers to products and services approval process, corporate processes and conflicts of interest;
- Issues proposals for the correction of processes and risks mitigation;
- Permanently analyses the general supervisory environment and, in general, provides specialised support in matters of control and regulatory compliance.

Within the scope of its specific functions, the COFF also ensures an assessment and intervention in what concerns:

- The control and monitoring of compliance risks;
- The Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT);
- The mitigation of reputation risk at all Group entities, aiming at the alignment of concepts, practices and goals in these matters.

It also has the competence for the preparation and submission of reports to the management body, at least once a year, identifying the compliance flaws verified and the recommendations issued for their correction.

The COFF fosters, intervenes and actively participates in the training policy of Employees, namely, through training actions in Compliance, for the entire universe of the Group, maintaining a large knowledge repository for matters of its competence, namely, in what concerns the AML/CFT.

Main developments and accomplishments in 2020

In 2020, the focus of risk management activities was maintained on the continuous improvement of the Group's risk control environment, in addition to the permanent monitoring of the risk levels incurred in relation to the RAS tolerance limits - both at consolidated level and for each geography in which the Group operates - ensuring, at the same time, full compliance with regulatory and supervisory requirements and updating the internal regulations structure that is appropriate for risk management and control:

- Participation in the implementation of the Bank's contingency plan regarding the COVID-19 pandemic, particularly in adjusting the risk framework to the challenges arising from the pandemic (e.g. design and implementation of specific reporting to monitor the credit portfolio within the scope of pandemic; identification of non-productive assets; adjustment of IFRS9 methodologies; identification of the operating costs related to the coronavirus crisis; monitoring of economic support measures within the scope of the impact of the COVID-19 pandemic and its reporting to the Supervisory Entities);
- Continuous improvement of the internal governance model, risk management, measurement and control at the Group level, including the implementation of a new department in the Risk Office specifically dedicated to the monitoring of credit risk, of a new structure dedicated to the analysis of operations restructured due to financial difficulties and the reinforcement of the Risk Office staff;
- Coordination of the Risk Strategy and the review of the Risk Appetite Statement (RAS) at the Group level, including the risk identification process;
- Completion of the annual reports of ICAAP and ILAAP and participation in other Bank planning processes such as the Funding and Capital Plan and the Group's Recovery and Resolution planning;
- Reinforcement of supervision and support for the BCP Group's subsidiaries, continuously promoting a solid and common risk management framework and implementing a daily reporting system of the main risk indicators in all geographies;
- Revision of the liquidity risk management and control framework, including the implementation of new short-term liquidity indicators and the revision of the liquidity stress tests methodology;
- Focus on improving the effectiveness of the internal control system;
- Definition of the procedures to meet the credit granting requirements for increased risk debtors, following Banco de Portugal Circular Letter CC/2020/00000013;
- Implementation of the provision for backstop provisioning as directed by the SSM as well as the respective reporting system;
- Review of the NPA/NPE reduction plan including the sale of credit portfolios to institutional investors;
- Consolidation and monitoring of the implementation process of the new definition of default and its dissemination within the organization;
- Launch of a project for the implementation of the new EBA guidelines on credit origination and monitoring;
- Submission of several authorization requests in the scope of IRB models, in Portugal and Poland, responses to TRIMIX inspections, broadening the scope of model development and monitoring (Retail PD models) and launching the re-development of several models;
- Continuous improvement of the liquidity and funding risk control and management systems at the Group level, in particular: first annual review of the internal liquidity stress test framework, specifically considering the impact of the collateral easing measures promoted by the ECB as a response to the COVID-19 crisis and the design and implementation of an intraday liquidity stress test completing the original approach; and the implementation of short-term liquidity risk indicators and of the internal liquidity stress test framework by the Banco Internacional de Moçambique;
- Improvement of the interest rate risk control framework of the Banking portfolio, in line with the most recent guidelines of the regulator in force on the subject;
- Participation in the 2020 EBA benchmarking exercise;

- Reinforcement of market risk monitoring and control processes and continuation of the FRTB implementation project - Fundamental Review of the Trading Book;
- Continuous improvement of the quality of the data supporting the Group's risk management decisions, notably participating in BCBS 239 related projects and in the upgrade of the Risk Office's technological platform;
- Execution of the self-assessment annual exercises for operational risks and for information and communication technologies (ICT) risks;
- Outsourcing risk monitoring for the most relevant contracts, in liaison with the respective contract managers and implementation of the EBA/GL/2019/02 (Guidelines on outsourcing arrangements) in internal regulations;
- Continuous review of internal regulations on policies and procedures related to risk management and control;
- Reinforcement of account opening and transaction filtering processes, in order to ensure compliance with the sanctions and embargoes regimes enacted by the competent national and supranational authorities, as well as their monitoring, in order to detect and prevent potentially irregular situations;
- Development of new, more efficient solutions, based on automation processes to analyse the risk factors inherent in establishing new business relationships or deepening existing relationships;
- Reinforcement and specialization of the Compliance Office teams within the scope of AML/CFT in its various dimensions;
- Execution of the Communication Plan dedicated to the 1st lines of defence with the most important aspects to be taken into account both in terms of the risk of financial crime and in other risks of compliance and regulatory compliance;
- Development of a systematic set of internal communications to prevent internal fraud risk;
- Reinforcement of the conflict of interest risk monitoring mechanisms, with the development of a new platform for registering operations and entities;
- Integration of the normative documents management function in the Compliance Office, in order to take advantage of the joint management of legal and compliance risks in reinforcing the Bank's regulatory framework;
- Implementation of new management structures the monitor of AML/CFT risk, designated by International AML/CFT Committees, with the participation of management and Compliance bodies of the subsidiary units, in order to assess and monitor specific compliance risk factors in each geography, as well as the existing business segments in each operation;
- Development of joint Compliance Office projects with teams of subsidiaries and branches abroad in order to analyse and improve the effectiveness of existing controls for mitigating the main risks in the area of AML/CFT;
- Strengthening of the subcontracting process with regard to the identification of situations of conflict of interest;
- Development of a new process for monitoring Legislative/Regulatory changes;
- Development of a set of initiatives with the objective of fostering the compliance with the requirements expressed in the Notice 3/2020, which regulates the systems of governance, internal control and organizational culture. These initiatives will continue for 2021;
- Submission to the Supervisory Entities of the Report on Prevention and Money Laundering and Financing of Terrorism for the activity carried out in 2019;
- Submission to the Supervisory Entities of the Internal Control Reports of the various eligible entities that make up the BCP Group, for the period from 1 June 2019 to 31 May 2020;
- Updating the content and training programs related to AML/CFT and the Code of Conduct;
- Monitoring of Supervisory Entities' On Site Inspections;

Credit risk

The materialisation of this risk arises from the losses occurred in the loan portfolio, due to the incapacity of borrowers (or their guarantors, when applicable), issuers of securities or contractual counterparts to comply with their credit obligations. This type of risk is very relevant, representing the largest part of the Group's overall exposure to risk.

The control and mitigation of this risk are carried out through a solid and reliable structure of risk analysis and assessment, based on internal rating systems suited to the different business segments, through a model for the early detection of potential default of the portfolio, through processes regarding the management and follow-up of the collateral value and through structural units that are exclusively dedicated to credit recovery, for non-performing situations.

Evolution and breakdown of the loan portfolio

The next table presents the evolution of the Group's portfolio subject to credit risk and counterparty credit risk between 31/12/2019 and 31/12/2020, in terms of EAD (Exposure at Default)*, in the three main geographies where the Group operates (Portugal, Poland and Mozambique), which represented almost the total Group's EAD by 31/12/2020.

Geography	Dec 20	Dec 19	(million euros)	
			Change	
			Amount	%
Portugal	59,708	50,979	8,730	17,1%
Poland	22,148	23,439	(1,291)	-5,5%
Mozambique	1,869	2,177	(308)	-14,1%
TOTAL	83,726	76,594	7,131	9,3%

* Without impairment deduction to the exposures treated prudentially under the Standardised Approach (STD) and including all risk classes (i.e. besides credit to Customers, debt positions from Sovereign entities and Institutions are included).

The growth of the Group's credit portfolio in 2020, measured in euros (EUR), was slightly higher than that the growth recorded in 2019 (+ 9.3% vs. + 8.3%, respectively). However, contrary to what happened in 2019, the year in which the growth came mainly from geographies abroad, with emphasis on the impact of the acquisition of Euro Bank in Poland, in 2020 the evolution is explained almost entirely by the € 8 growth, 7 billion in Portugal, which corresponds to an annual rate of change of 17.1%.

The significant dimension of the increase in Portugal is explained, on the one hand, by the expressive level of the Bank support to companies through the use of protocol lines sponsored by the Portuguese State, to respond to the impact of the pandemic outbreak COVID-19 (about € 2.5 billion) and, on the other hand, due to exposure to the segment Banks and Sovereigns, which increased by approximately € 5.9 billion, highlighting the position in public debt of the Portuguese State and investments in Banco de Portugal with a growth of € 3 thousand millions. It should be noted that this evolution was made in a context of a reduction of the NPE portfolio by € 883 million.

In the Polish loan portfolio, there was a decrease of 5.5%, measured in EUR, explained, almost entirely, by the decrease in exposure to Banks and Sovereigns, which represent a decrease of € 1.3 billion.

Likewise, with respect to Mozambique, there was a 14.1% reduction in the loan portfolio, measured in EUR, mainly related to the decrease in exposure to Banks and Sovereigns in the total of € 265 million.

Regarding the composition of the portfolio by risk classes, it is illustrated by the following graphs, representative of the portfolio structure on 31/12/2020:



In what concerns the structure of portfolios by counterparty segment, in Portugal the most significant portion continues to be assumed by the retail segment with 39.6% of the total, with 29.9% relating to exposures that benefit from mortgage guarantees. Corporate segment represents a weight of around 32.5%, slightly lower than at the end of 2019, with emphasis on the growth of the weight of the Banks and Sovereigns segment, which registered an increase in its representativeness to a level close to 27.9%, coming from a weight of 21% on 31/12/2019.

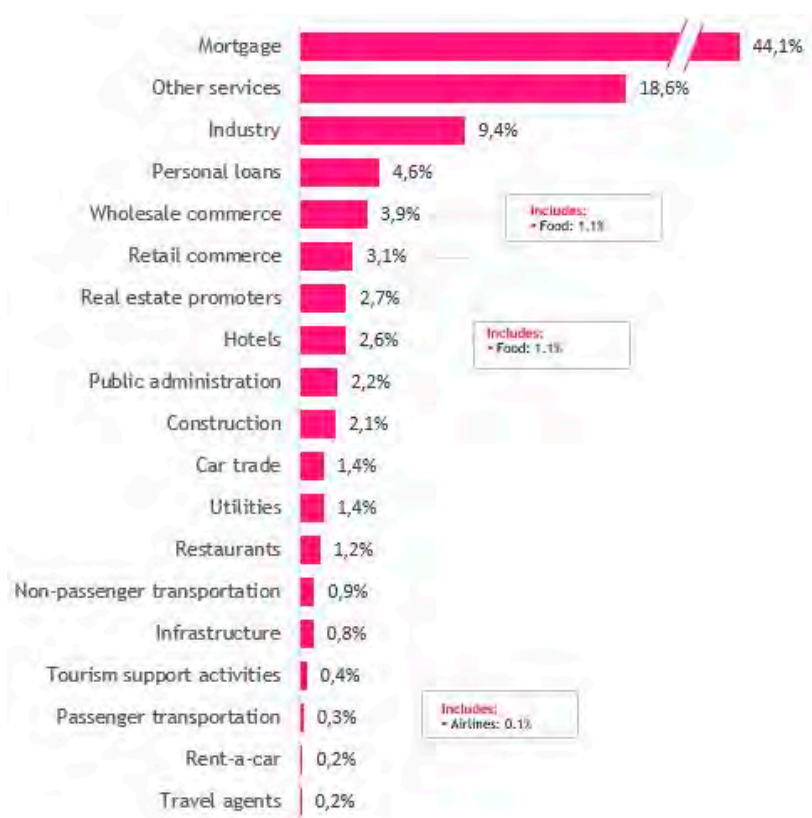
In Poland, after the structural change in the portfolio, resulting from the acquisition of Euro Bank in 2019, the structural changes in 2020 were of a more limited size. In this domain, we highlight the mortgage collateralized retail segment with the most relevant weight, around 31.7%, a stabilization of the Corporate segment, and an increase of 3.6 percentage points in the representativeness of the remaining retail segments by counterpart of a reduction in the Banks and Sovereigns segment, ending the year 2020 with weights of 29.8% and 20.3%, respectively.

The year 2020, was marked by the outbreak of the COVID-19 pandemic. In order to assess the dimension of the Group's exposure in Portugal to the sectors considered most sensitive to the effects of the aforementioned pandemic, the table below presents the six sectors of activity considered most vulnerable, concluding that these represent 4.9% of the total domestic exposure.

Exposure to sectors most sensitive to the pandemic:

(million EUR)	
Sector	Exposure
Hotels	979
Restaurant	444
Tourism support activities	164
Passenger Transportation	97
Rent-a-car	84
Travel agents	57
Total	1,824
% of Total	4,9%

It is important to note that the Bank has a dispersed portfolio, especially in comparison with the situation of the previous financial crisis, as reflected in the graph below.



