Banco BAI Europa, S.A.

Financial Statements

2019

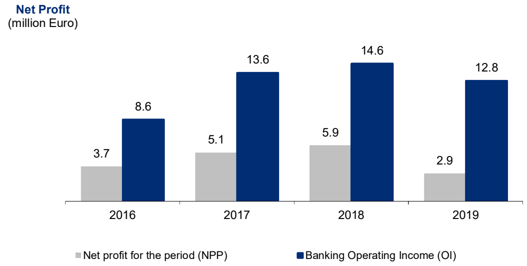
BANCO BAI EUROPA

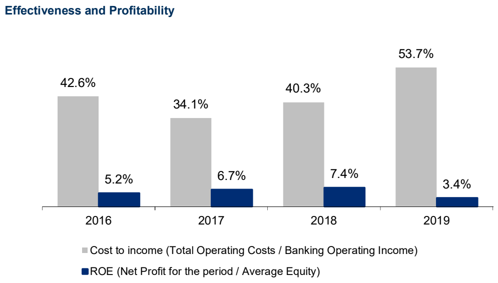
Banco BAI Europa, SA, a public limited company with headquarters at Rua Tierno Galvan, Torre 3, 12º Piso, Lisboa,
registered at Commercial Registry of Lisbon under the registration and VAT number 505 274 922.
Share Capital EUR 40,000,000.00.

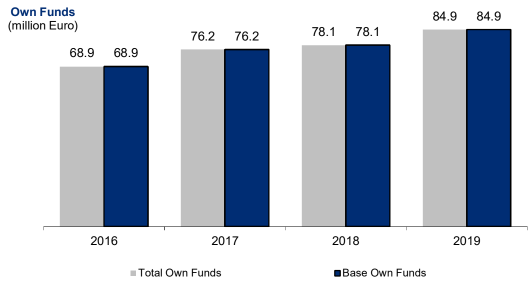
Contents

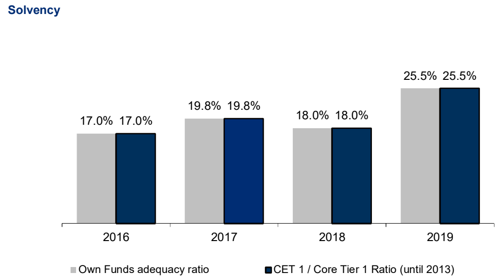
Banco BAI Europa, S.A.
Management Report 2019

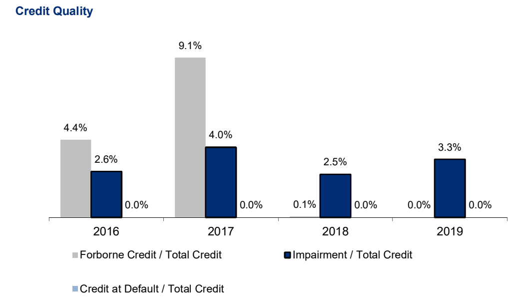
Main indicators

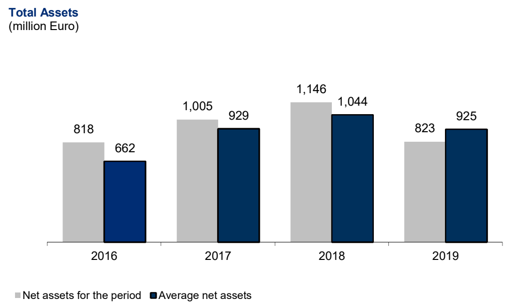












Note: The efficiency, solvency and credit quality indicators presented above follow the methodology indicated by Bank of Portugal in Instruction No. 16/2004 of 16 August and Instruction No. 3/2015 of 15 January.

Overall Assessment

According to the national accounts released by INE economic activity in Portugal observed a slowdown in 2019, with real growth of 2.2% of GDP, compared with 2.6% in 2018, increasing nominal GDP to EUR 212.3 billion.

This development resulted from the positive but reduced contribution of domestic demand to the real GDP growth rate, which stood at 2.7 p.p. (3.1 p.p. in 2018), and a stronger negative contribution from net external demand, which stood at -0.6 p.p.. (-0.4 p.p. in 2018).

With regard to domestic demand, there was a deceleration in private consumption from 2.9% to 2.3% in real terms, while the public component grew by 0.8%, slightly lower than in 2018 (0.9%).

Considering exports and imports of goods and services, the balance of goods and services was only marginally positive, at 0.1% of GDP (National Accounts basis) in 2019, declining 0.3 p.p. from the previous year. In turn, the current and capital account balance (also on a National Accounts basis) decreased to 0.8% of GDP, from 1.2% in 2018. These movements combined to produce a lower positive capital account balance and a marginally higher deficit in the primary income account balance.

As for public finances, the budget balance again showed a favourable evolution in 2019, from a ratio of -0.4% to 0.2% of GDP (on a National Accounts basis). This indicator was positive for the first time in many decades.

For 2020, the Bank of Portugal estimated in its December 2019 forecast a further deceleration of economic activity. However, 26 March 2020, the Bank of Portugal released a revised forecast in response to the abrupt and significant deterioration of national economic activity due to the highly adverse effects of the COVID-19 pandemic (pandemic) in Portugal and the rest of the world.

Considering the recessive impact on activity in 2020 resulting from significant negative effects on both supply and demand, forecasts regarding the rate of change of macroeconomic aggregates are surrounded by a higher than normal level of uncertainty.

In addition, Angola's economy recorded a further decline in activity during 2019, after significant contractions in previous years, particularly in 2016 and 2018. The further decline in activity last year has taken place against a slowdown of the oil sector decline compared to 2018, combined with some deceleration in the non-oil sector activity.

GDP decreased by 1.1% in 2019, after declining -1.2% in 2018 and -0.2% in 2017.