Probability of Default (PD) and Loss Given Default (LGD)

The main parameters for credit risk assessment, used in the calculation of Risk Weighted Assets (RWA) within the scope of the Internal Ratings Based method (IRB) - the Probability of Default (PD) and the Loss Given Default (LGD) - assigned to the portfolio's credit operations, have been registering a continuous positive evolution, reflecting a clear trend of improvement in the portfolio's quality.

The following graph illustrates the distribution of the portfolio amounts, in terms of Exposure at Default (EAD) by the risk grades (internal ratings) attributed to the holders of credit positions in Portugal and Poland, on 31/12/2020. These risk grades (RG) are defined on an internal scale, transversal to the Group (the Rating Master Scale), with 15 grades, corresponding to different levels of debtors' PD. Risk grades 13 to 15 are called "procedural" and correspond to problematic credit; RG 15 corresponds to the Default status.



As shown in the graph above, the weight of EAD corresponding to risk grades of medium and high quality, for the two geographies concerned, represented 80.7% of the total EAD on 31/12/2020, which compares with similar corresponding weights of 76,8%, 73,6% e 69,8% at the end of 2019, 2018 and 2017, respectively. This positive evolution results mainly from the evolution of debtors' risk grades in Portugal.

With regards to the weight of the exposure held by Clients with procedural RG (without access to new credit), it reached a value of 5,9% on 31/12/2020 in the two geographies as a whole, a much lower weight than that registered at the end of the previous three years: 7,8% (2019), 11,3% (2018); 14,8% (2017) and 18,5% (2016). In Portugal, the decrease in the weight of EAD by Customers with procedural RG was even more pronounced in this period: 6,1 % (2020), 8,8% (2019), 12,8% (2018), 17,1% (2017) and 21,8% (2016).

Regarding the LGD parameters, representative of the expected losses in the case of Default and which, to a good extent, reflect not only the efficiency of credit recovery for the different types of credit segments/products, but also the collateralization levels of the loan operations' portfolio, the following table shows their respective average values (weighted by EAD) at the end of 2020 and 2019:

	Mortgages	SME Retail	Retail (other)	Real Estate Promotion	SME Corporate	Corporate	GLOBAL AVERAGE
2020	16,1%	32,0%	32,6%	37,8%	38,3%	42,8%	27,0%
2019	16,0%	32,7%	32,3%	39,6%	39,9%	45,1%	27,4%

Thus, in 2020, the LGD parameters in Portugal improved slightly for all segments.

Main credit risk indicators

The following chart presents the quarterly evolution of the main credit risk indicators, between 31/12/2019 and 31/12/2020, for the Group and the portfolios of Portugal, Poland and Mozambique:

	Dec-20	Sep-20	Jun-20	Mar-20	Dec-19
CONSOLIDATED					
NPE/Gross credit	5,9%	6,5%	7,0%	7,2%	7,7%
NPL > 90 days / Gross credit	2,3%	2,5%	2,5%	2,6%	2,7%
Past due credit / Gross credit	2,5%	2,7%	2,7%	2,9%	2,9%
Impairment / Gross credit	3,7%	4,1%	4,1%	4,0%	4,5%
PORTUGAL					
NPE/Gross credit	6,1%	7,0%	7,6%	7,8%	8,8%
NPL > 90 days / Gross credit	2,4%	2,4%	2,5%	2,7%	3,0%
Past due credit / Gross credit	2,4%	2,5%	2,5%	2,8%	3,0%
Impairment / Gross credit	3,9%	4,3%	4,3%	4,3%	5,1%
POLAND					
NPE/Gross credit	5,0%	4,8%	5,1%	5,1%	4,7%
NPL > 90 days / Gross credit	2,1%	2,2%	2,3%	2,1%	2,0%
Past due credit / Gross credit	2,7%	2,8%	2,9%	2,8%	2,5%
Impairment / Gross credit	3,3%	3,2%	3,2%	2,9%	2,8%
MOZAMBIQUE					
NPE/Gross credit	16,9%	25,1%	25,5%	25,7%	24,4%
NPL > 90 days / Gross credit	6,2%	12,4%	12,1%	11,4%	8,4%
Past due credit / Gross credit	6,3%	12,5%	12,2%	11,5%	8,4%
Impairment / Gross credit	7,4%	14,4%	13,8%	12,6%	11,9%

Gross credit = Direct credit to clients, including credit operations represented by securities, before impairment and fair value adjustments;
NPE include loans to customers only.

Despite the negative impacts resulting from the pandemic outbreak COVID-19, the evolution of credit risk indicators in 2020 was favourable at a consolidated level, in Portugal and in Mozambique, especially in the last quarter of the year, and registered a small deterioration in Poland. This globally positive trend is evidenced in the 'NPE / Gross Credit' ratio, with a reduction of 1.8 percentage points at a consolidated level and of 2.7 percentage points in Portugal. The same favourable evolution was observed in the Overdue Credit and Overdue Credit 90 days over Gross Credit ratios, at the domestic and consolidated level.

The dynamics of these ratios result from a positive effect that were due not only to the continuation of the effort to reduce credits classified as non-performing and overdue pursued in recent years, but also from the growth of Gross Credit, largely due to the impact of the high level of the Bank's supports to the economy through the lines sponsored by the State to respond to the impact of the pandemic outbreak COVID-19. In any event, this increase in the portfolio continues to be based on prudent credit concession criteria in order to preserve the quality of the portfolio in the long term and the high coverage provided by the guarantee underlying the operations carried out on the aforementioned lines should be taken into consideration.

It should also be noted that between the end of 2019 and 31 December 2020 the consolidated 'Impairment / Gross Credit' ratio decreased to a lesser extent than the 'NPE / Gross Credit' ratio (0.8 vs. 1.8 percentage points), which also reflects the conservative provisioning policy.

Unlike to what occurred in Portugal and at a consolidated level, in Poland there was a slight worsening of risk indicators, which stood at 0.3 percentage points in the 'NPE / Gross Credit' ratio and 0.2 percentage points in the ratio 'Credit Due / Gross Credit', also explained by adverse impacts of the global pandemic and a deterioration in the level of risk, especially in the Corporate segment. It should be highlighted the 0.5 percentage points increase of the 'Impairment / Overdue Credit' ratio, reinforcing the prudent provisioning levels of the Bank.

Reflecting the persistence of a less favourable economic and financial environment, aggravated by the impact of the pandemic COVID-19, the operation in Mozambique registered a deterioration in the credit risk indicators in the first 9 months of the year, but showed a significant favourable evolution in the last quarter of the year, especially in the 'NPE share in Gross Loans' ratio, influenced by the write-off of a large exposure. Because of the high level of coverage by impairment of that written-off exposure, the ratio 'Impairment to Gross Credit' registered a reduction.

NPA/NPE Reduction Plan

The implementation of the Group's NPA Reduction Plan continued to be a priority along 2020, under its two components - of NPE and of assets received in lieu of payment, the foreclosed assets (FA) - focusing mainly on NPE portfolios and on real estate FA held for sale, in Portugal.

The NPA Reduction Plan is framed by a specific Governance model and by a robust management framework, organized by specialised areas of credit recovery and based on systematically defined recovery strategies - either stemming from automated analysis and decision models (for Retail) or based in the relationship of recovery managers with their Corporate Clients, allowing for tailor-made solutions. In order to respond to the challenges arising from the pandemic COVID-19, the Bank has been developing and strengthening the methodologies and installed capacity of the recovery areas, aiming to ensure an adequate monitoring of the exposures that prove to be the most impacted.

The FA management is based on a specialised structure, privileging circuits and procedures oriented towards the speed of the reception-preparation-sale cycle and the enhancement of the properties' values, in order to facilitate the sale of these assets.

The NPA Reduction Plan also benefits from a technological environment that is supported on specific IT infrastructures for the activities connected with credits recovery, NPE reduction and FA management, with its monitoring being reinforced through the Operational Plan for NPA Reduction, that defines initiatives aiming at accelerating and conferring effectiveness to the recovery or sales' processes (both of loans and real estate properties), distributed throughout the several phases of the credit recovery and NPA reduction processes: prevention; collection; executions; insolvencies and, finally, FA reception, treatment and respective sales.

The fulfilment of the reduction targets for each area involved in NPA reduction is measured on a monthly basis, both in terms of management information for the respective dedicated structures, and of the specific focused activities and initiatives defined in the above-mentioned Operational Plan, with reporting to the top management.

Despite the pandemic crisis, the NPA Reduction Plan has consistently registered very positive results although below the targets set before the outbreak of the crisis.

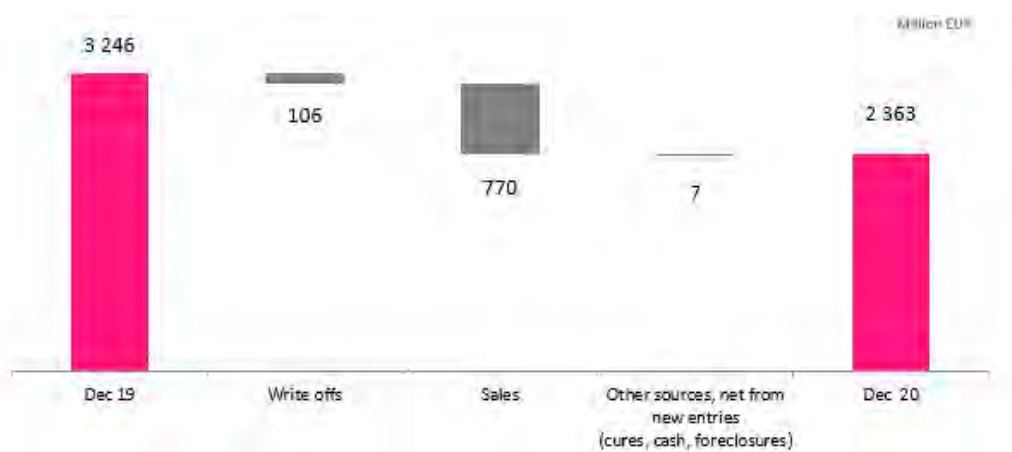
The following table presents the evolution of NPE volumes between 31/12/2019 and 31/12/2020, for the Group and for Portugal:

		(Million EUR)				
		Dec 20	Sep 20	Jun 20	Mar 20	Dec 19
CONSOLIDATED		3,295	3,663	3,934	3,928	4,206
	Change YoY	-911				
PORTUGAL		2,363	2,701	2,908	2,918	3,246
	Change YoY	-883				

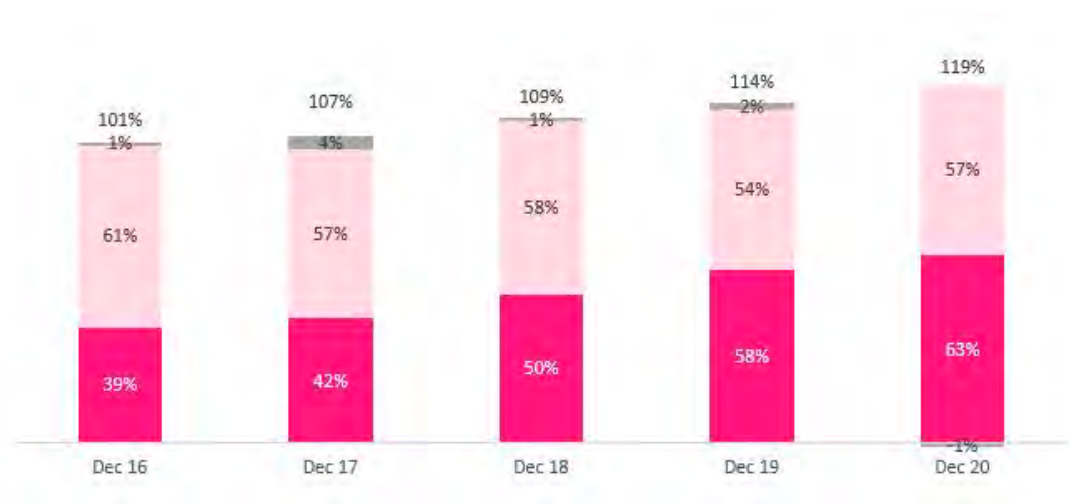
Comparing the value of Customers classified as NPE at the end of 2020 with the one at the end of 2019, there is a very favourable evolution, with a reduction of 911 million euros at the consolidated level and of 883 million euros in the activity in Portugal, which corresponds to a contraction rate of 21.7% and 27.2%, respectively. This result reflects the continuity of the success work carried out over the past few years in the identification and implementation of procedures that allow the reduction of these non-performing assets, even in an adverse environment.

It should be noted that this evolution was consistent with significant values in all quarters, with the exception of the second, which was characterized by a stabilization of NPE levels, as it was the first period fully impacted by the effects of the COVID-19 pandemic and in which the Bank reassessed the situation and adjusted the strategies for reducing non-performing assets.

The following graph shows the main drivers that explain the reduction of NPE in Portugal during the year 2020, where it is possible to highlight the contribution of credit sales, which amounted to a gross value of € 770 million. The write-offs amounted to € 106 million, with the other sources of NPEs reduction representing a dimension very similar to the new entries resulting, namely, from the classification as unlikelihood to pay (UTP) of Customers, including those with activity more vulnerable to adverse effects of the COVID-19 pandemic.



The continued growth in coverage of the NPE portfolio - by impairment, collateral and Expected Loss Gap - should also be noted, both for Portugal and at the consolidated level, although this growth was more accentuated in Portugal, as illustrated by the following graph. NPE coverage increases 5 percentage points, reaching around 119% at the end of 2020, with 63% of the coverage ensured by impairment.



The trend observed in 2020 with regard to the balance sheet assets resulting from credits repayment (foreclosed assets) was favourable, as shown in the following table, which presents the evolution of the total stock of Foreclosed Assets and the breakdown by type of assets, as well as the aggregate value of assets of this nature of the subsidiaries abroad (amounts before impairment):

	(Million EUR)			
	Dec-20	Dec-19	Dec-18	Dec-17
Real estate properties	809	1,020	1,474	1,778
Real estate Funds and companies	246	306	330	466
Other assets (non-Real estate)	92	87	156	95
SUB-TOTAL - Portugal	1,146	1,413	1,960	2,339
Other geographies Foreclosed Assets	40	52	58	37
GROUP TOTAL	1,186	1,465	2,019	2,376

Despite the more adverse context in the real estate sector for carrying out divestment operations of assets of this nature, in 2020 there was a reduction of 19% in the Foreclosed portfolio in relation to the position at the end of 2019, corresponding to an amount of 267 million euros, explained mainly by the Real Estate component in Portugal, which amounted to 211 million.

Taking into consideration the negative environment for carrying out operations of disposal of larger assets, special attention from the respective monitoring areas has been devoted to the preparation of assets for disposal. In this respect, it is also worth mentioning the flow of new entries of Foreclosed Assets in 2020, which amounted to 162 million euros, composed almost exclusively by residential and commercial real estate assets, which are known to have greater liquidity, explained by the smaller size of the NPE portfolio as well as the reduced activity of the courts in the second quarter of 2020.

Credit concentration risk

The following chart presents the weights, in total exposure, of the Group's 20 largest performing exposures, as at 31/12/2020, in terms of EAD and using the concept of "Groups of Clients/Corporate Groups", excluding the risk classes of "Banks and Sovereigns":

	Dec 20	Dec-19
Client Groups	Exposure weight in total (EAD)	Exposure weight in total (EAD)
Client group 1	0,8%	1,10%
Client group 2	0,6%	0,6%
Client group 3	0,5%	0,6%
Client group 4	0,5%	0,5%
Client group 5	0,4%	0,5%
Client group 6	0,4%	0,4%
Client group 7	0,4%	0,4%
Client group 8	0,3%	0,4%
Client group 9	0,3%	0,3%
Client group 10	0,3%	0,3%
Client group 11	0,3%	0,3%
Client group 12	0,3%	0,3%
Client group 13	0,3%	0,3%
Client group 14	0,3%	0,2%
Client group 15	0,2%	0,2%
Client group 16	0,2%	0,2%
Client group 17	0,2%	0,2%
Client group 18	0,2%	0,2%
Client group 19	0,2%	0,2%
Client group 20	0,2%	0,2%
Total	6,9%	7,4%

Globally, this set of 20 largest 'non-NPE' exposures accounted for 6.9% of total EAD as of 31/12/2020, which compares with a global weight of 7.4% by the end of 2019. Hence, in terms of EAD, there was a reduction of credit concentration on the 20 largest performing exposures.

It should be noted that, in addition to the compliance with the regulatory limits relative to Large Exposures, the Group has specific goals defined for the control of credit concentration, materialised into RAS metrics. Besides, metrics for specific concentration types are monitored regularly: single-name, by sectors of activity, by country, for Institutions and for Sovereign risks.

Except for sectoral concentration, the concentration limits definition depends on the internal/external risk grade attributed to the Clients at stake and consider their respective Net Exposure (= LGD x EAD, with LGD =45% whenever an own estimate does not exist or is not applicable). The concentration assessment regarding Sovereigns and countries excludes the geographies in which the Group operates (Portugal, Poland, Mozambique and Switzerland).

In the case of the single-name concentration, the limits are only defined for performing Clients, since the NPE are covered by the NPA Reduction Plan. For Clients with exposure above the established limit excess, specific reduction plans are drawn-up.

Operational risk

Operational risk materializes in the occurrence of losses resulting from failures or inadequacies of internal processes, systems or people, or resulting from external events.

In the management of this type of risk, the Group adopts duly documented principles and practices, which are expressed in control mechanisms subject to continuous improvement. This framework has a variety of features, such as: functions segregation, definitions for lines of responsibility and respective authorisations, tolerance limits for exposure to risks, appropriate internal regulations' framework (including ethical codes and codes of conduct), risks self-assessment (RSA) exercises, key risk indicators (KRI), access controls (physical and logical), reconciliation activities, exception reports, loss events data capture, a structured process for new products approval, contingency plans, contracting of insurance (for the total or partial transfer of risk), follow-up of the Bank's outsourcing contracts and internal training on processes, products and systems.

The operational risk management framework encompasses the three relevant Group geographies - Portugal, Poland and Mozambique - and the operational risk management system adopts the 3 lines of defence model, based on an end-to-end processes' structure. Each geography defines its own processes' structure, which is regularly reviewed/updated. This approach, transversal to the functional units of the organisational structure, is more appropriate for the perception of risks and to implement the corrective measures for their mitigation. Furthermore, this processes' structures also support other initiatives, such as the actions to improve operating efficiency and the management of business continuity.

The responsibility for the day-to-day management of operational risk lies with the 1st line of defence, with special relevance of the operations' areas and the process owners (seconded by process managers), whose mission - beyond the management of their processes' effectiveness and efficiency - is to characterise the operational losses captured under their processes, to monitor the respective KRI, to perform the RSA exercises, as well as to identify and implement appropriate actions to mitigate operational risk exposures, thus contributing to the strengthening of control mechanisms and the improvement of the internal control environment.

The Risk management System represents the 2nd Line of Defence, which implements the defined risk policy for the Group, having the responsibility of proposing and developing methodologies for managing this risk, supervising its implementation and challenging the 1st Line of Defence regarding the levels of risks incurred.

The highlights of operational risk management and control in 2020 are:

- The presentation of the operational processes' 2019 RSA exercise results and the execution of the 2020 exercise in Q4 of 2020;
- Computation and presentation of the ICT risks RSA annual exercise executed in Q4 of 2019.

The COVID-19 pandemic

2020 was marked by the COVID-19 pandemic, which constituted an unprecedented global contingency event and significantly affected the entire Group's activities.

In this context, the Group's operating ability, together with the protection of Clients and Employees, was ensured through the activation of contingency plans for business continuity, which implied the extensive use of telework - with considerable reinforcement of the IT and communications infrastructure in Portugal, alongside specific measures and increased vigilance in the area of systems security - the distribution/installation of protective materials and rules for occupying spaces and for people's movements within the premises, through the use of appropriate signage.

From a transactional point of view, it is also important to highlight the impact - translated into operational effort and increased operational risk - implied by the moratoriums on loans granted to individuals and companies (as well as credit lines with mutual guarantees covered by the State, in Portugal), from the second half of March. In domestic operations, this impact was mitigated by introducing, in a very short time, automatic and massified processing mechanisms that ensured an operational response that was not only effective, but also robust (from the point of view of controlling the risk of errors in the processing of operations).

Risks self-assessment (RSA)

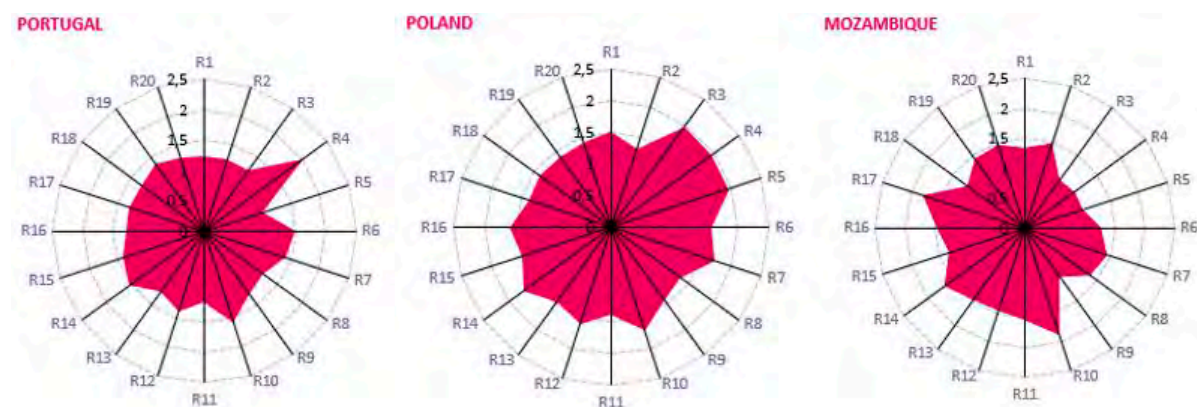
The RSA exercises are based on workshops, attended by the Risk Office and with the participation of the process owners (and process managers), or performed through answers to questionnaires sent to the process owners, for a review of previous RSA results, according to predefined updating criteria.

The aim of the RSA exercises is to promote the identification and mitigation (or elimination) of risks, either actual or potential, in each process, through the assessment of each of the 20 subtypes of operational risk considered. These assessments are positioned in a risk tolerance matrix, considering the 'worst-case event' that might occur in each process, for three different scenarios: Inherent Risk (without considering the existing/implemented controls), Residual Risk (considering the existing/implemented controls) and Target Risk (the desirable risk level). These exercises are typically carried out in the second half of each year.

The 2020 RSA exercise for operational risk processes incorporated:

- Qualitatively, the results of the ICT risks RSA computed in the beginning of the year, as input information to process owners, regarding 3 of the 20 risks assessed. The ICT risks RSA was made over 109 critical technological assets - hardware, software and communication lines and infrastructures - under 3 evaluation dimensions: availability/integrity/data confidentiality;
- The input stemming from the CORPE (Compliance and Operational Risk Process Evaluation) factors, which introduce and highlight operational risk components that result from the compliance and internal control status of the processes.

The results from the 2020 exercise are presented in the following charts, in terms of the average score for each of the 20 risk subtypes considered for the set of process in each geography, in which the outer line represents a score of 2.5 in a scale from 1 (lowest exposure) to 5 (highest exposure):



R1 Internal fraud and theft
R2 Execution of unauthorised transactions
R3 Employee relations
R4 Breach of work health & safety regulations
R5 Discrimination over Employees
R6 Loss of key staff
R7 Hardware and Software
R8 Communications infrastructure
R9 Systems security
R10 Transaction, capture, execution & maintenance

R11 Monitoring and reporting errors
R12 Customer related errors
R13 Products or services flaws/errors
R14 External fraud and theft
R15 Property and disasters risks
R16 Regulatory and tax risks
R17 Inappropriate market and business practices
R18 Project risks
R19 Outsourcing related problems
R20 Other third parties' related problems

Operational losses capture

The operational losses data capture (i.e. the identification, registration and typification) of operational losses and of the originating events aims at the strengthening of the awareness to this risk and to provide relevant information for process owners to incorporate within their process management. As such, it is an important instrument to assess risk exposures as well as for a generic validation of the RSA results.

The detection and reporting of operational losses is a responsibility of all Employees of the Group, the process owners playing a crucial role in the promotion of these procedures within the context of the processes for which they are responsible.

The identified events in which the losses, effective or potential, exceed the defined materiality limits (for each geographical area) are characterised by the process owners and process managers of processes to which the losses are related, including the description of the respective cause-effect and, when applicable, the valuation of the loss and the description of the improvement action identified to mitigate the risk (based on the analysis of the loss cause). For losses of amounts exceeding certain thresholds, “Lessons Learned” reports are presented to and discussed by the specialised governing body for operational risk (the EC’s Compliance and Operational Risks Commission).

The following graphs present the profile of the losses captured in the respective database in 2020:



As can be seen from the distribution of loss events (in loss amount) due to External risks and People risks assumed a marked predominance in the set of losses recorded in 2020, representing practically 90% of the global amount of losses. This resulted, respectively, from a fraud event on the part of a corporate client that reached a very significant global amount and from the extraordinary costs of the COVID-19 pandemic response (equivalent to operational losses and thus registered in the losses database).

In what concerns the distribution of losses by class of amount (in number of losses), there was no change in the typical profile of the distribution of operating losses. Regarding the distribution of losses by Banking business line, there was an expected concentration in the Retail Banking and Commercial Banking segments, the weight of the latter activity being also influenced by the aforementioned corporate fraud event.

Key risk indicators (KRI)

KRI provide alerts concerning changes in the profile of the operational risks or in the effectiveness of controls, thus enabling to identify the need to introduce corrective actions within the processes, in order to prevent potential risks from materialising into losses. These indicators currently encompass all processes in the main Group operations (Portugal, Poland and Mozambique).

Processes management also uses Key Performance Indicators (KPI) and Key Control Indicators (KCI), the monitoring of which, even if oriented towards the assessment of operative efficiency, also contributes for the detection of risks.

Business continuity management

2020 was marked by the COVID-19 pandemic, which tested ways of living and of working, constituting a real threat that even the most demanding scenarios and tests could not anticipate. The Group was able to respond from an early stage, activating its Contingency Plans developed within the scope of its Business Continuity Management Systems.

As provided for in these plans, the Group has implemented a set of response measures, following the guidelines of the health authorities, of which the following stand out:

- Emergency response procedures regarding events - such as the detection and referral of affected Employees, creation of isolation rooms, prophylactic teleworking confinement of Employees that contacted potentially infected persons, special teams for the support of reported infection;
- Prevention and protection measures: creation of a specific internal information channel for the dissemination of preventive measures (behaviours to be observed), distribution of protective equipment (gloves, masks, disinfectants, acrylic screens, etc.), reinforcement of cleaning routines;
- Measures to ensure continuity of the Bank's operations, namely: the creation of conditions for teleworking for a large number of Employees, the segregation of the most critical teams (involving, in some cases, the dislocation of Employees to alternative premises, destined to business recovery, in order to ensure the recommended social distancing), as well as the necessary coordination with the main suppliers/ Outsourcers.

Insurance contracting

The contracting of insurance for risks related to assets, persons or third-party liability is another important instrument in the management of operational risk, where the objective is the transfer - total or partial - of risks.

The proposals for the contracting of new insurance are submitted by the process owners under their respective duties for the management of the operational risk inherent to their processes, or are presented by the head of area or organic unit, and then analysed by the Compliance and Operational Risks Commission and authorised by the EC.

Legal, Compliance, Conduct and Financial Crime risks

In carrying out its Banking activity, Banco Comercial Português is governed by operating principles and rules that ensure a good conduct, following the best international practices and adopting the appropriate measures in terms of preventing compliance and conduct risks. Pursuing the objective of permanently adapt its internal practices to the best market practices, to the evolution of Banking activity, and to society as a whole, the Bank regularly reviews its internal regulations and procedures to safeguard that the conduct of its Employees is always guided by highest ethical principles, of satisfaction and protection of the interests of the client and the Bank, in the pursuit of sustainable profitability. The Compliance Office strengthened the monitoring of the Bank's activity and internal conduct, by implementing a system for monitoring potential situations of conflicts of interest, covering various aspects of this issue such as operations with related parties, credit operations, development of extra-professional activities and the receipt of gifts by Employees.

To comply with the relevant legal and regulatory norms related with Anti Money Laundering and Counter Terrorism Financing (AML/CFT), as well as to safeguard the compliance with best international practices on this matter, the Bank has a set of policies, procedures and systems that ensure an effective control of the financial crime risk prevention, also ensuring an operational model that allows the Bank to identify, assess and mitigate the potential risks inherent to the activity of its Clients, non-Clients and business relationships established with one or the other.

The impact and relevance of this risk in the Banking activity developed, compels the Bank to address this risk in multiple dimensions and on a continuous basis, whether in the establishment of new business relationships or in the continuous evaluation of an already established business relationship. Through a risk-based approach (RBA) for the assessment and monitoring of its business relationships or occasional transactions execution, the Bank complies with all the required duties enshrined in Law no. 83/2017, of 18 of August, like for example, due diligence, abstention, refusal or reporting.

For an effective and efficient AML/CFT activity, the Bank defines a set of policies and procedures that are supported by a wide range of information systems, of which it is worth highlighting:

- Business Relations monitoring and alerts system;
- Financial transactions monitoring system;
- Entity filtering system;
- New Business relationships validation system;
- External information platforms.

Pursuing the continuous improvement of the internal control processes, these risks' management system was enhanced along 2019, to enable the Bank to respond adequately to the demands of the future Banking business with origin in market dynamics changes and regulation evolution. From the set of initiatives, it is worth mentioning the following:

- Reinforcement of resources and expertise of the operational AML/CFT model
- Acquisition and deployment of a new transaction monitoring and alerts
- Enhancement of the 1st Line of Defence tools for the initial assessment of AML/CFT risk
- Deployment of new AML/CFT controls in specific business processes
- Update of record-keeping procedures
- Launching of a new "Compliance Culture" communication program, with regular actions towards the 1st Line of defence
- Training contents renewal
- Revision of the new products and services approval process
- Strengthening the subcontracting process regarding the identification of conflict of interest situations;
- In collaboration with Communication Department - Sustainability Area, a series of communications actions were developed on topics related to the Code of Conduct;
- Development of a systematic set of internal communications to prevent internal fraud risk;

- Development of a set of initiatives with the objective of promoting compliance with the requirements expressed in Notice 3/2020, which regulates the systems of governance and internal control and of organizational culture that will continue for 2021;
- Development of a new process for monitoring Legislative/Regulatory changes;

Market risks

Market risks consist of the potential losses that might occur in a given portfolio as a result of changes in interest or exchange rates and/or in the prices of the different financial instruments of the portfolio, considering not only the correlations that exist between those instruments but also their volatility.

For purposes of profitability analysis and market risks quantification and control, the following management areas are defined for each entity of the Group:

- Trading - Management of positions whose objective is the achievement of short-term gains, through sale or revaluation. These positions are actively managed, tradable without restriction and may be valued frequently and accurately. The positions in question include securities and derivatives of sales activities;
- Funding - Management of institutional funding (wholesale funding) and money market positions;
- Investment - Management of all the positions in securities to be held to maturity (or for a longer period) or positions which are not tradable on liquid markets;
- Commercial - Management of positions arising from commercial activity with Customers;
- Structural - Management of balance sheet items or operations which, due to their nature, are not directly related to any of the management areas referred to above; and
- ALM - Assets and Liabilities Management.

The definition of these areas allows for an effective management separation of the trading and banking books, as well as for the correct allocation of each operation to the most suitable management area, according to its respective context and strategy.

In order to ensure that the risk levels incurred in the different portfolios of the Group comply with the predefined levels of tolerance to risk, various market risks limits are established, at least yearly, being applicable to all portfolios of the risk management areas over which the risks are incident. These limits are monitored daily (or intra-daily, in the case of financial markets) by the Risk Office.

Stop Loss limits are also defined for the financial markets' areas, based on multiples of the risk limits defined for those areas, aimed at limiting the maximum losses that might occur. When these limits are reached, a review of the strategy and of the assumptions relative to the management of the positions in question is mandatory.

Trading Book market risks(*)

The Group uses an integrated market risk measurement that allows for the monitoring of all risk subtypes that are considered relevant. This measurement includes the assessment of the following types of risk: general risk, specific risk, non-linear risk and commodity risk. Each risk subtype is measured individually using an appropriate risk model and the integrated measurement is built from the measurements of each subtype without considering any kind of diversification between the four subtypes (worst-case scenario approach).

For the daily measurement of general market risk (relative to interest rate risk, exchange rate risk, equity risk and price risk of credit default swaps) a VaR (value-at-risk) model is used, considering a time horizon of 10 business days and a significance level of 99%.

For non-linear risk, an internally-developed methodology is applied, replicating the effect that the main non-linear elements of options might have in P&L results of the different portfolios in which these are included, similarly to what is considered by the VaR methodology, using the same time horizon and significance level.

(*) Positions assigned to the Trading Management Area (not specifically included in the accounting trading book).

Specific and commodity risks are measured through standard methodologies defined in the applicable regulations, with an appropriate change of the time horizon considered.

The table below presents the amounts at risk for the Trading Book, between 31/12/2019 and 31/12/2020, as measured by the methodologies referred to above, that registered moderate levels along the period under analysis:

(Thousand EUR)

	Dec 20	Max of global risk in the period	Min of global risk in the period	Dec 19
GENERIC RISK (VaR)	3,863	4,895	826	2,095
Interest rate risk	3,770	3,244	800	1,876
FX risk	341	4,555	183	1,170
Equity risk	318	195	91	81
<i>Diversification effects</i>	<i>(567)</i>	<i>(3,100)</i>	<i>(249)</i>	<i>(1,033)</i>
SPECIFIC RISK	19	10	10	3
NON-LINEAR RISK	0	0	0	0
COMMODITIES RISK	—	3	—	5
GLOBAL RISK	3,882	4,905	839	2,103

VaR model monitoring and validation

In order to check the appropriateness of the internal VaR model for the assessment of the risks involved in the positions held, several validations are conducted over time, of different scopes and frequency, which include back testing, the estimation of the effects of diversification and the analysis of the comprehensiveness of the risk factors.

The VaR model's hypothetical backtesting exercise for the Portugal's Trading Book, during 2020, resulted in 3 negative excesses over the results predicted by the model (and 2 positive), representing a frequency of 1% in 257 days of observation. Hence, in terms of the frequency of excesses verified, this back-testing results validate of the model as appropriate for measuring the risk at stake.

Trading Book Stress Tests

As a complement to the VaR assessment, the Group continuously tests a broad range of stress scenarios, analysing the respective results with a view to identifying risk concentrations that have not been captured by the VaR model.

The results of these tests on the Group's Trading Book, as at 31/12/2020, in terms of impacts over this portfolio's results, were the following:

		(Thousand EUR)
	Negative impact scenario	Impact
STANDARD SCENARIOS		
Parallel shift of the yield curve by +/- 100 bps	- 100 p.b.	-10,495
Change in the slope of the yield curve (for maturities from 2 to 10 years) up to +/- 25 bps	- 25 p.b.	-2,321
4 combinations of the previous 2 scenarios	- 100 p.b. e + 25 p.b.	-7,995
	- 100 p.b. e - 25 p.b.	-13,049
Variation in the main stock market indices by +/- 30%	-30%	-380
Variation in foreign exchange rates (against the euro) by +/- 10% for the main currencies and by +/- 25% for other currencies	-10%, -25%	-316
Variation in swap spreads by +/- 20 bps	-20 bps	-315
NON-STANDARD SCENARIOS		
Widening/narrowing of the bid-ask spread	Narrowing	-2,497
Significant vertices ⁽¹⁾	VaR w/o diversification	982
	VaR w/ diversification	323
Historical scenarios ⁽²⁾	7/May/2010	-5,298
	18/jul/11	-6,803

⁽¹⁾ Scenarios in which the more adverse variations of the last seven years, relative to the portfolio's five most significant risk factors for VaR, are applied to the current portfolio.

⁽²⁾ Scenarios in which past extreme markets variations are applied to the current portfolio; in this case, the significant dates refer to the Eurozone Sovereign Debt crisis (from 2010 onward)

These results show that the exposure of the Group's trading book to the different risk factors considered remains relatively limited and that the main adverse scenario to be taken into account refers to a general decrease in interest rates, especially when accompanied by a decrease in the slope of the yield curve (the case of a higher increase in shorter terms than in longer terms). In what concerns the non-standard scenarios, the main loss case refers to the variations occurred at 18/07/2011 when applied over the current portfolio.

Interest rate risk of the Banking Book

The interest rate risk arising from the Banking Book operations is assessed by the Bank in two complementary ways: the portfolio's economic value method (EVE) and the financial margin sensitivity method (NII), through a risk sensitivity analysis carried out every month, for the universe of operations included in the consolidated balance sheet of the Group, broken down by the currency of exposure.

Variations of market interest rates influence the Group's net interest income and the economic value of the Group, both in the short term - affecting the Bank's NII - and in the medium/long term, affecting the balance sheet economic value (EVE method).

The main risk factors arise from the repricing mismatch of the portfolio positions (gap risk) which may cause direct or indirect financial losses in the Banking Book, due to changes in interest rates that have different impacts over assets and liabilities' classes, making the Bank vulnerable to variations of the yield curve. On their turn, the changes in interest rates may alter the behaviour profile of Clients, inducing pre-payments/withdrawals in assets and liabilities, including the exercise of options' rights incorporated in the products' design (behavioural and optional risk). Additionally, although with less impact, there is also the risk of unequal variations in different reference rates with the same repricing period (basis risk).

In order to identify the exposure of the Group's Banking book to these risks, the monitoring of the interest rate risk takes into consideration the financial characteristics of each of the relevant contracts, with the respective expected cash-flows (principal and interest, without the spread component but including cost

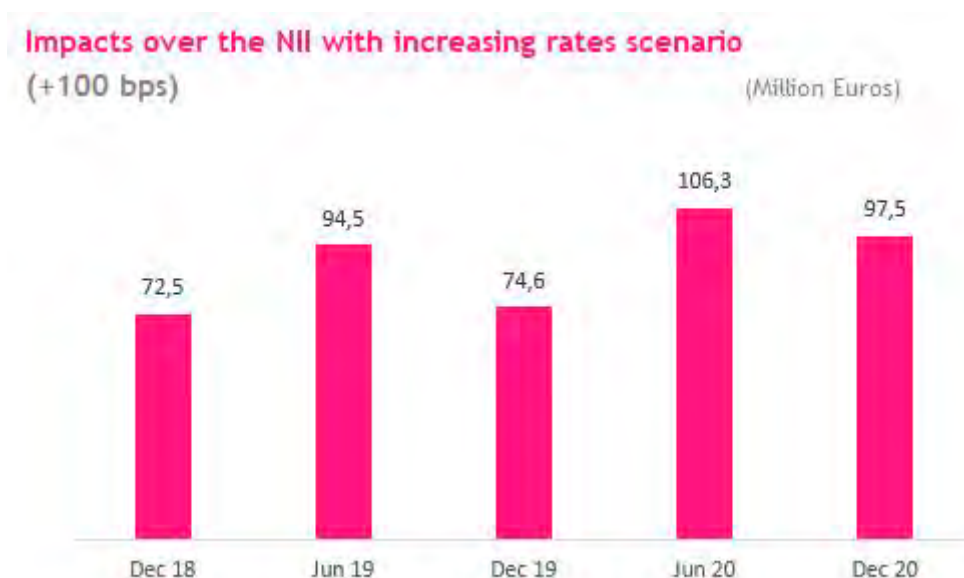
components for liquidity, capital, operations and other) being projected according to the repricing dates, thus calculating the impact on economic value resulting from alternative scenarios of change of market interest rate curves. The impacts stemming from the Clients' behaviour are also considered, in particular, for the products for which this is especially relevant - namely, for products without defined term (checking accounts, revolving credit) - as well as the impacts resulting from changes in contractual cash flows (credits prepayments) and impacts of any potential prepayments on credits with defined maturity.

The result of this analysis for a +100 basis point change in the level of the Euro interest rates (for all maturities, i.e. assuming a parallel shift of the yield curve), on the Banking Book portfolio as at 31/12/2020 consists in a positive impact on the balance sheet's economic value of around 67,4 million euros. On the other hand, the impact of a generalized drop in Euro rates of -100 basis points and considering a floor of 0% for the cash flows discount rate, would be of around +61,6 million euros. Hence, on that date, the Group was positively exposed to interest rates' variations (increase or decrease).

Complementing the previous approach, the Bank calculates monthly the impact on net interest margin projected for the following 12 months, due to changes in market interest rates (NII method). For this purpose, all assets, liabilities and off-balance products that generate interest are considered and the calculation of interest cash flows is performed based on the repricing and amortization characteristics of the products and on yield curves for 12 months. This exercise assumes a static balance for 12 months in which, for each amortization, an exposure with the same features of original maturity and price is generated.

To capture the net interest margin sensitivity, several simulations are processed, corresponding to 10 different scenarios of the market's interest rates evolution. The graph below shows the estimated impact over the net interest income, over the last 2 years, at the end of each semester, considering the scenario in which interest rates globally increase +100 bps combined with the scenario for the coefficients that transmit the market variations over the deposits' rates and other liabilities that generate interest ('betas').

Hence, for a variation in interest rates of +100 b.p. on December 31, 2020, the net interest income would have increased by around 100 million euros, however, the sensitivity to a decrease of 50 bp. of about 20 million euros.



FX and equity risks of the Banking Book

The exchange rate risk of the Banking book is transferred internally to the Trading area, in accordance with the risk specialisation model followed by the Group for the management of the exchange rate risk of the Balance Sheet. The exposures subject to exchange rate risk that are not included in this transfer - the financial holdings in subsidiaries, in foreign currency - are hedged on a case-by-case basis through market operations, taking into consideration the defined policy and the conditions and availability of instruments.

As at 31/12/2020, the Group's holdings in convertible foreign currency were fully hedged. On a consolidated basis, these hedges are identified, in accounting terms, as 'Net investment hedges', in accordance with the IFRS nomenclature. On an individual basis, hedge accounting is also carried out, through a 'Fair Value Hedge' methodology, in this case.

Excluding the financial holdings from the participations in the foreign subsidiaries, the exposure to FX risk is quite limited, corresponding to 0.34 million euros in terms of VaR, as at 31/12/2020.

Regarding equity risk, the Group maintains a set of small size and low risk equity positions, essentially in the investment portfolio, which are not held for trading purposes. The management of these positions is carried out by a specific area of the Group, with the respective risk being controlled on a daily basis, through the indicators and limits defined for market risks' control.

Liquidity risk

Liquidity risk is the potential incapacity of the Group to meet its liabilities concerning funding repayment without incurring in significant losses, whether due to the deterioration of funding conditions (funding risk) or due to the sale of assets for amounts below market value (market liquidity risk).

The Group's Wholesale Funding (WSF) structure is defined for each annual period by the Liquidity Plan (which is an integral part of the budgeting process), formulated at consolidated level and for the main subsidiaries of the Group. The preparation of this plan is coordinated by the Group Treasurer and its implementation is monitored continuously throughout the year, being reviewed whenever necessary.

The COVID-19 pandemic, whose negative effects on the economy and in particular on the Banking sector are not yet fully known, led Supervisors and Central Banks to promptly take a broad range of mitigation measures. In the case of the ECB, these were announced throughout April, involving the provision of additional liquidity to the Banking system through the creation of "Targeted longer-term refinancing operations III" ("TLTRO III") and the transversal reduction of haircuts applicable to all types of assets eligible for discount with the ECB.

Although the daily monitoring of all liquidity indicators has shown since the beginning of the crisis, both at BCP and at its subsidiaries, a total stability of the deposit base and liquidity buffers with central Banks, the Bank decided to rapidly adjust its funding policy from a precautionary point of view: still in April, BCP SA borrowed an additional 1.5 billion from the ECB through the use of Main refinancing operations ("MRO") with a 3-month term, thus increasing its exposure to the central Bank from 4.0 billion euro related to the Targeted long-term refinancing operation II ("TLTRO II") to 5.5 billion euro; and in June, on the due date of the TLTRO II and the MROs referred to above, it took over 7.6 billion euro in TLTRO III. After these operations, net financing from the ECB increased to a maximum of 4.9 billion euro in September 2020, decreasing until the end of the year to 3.3 billion euro, 3.0 billion more than in the previous year.

The additional liquidity thus obtained, added to that resulting from the reduction of the commercial gap in Portugal, was applied to the repayment of long-term loans from the European Investment Bank which totaled 1.1 billion euro in 2020 (of which 750 million euro with early repayment in June), the strengthening of the securities portfolio in Portugal (3.8 billion euro, of which 3.6 billion euro in sovereign) and in liquidity deposited with the Banco de Portugal (increase of 638 million euro, to Euro 4.3 billion euro).

The following table illustrates the WSF structure as of 31 of December 2019 and 31 of December 2020, in terms of the relative weight of each of the instruments used:

	Dec 20	Dec 19	Change in weight
Money Market	6,0%	-0,7%	6,7%
ECB	48,1%	5,9%	42,2%
Private Placements	0,0%	1,5%	-1,5%
REPOS	0,6%	0,0%	0,6%
Loan Agreements	8,2%	39,3%	-31,2%
EMTN	0,8%	1,2%	-0,4%
Covered Bonds	14,6%	20,8%	-6,3%
Subordinated Debt	21,6%	31,9%	-10,3%
Total	100,0%	100,0%	

The aforementioned funding decisions involved the increase of the weight of the net resort to ECB funding, from 5,9% to 48,1%, and a decrease of the weight of loan agreements, from 39,3% to 8,2% among less material variations.

The strengthening of the sovereign debt portfolios was reflected in an increase in the size of the portfolio of assets eligible for discount at the ECB, which also benefited, within the scope of prudent liquidity management, from the inclusion in the monetary policy pool of a retained covered bond issuance worth 1,8 billion euro after haircuts. Together with the collateral easing measures determined by the ECB, this decision contributed to raise the balance of assets eligible for discount at the ECB to 22,5 billion euro (after haircuts), 5,4 billion euro more than in December 2019.

In the same period, the liquidity buffer with the ECB increased by 2,4 billion euro, to 19,2 billion euro.



As in BCP, all liquidity indicators regarding Bank Millennium (Poland) and Bim (Mozambique) demonstrate the resilience of their liquidity positions throughout the COVID-19 crisis, supported from the outset by the stability of deposit bases and the solidity of liquidity buffers held with the respective Central Banks. Accordingly, both operations position themselves comfortably within the comfort zone of the liquidity risk indicators adopted across the Group, as well as regarding the regulatory standards.

The Group's counterbalancing capacity is defined by the ability to generate additional liquidity in the short term to cope with potential situations of financial stress. The measures for its reinforcement are described in the Recovery Plan and, as of 30 of June 2020, registered for Portugal an estimated total value of 1,925 million euros, with the following sources: sale of corporate bonds, securitization of a consumer credit portfolio and own issue of covered bonds to be mobilized for the ECB's monetary policy pool. In consolidated terms, the refinancing risk of medium-term liabilities will remain at very low levels over the coming years, as

maturing debt will be reaching 1,0 billion euro only in 2022. Even in this case, it will involve the payment of a covered bond issue in that exact amount, the collateral of which will be integrated into the ECB's liquidity buffer after repayment, thus meaning a minor loss of liquidity.

The conclusions of the Bank's ILAAP process reiterates the adequacy of the Group's liquidity to meet its liquidity commitments as well as the conformity of its liquidity risk management practices to the supervisor's requirements.

Liquidity risk control

The Group's liquidity position is assessed on a regular basis, with the identification of all factors underlying the variations that have occurred.

The Group controls its liquidity profile in the structural and short-term perspectives by regularly monitoring a set of internal and regulatory indicators that aim to characterize it, for which pre-established limits are defined and reviewed periodically, and which together define the Bank's appetite for liquidity risk, such as: the loans-to-deposits ratio (83% on December 31, 2020), the regulatory indicators LCR (Liquidity coverage ratio) and NSFR (Net stable funding ratio) - 230% and 140% respectively on December 31, 2020 (very comfortable and reinforced levels compared to December 31, 2019) - and, also, the dimension of the collateral buffer available for discount at the European Union Central Banks compared to total Customer deposits - an indicator which was comfortably within the levels of liquidity considered adequate, within the scope of risk appetite of the Group.

Pension Fund risk

This risk arises from the potential devaluation of the assets of the Fund associated with the Defined Benefit Plan or from the reduction of its expected returns as well as from actuarial differences that may occur from the evolution of demographical factors, in relation to the actuarial assumptions considered. Confronted with such scenarios, the Group may have to make unplanned contributions in order to maintain the benefits defined by the Fund. The responsibility for the regular monitoring of this risk and the follow-up of its management lie with the Pension Funds Risk Monitoring Commission.

In 2020 the BCP Group Pension Fund had a net performance of 5.77% to which the share stock component contributed decisively through an appreciation of 15%. This significant valuation originates from the participation in EDP and investment in assets that replicated the North American market, benefiting the Fund via selection (EDP and USA) but also via allocation, since the fund maintained an overweight in the class except for the last days of December where it positioned itself more conservatively, reducing at that time the exposure.

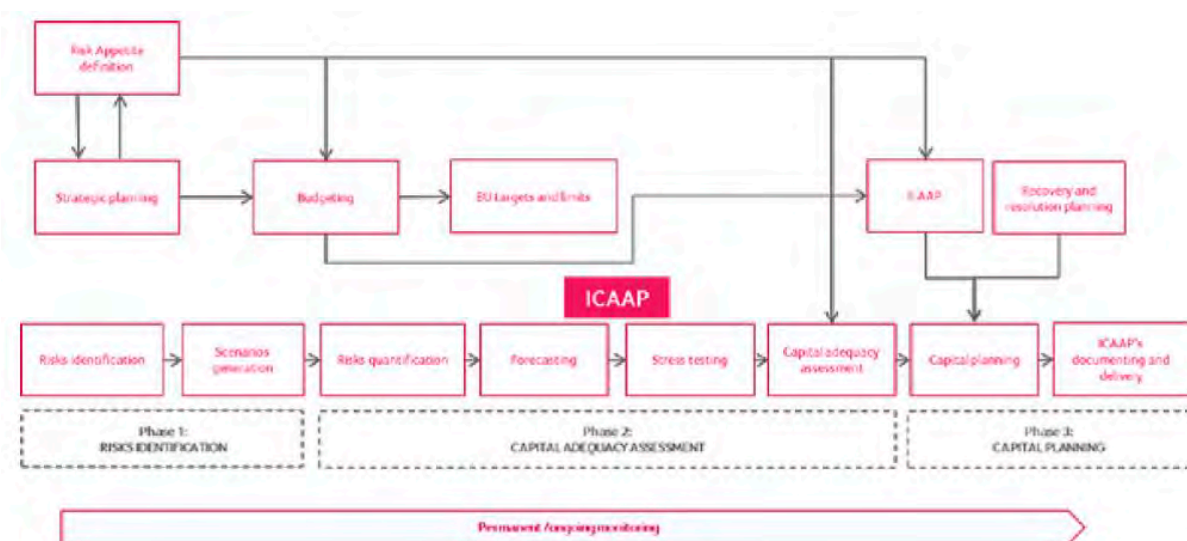
In the Bonds portfolio, the Fund also achieved a positive return on both fixed rate and indexed rate. The positioning was characterized by a preponderance in fixed rate assets but with a less duration, when compared to the respective benchmark. In this component, exposure to peripheral countries benefiting from the narrowing of spreads in the public debt component of the Eurozone was also privileged.

In the Alternatives and Real Estate portfolios, the Fund maintained an expressive underweight, with both classes showing positive yields in 2020.

The evolution of market interest rates in 2020 led to the need to update the discount rate to clear the Fund's liabilities. Thus, the discount rate in force on 12.31.2019, from 1.4%, was changed to 1.55% on 06.30.2020 and again changed to 1.05% on December 31, 2020. On that date, the coverage of the pension fund's liabilities had an excess of around EUR 93 million.

Internal Capital Adequacy Assessment Process (ICAAP)

The adequacy of capital to cover the level of risks to which the Group's activity is subject is permanently monitored under the Internal Capital Adequacy Assessment Process (ICAAP). The following figure summarizes the process in question:



The ICAAP is a key process within the scope of the BCP Group's risk management function and developed under an internal governance model that ensures the involvement of the BoD (the body responsible for approving the results) and its Risks Assessment Committee, of the EC, of the Risk Commission and of the top management, along the various stages of the process.

The ICAAP's results enable the management bodies to test whether the Bank is appropriately capitalized to face the risks arising from its activity at present, as well as those inherent to the balance sheet projections and results of the strategic plan and budget, in order to ensure the Group's sustainability in the medium term, respecting the risk limits defined in the Risk Appetite Statement (RAS) approved by the BoD.

For this purpose, the ICAAP is rolled-out from a prospective vision of the impact estimates concerning the occurrence of risks over the Bank's capital (capital requirements), considering their scale or dimension, complexity, frequency, probability and materiality, against a background consisting of the medium term (3 years) projection for the developments of the Group's activities. The impacts are estimated for different scenarios, including stress scenarios, with a severely negative evolution of macro-economic indicators. Through this process it is possible to test the Group's resilience and to verify the adequacy of the capital levels to cover the risks to which its activity may become subject. To this effect, the different risks are modelled or incorporated into the Group's stress tests methodology framework.

The ICAAP's first stage is the identification of the material risks to which the Group's activity is subject, which involves the Bank's management and the management from the main subsidiaries abroad. For this purpose, the Group uses a methodological approach based on an internal taxonomy covering more than 60 different risks, considering the relevancy of each one by taking into consideration its probability of occurrence and the magnitude of the impacts of its occurrence - either before or after the implementation of risk mitigation measures.

The result of this stage is the list of risks to be incorporated in the ICAAP, as well as of the variables to be considered for the establishment of the base and the stressed scenarios. The approval of the results of the risks identification process is a capacity attributed to the Committee for Risk Assessment (CRA).

In a second stage, the base and stressed scenarios that make the ICAAP's framework were defined. While the base scenario represents the Group's vision of the most probable evolution of the business constraints in the medium term (baseline scenario), the stressed scenarios incorporate extreme conditions, with low probability of occurrence but with severe impact over the Group's activity (adverse scenarios). The approval of the scenarios to be considered in the ICAAP is also a responsibility of the CRA.

In the third stage of the ICAAP, the impact of the risks identified is modelled for the reference date and the capital requirements are calculated for that date. All of the material risks identified by the Bank are

quantified in terms of their impact over the Risk Weighted Assets (RWA) level or over the P&L, in accordance with a set of methodologies and internal models, formally approved, documented, validated and audited, considering a significance level in line with the regulatory requirements (CRR or Solvency 2) and a time horizon of 1 year (which is lower for the trading portfolio, due to its business nature). The non-quantifiable or non-material risks are considered through an additional buffer to the capital. The approval of the estimation methodologies for the risks impacts in the Group's activity is a competence of the Risk Commission.

Once the impacts of the various risks over the Group's P&L and balance sheet and, in particular, over own funds - are estimated, the Group is able to assess the adequacy of its Risk-Taking Capacity (RTC) against the expected profile for its exposure.

The Group adopts a RTC that is aligned with the definitions of the regulatory capital ratios, pursuant to Directive 2013/36/EU and Regulation (EU) No 575/2013 (the CRR - Capital Requirements Regulation), including some adjustments in order to encompass other elements or capital instruments that the Group considers appropriate to cover the existing risks, prudently projected along the timeframe under analysis.

The ICAAP's results are assessed by the EC and by the CRA and approved by the BoD, being one of the main sources for the review of the Group's RAS.

Quarterly, the Bank reviews the ICAAP's assumptions assessing, namely: the materiality of the risks that are considered as "non-material"; the validity of the projections considered under the macroeconomic scenarios; the analysis of deviations against the business plans; the quantification of the main material risks; and the RTC calculation. The results are reported to the Bank's management body, through the EC and the CRA.

The results of the ICAAP, as of 31/12/2019, show that current capitalization levels are adequate for the 3-year time horizon, both in the baseline scenario and in the stressed/adverse scenario, which is confirmed by the quarterly monitoring performed by the Bank.

Models validation and monitoring

This function is ensured by the Models Monitoring and Validation Office (GAVM), reporting to the Chief Risk Officer.

GAVM is a unit structure from the second line of defence, within the scope of model risk management, functionally independent from the areas that are responsible for the models (model owners and developers) and from the Internal Audit Division. Hence, an adequate functions' segregation is assured. Its mission consists in monitor and validate the risk assessment used at BCP and other Group entities in Portugal, as well as to independently ensure the quality and adequacy of the risk management framework in what concerns internal models, metrics and completeness of the associated data, according to the Model Risk Management (MRM) framework.

GAVM's scope of action encompasses, inter alia, the validation of the internal models for credit risk, market risk and for the risks included in the ICAAP, as well as the regular monitoring of their performance and evolution. The results of the monitoring and validation exercises are reported to the Models Monitoring and Validation Sub-Commission and to the Risk Commission.

Besides the activities directly related with the monitoring and validation of models, in terms of performance and quality, GAVM is responsible for the coordination of the model risk management (MRM) activities, including the maintenance of a complete repository of the models used by the Bank and its permanent monitoring and updating through the use of a model management and risk assessment tool implemented at the Bank to support the MRM framework.

In 2020, several actions were carried out to monitor and validate the internal models in use by the Bank, including the regulatory report of the new templates on the validation results of the credit risk internal models, according with ECB instructions "Instructions for reporting the Validation results of internal models". These actions aim, inter alia, to reinforce the confidence in the models, to monitor their performance and evolution, verifying their business adequacy and their compliance with applicable regulatory requirements and best practices, as well as to reinforce the identification and adaptability to changes in their predictive quality.

Within the scope of models' validation, a highlight is made to the validation of the credit risk internal models concerning the Probability of Default (PD) for the Retail, Corporate and Real Estate Promotion segments, as well as of the Slotting Criteria model applied to Project Finance. It is also noteworthy the validation made to the Loss Given Default (LGD) model for the Retail segment, the validation performed to the internal market risk model and the validation activities performed within the scope of the ICAAP quantification of risks.

GAVM has the responsibility to maintain a robust and documented validation process for internal risk models and systems, in line with current regulations, challenging existing systems and models. For this, it develops and applies validation procedures and methodologies capable of ensuring proper model assessments and the alignment with growing regulatory requirements, by reinforcing (i) the scope of validation exercises, (ii) the depth of analysis and (iii) the transparency and auditability of the work performed.

As part of models monitoring, GAVM ensured, among others, quarterly presentations to the Risk Commission on the performance and quality of internal models within the IRB scope, as well as the execution of the 2020 regulatory Credit Risk Benchmarking exercise promoted by EBA.

Recovery Plan

Complying with the applicable law - Directive 2014/59/EU and its transposition to the *Regime Geral das Instituições de Crédito e Sociedades Financeiras* (RGICSF) through Decree-Law 23-A/2015, from the 26th of March - the Group annually revises the Recovery Plan for its business and activities, in which a large set of key indicators are defined; these are permanently monitored, allowing for immediate management action whenever there are deviations that exceed pre-defined thresholds (also defined in the Plan), the report of which, to the Group's management and Supervision Bodies, is mandatory.

From the strategic analysis and the establishment of possible scenarios for the business evolution and the external environment and from the modelling of all appropriate variables, metrics and scenarios considered, the business evolution is permanently monitored within the scope of the Recovery Plan and its respective indicators.

The priorities, responsibilities and specific measures to be taken in a capital and/or liquidity contingency situation are defined by the Recovery Plan, which is supported by an Early Warning Signals (EWS) system, for the anticipation of the occurrence of possible crises, namely, of liquidity. Simultaneously, the Recovery Plan contains a 'playbook', intended to provide key information for rapid decision-making in a crisis.

The Recovery Plan comprises the Bank Millennium's Recovery Plan (Poland) and is aligned with the definition of the business continuity framework and its respective plans (see the Operation Risk section), the Communication Plan - towards the market and stakeholders (in contingency situations) and the results from the capital and/or liquidity adequacy assessment processes already mentioned (ICAAP e ILAAP).

Ratings assigned to BCP

During 2020, there was a deterioration of macroeconomic indicators in Portugal, due to the impact of the COVID-19 pandemic, despite the measures implemented to contain the spread of the pandemic and mitigate both economic and social impacts. Namely, the deterioration of external vulnerability and budgetary position, with an expected budget deficit of 7.3% in 2020. Additionally, the Portuguese economy continues to record a level of debt over GDP above the Euro Zone average.

Despite the negative environment, is noteworthy the stability of public debt's sustainability, recognized by rating agencies through the affirmation of the Portuguese Republic's rating, in a year with high pressure over sovereign ratings. During 2020, Fitch Ratings and Standard & Poor's revised the Portuguese Republic's outlook, to Stable from Positive, on April 17 and 24, respectively.

Portuguese banks continued to pursue their activities within a challenging environment during 2020, with the ECB maintaining interest rates at historically low levels. These conditions constrain the evolution of net interest income. However, in some cases, the negative impact on net interest income was compensated by long-term refinancing operations (TLTRO III) announced by the ECB, trading gains and the continued reduction in operating costs.

It is also important to highlight the progress in the improvement of Portuguese banks' asset quality - through the reduction of NPEs -, as well as the

strengthening in capital and liquidity levels, contributing to a better outlook of the Portuguese banking sector's performance, even in an adverse context.

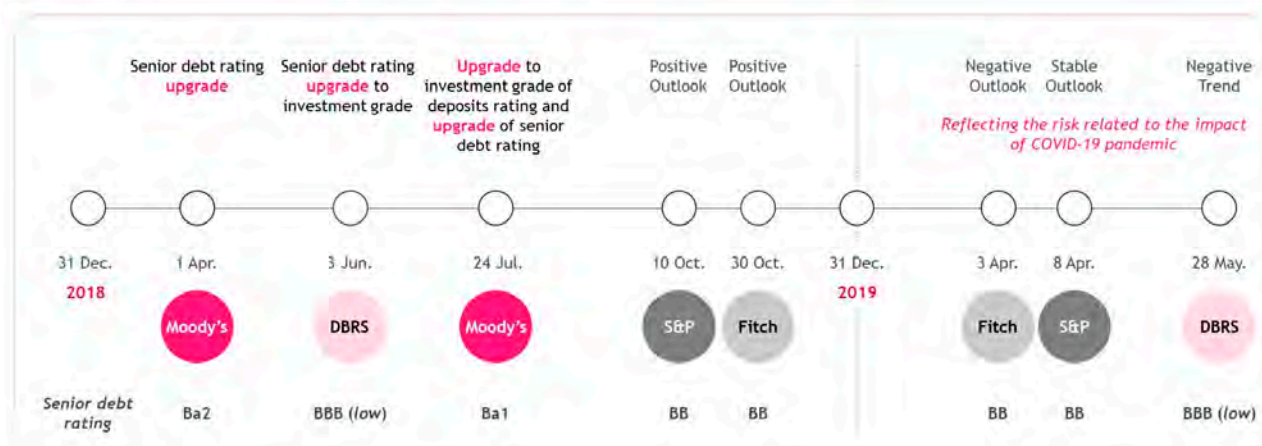
Notwithstanding the significant reduction in problematic assets by Portuguese banks, its amount remains high, which is, together with profitability and capitalization levels, one of rating agencies' main concerns.

In 2020, based on the unprecedented economic shock following the strict lockdown measures to contain the health crisis, which represents a key risk to the overall sector, three rating agencies took negative actions on BCP's Outlook:

On April 3, Fitch Ratings revised BCP's Outlook, to Negative from Stable. On April 8, Standard & Poor's revised BCP's Outlook, to Stable from Positive. Finally, on May 28, DBRS revised BCP's Trend to Negative from Stable.

These actions taken by rating agencies - common across the entire sector - are based on the high degree of uncertainty caused by the current health, social and economic context, that results on increasing risk on asset quality evolution and possible profitability deterioration in the sector, in 2021. However, the Portuguese financial sector is better prepared to face this crisis than when it entered the previous global financial crisis. Portuguese banks have materially improved asset quality and its capitalization and liquidity levels, also presenting more efficient cost structures.

Rating Agencies have taken negative rating actions on Portuguese banks since April 2020



Moody's	
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	Ba2
Counterparty Risk Assessment LT/ ST	Baa2(cr)/ P-2(cr)
Counterparty Risk LT / ST	Baa2/P-2
Deposits LT / ST	Baa3/ P-3
Senior Debt	Ba1 /NP
Senior Non Preferred	Ba3
Outlook deposits / senior	Stable
Subordinated Debt - MTN	(P)Ba3
Subordinated Debt	Ba3
Additional Tier 1	B2(hyb)
Other Short Term Debt	P(NP)
Covered Bonds	Aa3

Rating Actions

Fitch Ratings	
Viability Rating	bb
Support	5
Support Floor	No Floor
Deposits LT/ ST	BB+/B
Senior Debt LT/ST	BB/B
Senior Non Preferred	BB-
Outlook	Negative
Subordinated Debt Lower Tier 2	B+
Additional Tier 1	B-
Covered Bonds	BBB+

Rating Actions

3 April 2020 - Outlook downgrade, to negative from stable.
7 April 2020 - Covered Bonds rating reaffirmed at 'BBB+'.
22 October 2020 - Viability Rating reaffirmed at 'bb', the Subordinated Debt Lower Tier 2 rating at 'B+', the Senior Debt rating at 'BB/B', the Senior Non Preferred rating at 'BB-' and the Deposits rating at 'BB+/B'.

Standard & Poor's	
Stand-alone credit profile(SACP)	bb
Resolution Counterparty Credit Rating LT/ ST	BBB-/A-3
Issuer Credit Rating LT/ ST	BB/B
Senior Debt	BB
Senior Non Preferred	B+
Outlook	Stable
Subordinated Debt	B
Additional Tier 1	CCC+

Rating Actions

8 April 2020 - Outlook downgrade, to stable from positive. SACP rating reaffirmed at 'bb', the Resolution Counterparty Credit Rating at 'BBB-/A-3' and the Issuer Credit Rating at 'BB/B'.

DBRS	
Intrinsic Assessment(IA)	BBB(low)
Critical obligations	BBB (high) / R-1 (low)
Deposits LT/ST	BBB/R-2 (high)
Senior Debt LT/ ST	BBB (low)/ R-2 (middle)
Senior Non Preferred	BB (high)
Trend	Negative
Dated Subordinated Notes	BB
Additional Tier 1	B
Covered Bonds	A

Rating Actions

28 May 2020 -Outlook downgrade, to negative from stable. Deposits rating reaffirmed at 'BBB/R-2 (high)'.

Capital

According to our interpretation of CRD IV/CRR to date, the CET1 estimated ratio as at 31 December 2020 stood at 12.2% both phased-in and fully implemented, consistent with the amounts presented at the same period of 2019 (12.2% phased-in and fully implemented) and above the minimum required ratios under the SREP (Supervisory Review and Evaluation Process) for 2020, adjusted by the early adoption of the option provided in the review of Directive Capital -CRD V that allows the partial use of capital instruments that do not qualify as Common Equity Tier 1 (CET1) to meet the Pillar 2 Requirements (P2R) (CET1 8.828%, T1 10.75% and Total 13.313%).

In March 12, 2020, the European Central Bank announced a set of measures intended to guarantee the continued financing of households and corporates experiencing temporary difficulties, due to the economic effects that are felt worldwide. These supervisory measures aim to support banks in serving the economy and addressing operational challenges ahead, including the pressure on their staff.

Capital buffers required by the regulator were established with the objective of allowing banks to face adverse shocks. While the European banking sector has built up a significant amount in capital buffers, the ECB has allowed banks to operate temporarily below the capital level defined by Pillar 2 Guidance (P2G), the capital conservation buffer (CCB) and the systemic buffer (O-SII). Furthermore, several National Supervisory Authorities have reduced or temporarily eliminated the need for the creation of countercyclical buffers (CCyB).

The CET1 phased-in ratio performance during 2020 mainly reflects the organic generation of capital, which offset the negative impacts of the increase in weighted risks and of the pension fund, keeping the CET1 ratio at the same levels as in 2019, in line with the bank's medium-term objectives.

SOLVABILITY RATIOS

(Euro million)

	31 Dec. 20	31 Dec. 19	31 Dec. 20	31 Dec. 19
	PHASED-IN		FULLY IMPLEMENTED	
OWN FUNDS				
Common Equity Tier 1 (CET1)	5,657	5,508	5,651	5,496
Tier 1	6,194	6,012	6,187	6,000
TOTAL CAPITAL	7,212	7,036	7,213	7,028
RISK WEIGHTED ASSETS	46,413	45,031	46,322	44,972
CAPITAL RATIOS (*)				
CET1	12.2%	12.2%	12.2%	12.2%
Tier 1	13.3%	13.4%	13.4%	13.3%
Total	15.5%	15.6%	15.6%	15.6%

(*) Includes the cumulative net income recorded in each period.

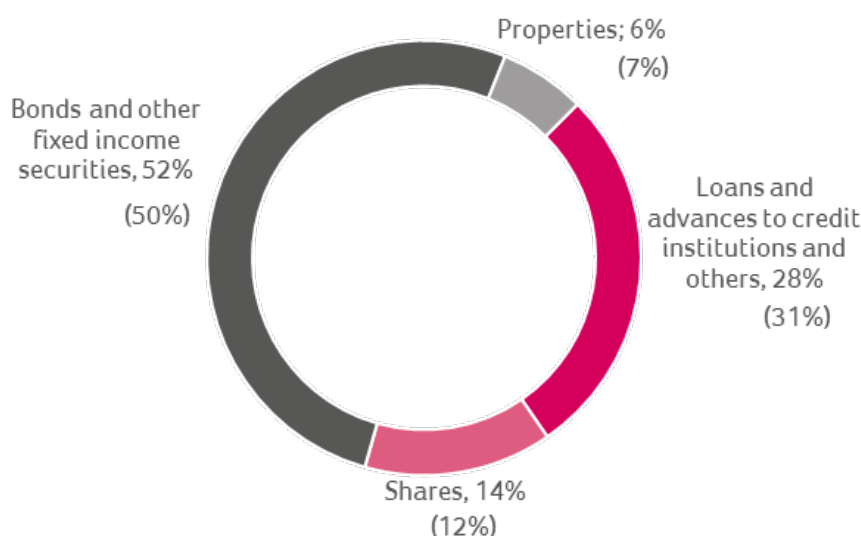
Pension Fund

The liabilities assumed by the Group Banco Comercial Português with pensions on retirement and other benefits are related with the payment to Employees of pensions on retirement, permanent disability pensions and widow and orphan benefits. As at 31 December 2020, the Group's liabilities stood at 3,658 million Euros, comparing to 3,490 million Euros at the end of 2019.

At the end of 2020, the Pension Fund's assets which are financing said liabilities reached 3,751 million Euros (3,501 million Euros as at 31 December 2019) and a year-to-date rate of return of 5.8%, which compares favourably to the rates of 1.40% and 1.55% considered in actuarial assumptions for the first and second half of the year, respectively. It should be noted that the discount rate considered by the Group for the purpose of the actuarial assessment to measure its liability was changed from 1.40% to 1.55% at the end of first half of 2020 and to 1.05% at the end of 2020.

As at 31 December 2020, the structure of the Pension Fund's asset portfolio shows in comparison with the previous year, identical patterns of diversification. At the end of 2020 and 2019, the main asset categories in the Pension Fund's portfolio presented the following distribution:

STRUCTURE OF THE PENSION FUND'S ASSETS AS AT 31 DECEMBER 2020



(xx%) Proportion as at 31 December 2019

The actuarial assumptions considered by the Group for calculating the liabilities with pension obligations were based on market indicators, particularly the inflation rate estimates and the long-term interest rate for Euro Zone, as well as the demographic characteristics of its employees. The main actuarial assumptions used to determine the Pension Fund's liabilities for the years ended in 2020, 2019 and 2018 are shown below:

ASSUMPTIONS	2020	2019	2018
Discount rate	1.05%	1.40%	2.10%
Increase in future compensation levels	0.75%	0.75 %	0.25% until 2019 0.75% after 2019
Rate of pensions increase	0.50%	0.50 %	0% until 2019 0.5% after 2019
Projected rate of return on fund's assets	1.05%	1.40%	2.10%
Mortality tables			
Men	TV 88/90	TV 88/90	TV 88/90
Women	TV 88/90 - 3 years	TV 88/90 - 3 years	TV 88/90 - 3 years
Disability rate	Not applicable	Not applicable	Not applicable
Turnover rate	Not applicable	Not applicable	Not applicable
Normal retirement age	66 years and 5 months	66 years and 5 months	66 years and 4 months
Total salary growth rate for Social Security purposes	1.75%	1.75%	1.75%
Revaluation rate of wages / pensions of Social Security	1.00%	1.00%	1.00%

In September 2019, the Bank established an agreement with the trade unions regarding the review of salary tables and other pecuniary clauses for 2018 and 2019, with reference to 1 January 2018 and 1 January 2019, respectively. This agreement establishes from 1 January 2018 onwards, the increase in the base salary by 0.75% up to salary level 6 and by 0.50% for salary levels 7 to 20 and the increase of other pecuniary clauses, such as the lunch allowance, seniority payments, among others.

At the end of 2019, the Bank started a negotiation process with the Unions for the full revision of the Collective Bargaining Agreements, with work continuing to take place during the first months of 2020, until they were interrupted in March, in view of the constraints imposed by the pandemic. In June, negotiations with the Unions resumed, following the proposals received in the meantime from the Unions regarding the 2020 update of the Salary Tables and other clauses of pecuniary expression of the Collective Labor Agreements under negotiation. The Bank formally presented on 3 July 2020, a counter-proposal to the Unions to update them by 0.30%, in line with the variation recorded in 2019 in the Consumer Price Index, according to official information from the National Statistics Institute.

It should be noted that, at the end of July, the Bank reached an agreement with the SBN - Northern Banking Union, meanwhile renamed to SBN - Union of Workers in the Financial Sector of Portugal, the SNQTB - National Union of Staff and Banking Technicians and the SIB - Independent Banking Union, to update the salary tables and other pecuniary clauses for 2020. The agreement established effectively provides for a 0.30% salary update on the level of remuneration for each employee, an increase in the lunch allowance, birth allowance and in other cash benefits, namely seniority allowances, subsistence allowances and student allowances, among others.

In September 2020 an understanding was reached with the remaining trade unions subscribing to the Group's Collective Labor Agreements, namely SBSI - South and Islands Banking Union, meanwhile renamed to SBSI - More Financial Sector Union and SBC - Central Banking Union consisting in an agreement in principle to the salary update agreed with other unions. This understanding allowed for the application of the same salary update to all Bank Employees under the September 2020 salary processing, regardless of their union affiliation. In September, negotiations were resumed with all the Unions subscribing to the Group's Collective Labor Agreements, for the conclusion of the full revision of the respective Clause, negotiations that are still ongoing. The publication of the Agreements under the Labor and Employment Bulletin with the respective trade unions referring to the update of salary tables is in progress.

The actuarial differences recorded in 2020 were negative by 89 million Euros, before taxes (285 million Euros, before taxes of also negative actuarial deviations in 2019), including 140 million Euros of positive financial deviations related to the pension fund's return, 198 million Euros of actuarial losses as a consequence of the reduction in the discount rate and 31 million Euros of actuarial deviations between expected and actual liabilities.

The main indicators of the Pension Fund as at the end of 2020, 2019 and 2018 are as follows:

MAIN INDICATORS	2020	2019	2018
Liabilities with pensions	3,658	3,490	3,066
Minimum level of liabilities to cover*	3,596	3,431	3,015
Value of the Pension Fund	3,751	3,501	3,078
Coverage rate	102.5%	100.3%	100.4%
Coverage rate of the minimum level of liabilities*	104.3%	102.0%	102.1%
Return on Pension Fund	5.8%	8.1%	0.2%
Actuarial (gains) and losses	89	285	98

* According to the Bank of Portugal requirements (assuming the application of the minimum requirement to all Group companies)

As of 31 December 2020, the Group's responsibilities showed a 102.5% coverage level, being fully funded at a higher level than the minimum set by Banco de Portugal.

Information on trends

COVID-19 impact

The year of 2020 was marked by the emergence and spread of COVID-19 on a global scale, leading to the declaration of a pandemic by the World Health Organization. The immediate impacts of this pandemic reached an unprecedented dimension in the social alarm situation generated, in the exhaustion of health systems and in the severe containment and combat measures implemented in numerous countries, including Portugal. Additionally, lock downs were imposed by European governments, with severe restrictions on the movement of people and economic activity.

The Portuguese financial sector is better prepared for this crisis than when it entered the previous global financial crisis. Portuguese banks have substantially improved asset quality, liquidity and capitalization levels and have more efficient cost structures. Notwithstanding the greater robustness of the Portuguese financial sector and the beginning of the vaccination process in December - the road to reaching a level of immunity that allows for a gradual return to normality is still long - the economic impact observed in 2020 was unprecedented, mirrored in the 7.6% decline in Portuguese GDP.

In 2021, Bank of Portugal's projections point to a moderate recovery, with GDP growing 3.9% and the unemployment rate reaching 8.8%.

At the European level, with the aim of accelerating economic recovery, an extraordinary package of European funds (NextGeneration EU) was approved in July, totalling 750 billion euros, distributed between grants and loans, which will run from 2021 to 2023 and will be financed through the issuance of European debt.

Impact on the Group's activity

The current economic and social context presented, in 2020, a set of challenges to the development of the Bank's activity. The repercussions of the crisis caused by the pandemic will continue to be felt in the coming years.

Despite the recent trend of reduction and/or maintenance of interest rate levels at historically low values - in many cases, negative values - the Group's net interest income is projected to grow slightly in 2021. In Portugal, margin growth will continue to benefit from TLTRO III and expected volume growth, with particular emphasis on new mortgage loan production.

In international operations, with a special focus on the Polish operation, the strong growth in new mortgage loan production should be the main driver of Bank Millennium's net interest income growth in 2021.

Commissioning levels have been subject to strong regulatory limitations, particularly in the Portuguese operation, which has constrained its contribution to the Group's profitability. In view of these challenges, the Bank has been promoting the transfer of on-Balance Sheet Customers Funds to off-Balance Sheet Funds. Additionally, the current pandemic context has increased the levels of volatility in the financial markets, leading to a greater adherence of Customers to services related to financial markets. In this sense, the Bank has invested in the development and improvement of digital solutions to increase/improve the offer of services related to financial markets. Commissions are expected to increase in 2021 in the Group, both in the activity in Portugal and in the international activity.

Optimising efficiency levels and consolidating the Bank's position as one of the most efficient in the Eurozone are priorities that will continue to shape the Bank's activity in the future. In that context, the digitalization process that has been implemented, both in terms of the Group's operations and the services provided to customers, will continue to be a priority in the Group's strategy.

The cost of risk, one of the most relevant indicators in the current context of economic crisis originated by the pandemic, should remain, in 2021, aligned with the Bank's previously established guidance, between 90 and 120 basis points. This guidance is based on the the central macroeconomic scenario projected by the Bank of Portugal and is, naturally, impacted by possible deviations from this same scenario, which, in the current context, may be due to a slower economic recovery or a longer than foreseen period in the fight against the pandemic. It is projected that, for each additional 100 basis points decrease in GDP, against Bank of Portugal's central scenario, the Bank's cost of risk will increase by around 10 basis points.

Significantly reducing exposure to problematic loans has been one of the Group's top priorities. However, the onset of this new economic crisis may prove to be a challenge in continuing the execution of this reduction.

The implementation of public and private support measures, with a special emphasis on credit moratoria, have as main objectives to protect Customers from the economic impacts originated by the pandemic and to protect the financial sector from a possible increase of its exposure to NPEs. Given the duration of the support granted, mostly until the end of September 2021, the visibility of the pandemic's impact on the creation of new NPEs during 2021 will be limited. However, given the pace of NPEs reduction recently shown by the Group, as well as the projections of net inflows, new inflows are expected to be offset by NPE sales and write-offs.

The Group's commercial activity volumes were strongly influenced, during 2020, by the pandemic. If, on one hand, there was a significant growth in total Customer Funds, originated by the pandemic and confinement periods, on the other hand, there was a contraction in new personal loan production, which was more than offset by the growth in new corporate credit production, deriving from the strong demand for credit lines with state guarantees, created to fight the economic consequences of the pandemic by injecting liquidity into the Portuguese businesses. For 2021, the Group's commercial activity is projected to continue its good performance, albeit at a more subdued pace, with further expansion of the volume of the loan portfolio.

MREL

On 30 October 2019, the Single Resolution Board (SRB) updated and confirmed the MREL requirements applicable to BCP, based on information as of 31 December 2017 and within the scope of Banking Resolution and Recovery Directive 1 (BRRD1):

- The resolution strategy is the Multiple Point of Entry (Portugal, Poland and Mozambique);
- The BCP Resolution Group is composed by Banco Comercial Português, S.A., Banco ActivoBank, S.A., Millennium bco Bank & Trust (Cayman) and by Banque Privée BCP (Suisse), Lda.;
- The resolution measure for the BCP Resolution Group is the bail-in.

The entrance into effect of the new banking regulations (particularly of the Banking Resolution and Recovery Directive2 - BRRD2) plus the COVID-19 pandemic altered the context:

- The need to comply with MREL requirement changed to 1 January 2024. The SRB should also establish interim targets for 1 January 2022 (binding) and 1 January 2023 (indicative);
- The revised requirements shall be established by SRB within the scope of the 2020 resolution planning cycle and must be communicated to the Bank by mid-2021;
- SRB publicly informed the intention of using the discretionary power and the flexibility given by the regulations in force to establish new transition periods and MREL targets. This assessment will be made on a case-by-case basis.

It will only be possible to accurately assess the Resolution Group's funding needs once the SRB has clarified the requirement the Group must meet.

Several banks, including BCP, have rebalanced their funding profiles relative to the previous crisis. The ratio of credit over deposits is, for the sector, below 100%. Banks hold relatively large liquidity buffers.

CHF denominated loans

Regarding mortgage loans indexed to Swiss francs (CHF) granted by Bank Millennium, there are risks related to verdicts issued by Polish courts in lawsuits against banks (including Bank Millennium) raised by borrowers of FX-indexed mortgage loans, as well as risks related with the possible application of a sector-wide solution, i.e. a solution applied to all contracts (Swiss Franc-denominated/indexed mortgage loans) in the Polish financial sector. The Polish Financial Supervisory Authority suggested a possible sector-wide solution in December 2020, which has, since then, been under consideration by Polish banks.

On 3 October 2019, the Court of Justice of the European Union (CJEU) issued a judgment on Case C-260/18. This judgement has legal interpretations in connection with the preliminary questions formulated by the District Court of Warsaw in the lawsuit against Raiffeisen Bank International AG, relative to CHF-indexed loans.

Since then, the trend of court rulings, that had been mostly favourable to banks, begun to reverse. The CJEU ruling only concerns situations where the national court has previously determined that contract terms are unfair. It is the exclusive competence of national courts to assess, in the course of judicial proceedings, whether a particular term of a contract can be identified as unfair according to the circumstances of the case.

On 29 January 2021, it was published a set of questions addressed by the First President of the Supreme Court to the Civil Chamber of the Supreme Court, which may have important consequences in terms of clarifications of relevant aspects of the court rulings and their consequences. The Civil Chamber of the Supreme Court was requested to respond to certain requirements related to FX-indexed mortgage agreements: (i) is it permissible to replace - through legal or customary provisions - the abusive provisions of an agreement which refer to FX exchange rate determination; moreover, (ii) in case of impossibility of determining the exchange rate of a foreign currency in the indexed/ denominated loan agreement - is it possible to keep the agreement in force in its remaining scope; as well as, (iii) if, in case of invalidity of the CHF loan agreement, there would be applicable the theory of equity (i.e., does it arise a single claim which is equal to the difference between value of claims of bank and the customer), or the theory of two conditions (separate claims for the bank and for the client that should be dealt with separately). The Supreme Court was also requested for commenting on (iv) the determination of the moment from which the limitation period should start counting in case of a claim being filed by a lending bank for repayment of borrowed amounts and, (v) whether banks and consumers may receive remuneration on their pecuniary claims on the other party arising from the contract. The date of the Supreme Court meeting, which was scheduled for 25 March 2021, has since been changed to 13 April 2021. Bank Millennium will assess in due time the implications of the potential decisions of the Supreme Court on the level of provisions constituted for the legal risk. Given the Group's inability to predict the results of that Supreme Court decision, this matter was not considered in the determination of the provision.

On 8 December 2020, Mr. Jacek Jastrzębski, the Chairman of the Polish Financial Supervision Authority (PFSA), proposed a sectoral solution to address the sector risks related to FX-indexed mortgages. The solution would consist in banks offering to their clients a possibility of concluding liability settlement agreements based on which a client would conclude with the bank a settlement as if the loan had been, from the very beginning,

a PLN-indexed loan, bearing interest at an appropriate WIBOR rate, increased by the margin historically employed for such loan.

Following that public announcement, the idea has been subject of consultations between banks under the auspices of the PFSA and Polish Bank Association. Banks are assessing the conditions under which such solution could be implemented and consequent impacts.

In the view of Bank Millennium's Management Board, important aspects to be taken into consideration when deciding on potential implementation of such program are: a) favourable opinion or, at least, non-objection from important public institutions; b) support from the National Bank of Poland (NBP) for the implementation; c) level of legal certainty of the settlement agreements to be signed with the borrowers; d) level of the financial impact on a pre- and after tax basis; e) capital consequences, including regulatory adjustments in the level of capital requirements associated with FX-indexed mortgage loans.

At the time of publishing the Group's Consolidated Report, neither its Management Board nor any other corporate body of Bank Millennium or of the Bank took any decision regarding the implementation of such program. For this reason, the potential effects of this matter were not reflected in the determination of the provision. If, or when, a recommendation regarding the program is be ready, Bank Millennium's Management Board will submit it to the Supervisory Board and General Shareholders' meeting, taking into consideration the relevance of such decision and its implications.

According to preliminary calculations, implementation of a solution whereby loans would be voluntarily converted to PLN as if they had been a PLN loan from the very beginning, bearing interest at an appropriate WIBOR rate increased by the margin historically employed for such loans, could imply provisions for the losses resulting from conversion of such loans (if all the current portfolio would be converted) with a pre-tax impact between PLN 4.100 million (Euros 899.06 million) to PLN 5.100 million (Euros 1,118.35 million) (non-audited data). The impacts can significantly change in case of variation of the exchange rate and other assumptions of diverse nature. Impacts on capital could be partially absorbed and mitigated by the combination of the existing surplus of capital over the current minimum requirements, the reduction of risk-weighted assets and the decrease or elimination of Pillar 2 buffer. The above mentioned impact would be substantially higher than the estimated impact of PLN 500 million (Euros 109.64 million) to PLN 600 million (Euros 131.57 million) (non-audited data) in the scenario of replacing the exchange rate applied in the contracts by the

average NBP exchange rate. Finally, it should be mentioned that Bank Millennium, as at 31 December 2020, maintained additional own funds for the coverage of additional capital requirements related to FX-indexed mortgage portfolio risks (Pillar II buffer), in the amount of 3.41 p.p. (3.36 p.p. at the BCP Group level), part of which is allocated to operational/legal risk.

Due to the complexity and uncertainty regarding the outcome of court cases, as well as due to the potential implementation of PFSA Chairman's solution or potential Supreme Court decisions, it is difficult to reliably estimate potential impacts of such outcomes and their interaction as at the date of publication of the Group's financial statements.

Resolution Fund

It is not yet possible to determine what will be the final impact of the resolution of Banco Espírito Santo on BCP, as an institution participating in the resolution fund created by Decree-Law no. 31-A/2012, of 10.

Regarding payments to be made in 2020 under the Contingent Capital Agreement, the following reference is made in the Resolution Fund's 2019 annual report: "Novo Banco's 2019 annual accounts, as publicly presented by its Executive Board of Directors on 28 February 2020, include the quantification of the liability arising from the Contingent Capital Agreement, of 1 037 000 thousand euros. In this context, and without prejudice to the verification procedures to be carried out prior to disbursement by the Resolution Fund, a provision was made by that amount for 2019".

According to a notice issued by the Resolution Fund on 4 June 2020, the payment made by the Resolution Fund to Novo Banco in May 2020 of 1,035 million euros, results from the execution of the 2017 agreements, under the process of the sale of the 75% stake of the Resolution Fund in Novo Banco, complying with all the procedures and limits defined therein.

In the same notice, the Resolution Fund also clarifies that the "Resolution Fund and Novo Banco have initiated an arbitration procedure to clarify the treatment that should be given, under the Contingent Capital Agreement, of the effects of Novo Banco's decision to waive the transitional regime it currently benefits from and which aims to reduce the impact of the introduction of IFRS 9 on credit institutions' own funds. This issue falls within the scope of the implementation of the Contingent Capital Agreement, which sets the maximum amount of payments to be made by the Resolution Fund at 3,890 million euros. Thus, even if the arbitration procedure were to have an unfavourable outcome for the Resolution Fund's claims, its effects would

fall under the maximum limit of 3,890 million euros in accordance with the Contingent Capital Agreement. The above arbitral proceedings therefore do not represent an additional risk compared to the ceiling of 3,890 million euros".

Thus, considering the payments already made and the amount of the provision recorded in 2019, the remaining amount that may still be used amounts to 912 million euros.

In a separate notice dated 16 June 2020, the Resolution Fund clarifies that "the Resolution Fund has also provided the Budget and Finance Committee, in writing, of all the clarifications on its decision to deduct from the amount calculated under the Contingent Capital Agreement, the amount related to the variable remuneration attributed to the members of the Executive Board of Directors of Novo Banco".

Following the payment made in May 2019 by the Resolution Fund to Novo Banco, in compliance with the Contingent Capitalization Agreement, a special audit determined by the Government was conducted. According to a statement issued by the Resolution Fund on September 3, "The information presented by the independent entity that conducted the special audit shows, in particular, that Novo Banco has been operating in a framework strongly marked by the vast legacy of non-productive assets, still generated in the sphere of Banco Espírito Santo, S.A., with the consequent recording of impairments and provisions, but that it has also strengthened its internal procedures. Regarding the exercise of the Resolution Fund's powers under the Contingent Capitalization Agreement, the audit results reflect the adequacy of the principles and criteria adopted".