The year 2019 also saw a continued positive balance in the public accounts, despite declining to 1.0% of GDP from 2.0% the previous year, according to IMF estimates.

During 2019, BNA continued its efforts to implement a flexible exchange rate regime and to liberalise the foreign exchange market. As of October, BNA increased the frequency of foreign exchange auctions and removed restrictions in the bidding process, as well as the ceiling on the banks' resale margin. These measures accentuated the depreciation of the kwanza to the end of the year, as well as a decrease in the spread between the official exchange rate and the parallel market rate.

IMF projections in the December 2019 Second Extended Arrangement Review report pointed to GDP growth rate of 1.2% in 2020, supported by an expansion, in real terms, of both the oil and non-oil sectors.

In early 2020, the downward trend in oil prices continued, sharply accentuated from late February by the direct effect of the pandemic and the disagreement between Russia and the OPEC countries over production cuts aimed to mitigate the effect on prices of lower global demand due to the pandemic. At the end of March, the price of Brent was around USD 20 per barrel, equivalent to less than one third of its value at the end of 2019 and its lowest level for almost two decades. The global economic outlook worsened sharply throughout March 2020 as a result of the effects of the COVID-19 pandemic, with economic indicators all pointing to a sharp contraction in GDP. In addition to the impact of the decline in the international price of oil and the levels of demand on Angola, China who represents a very significant share of both Angolan exports (oil) and imports and is also a major creditor, has been has been very affected by the pandemic.
In summary, the macroeconomic scenario presented to BAIE for the year 2020, as for most economic agents, is rather uncertain and challenging.

As for the banking sector in Portugal, throughout 2019, the operating conditions of the main domestic banks improved with Novo Banco in a clearly less satisfactory situation. These improvements translated, at the end of 2019, into i) a decrease in the Non-Performing Loans ratio to 6.1% (-1.6 p.p. annually), where the net impairment ratio reached 3.0% (-0.6 p.p.). annual); ii) an increase in the return on equity (ROE) from

71% to 8.1%; and iii) an increase of 0.3 p.p. in both the total equity ratio and the Tier 1 capital ratio (CET 1), to 16.7% and 14.1%, respectively.

The Bank maintained the high standards of risk management in its business, especially at credit risk level and without compromising new business opportunities, with necessary support from its Parent Company, Banco Angolano de Investimentos, S.A..

Additionally , in line with the BAI Group's strategy, in 2019 BAIE made a significant investments in the foundations of a robust architecture, which will enable it to accelerate its digital transformation process by exploiting synergies and the development of new business opportunities.

Regarding risk management, it is important to highlight the increasing focus on anti-money laundering and anti-terrorist financing (BC-FT) measures and the risk of information security systems resulting in the strengthening of human and technological resources dedicated to control and prevention of this specific risk.

It should also be noted that, within liquidity management, the Liquidity Coverage Ratio (LCR) during the year was complied with, by investing in high quality liquid assets (HQLA), which has a negative impact on the interest income as the HQLA portfolio provides a very low return (especially in Euro).

Regarding liquidity requirements, the deadline for compliance with the Net Stable Funding Ratio (NSFR) was set to 28 June 2021, with the publication in May 2019 of Regulation 2019/876, which amended Regulation 575/2013 (CRR).

It should be noted 2019 saw the continuance of the extremely challenging legal and regulatory banking framework, in particular:

i) In 2018, the transposition of the NIS / SRI (Network and information security) Directive, which is an instrument for achieving a high level of network and information system security in the European Union, both for digital service providers and operators of essential services (which includes, the banking sector);
ii) Implementation of EBA GL/2017/05, which refers to specific guidelines on Information and Communication Technology (ICT) risk assessment as part of the supervisory review and evaluation process (SREP);

iii) *Supervisory Review and Evaluation Process (SREP)* – In 2019 the Bank was subject to a new overall assessment by Banco de Portugal with reference to 31 December 2018, the Bank being subject to evaluations triennially;

iv) SWIFT Security - Implementation of new security controls for access to the SWIFT platform; and

v) The entry into force on 1 January 2019 of the new financial reporting standard, IFRS 16 - Leases, approved by the European Union in October 2017.

At the end of 2019, the loans and advances to customers portfolio, net of impairment of Euro 79,163,299, represented 9.6% of the total Assets, a slight increase compared to 2018 (6.5%). This increase of 3.1 pp is explained by the decrease in the value of remaining Assets, which at the end of 2019 was -28.2% lower than at the end of 2018 (Euro 822,765,061 versus Euro 1,146,002,232).

Equity amounts to Euro 86,270,484 at the end of 2019, an increase of approximately Euro 3.1 million when compared to 2018, allowing both the Total Own Capital Ratio and the Tier 1 Core Capital Ratio to remain at a very stable level (25.5%).

The Bank's activity generated a profit before tax of Euro 4,243,335, 53.4% lower than the profit before tax of the previous year, resulting in a net profit of Euro 2,928,871, 50.4% lower than the previous year.

The decrease in profit before tax was due to a reduction in Operating Banking Income from Euro 14,566,471 in 2018 to Euro 12,752,636 in 2019, representing -12.5%, which is mainly explained by the following items:

- The net interest income decreased significantly by approximately -11.8%, from Euro 9,441,474 in 2018 to Euro 8,326,609 in 2019, due to both the decrease in credit assets and the decrease in market interest rates in 2019;
- Also a very significant decrease in net commission income, from Euro 5,668,685 in 2018 to Euro 4,912,206 in 2019, mainly due to the significant decrease in the number and volume of trade finance operations as well as foreign payment orders;
- Increase in results from financial operations, from Euro 1,416,227 in 2018 to Euro 1,578,868, which represents an increase of 11.5%;
- An increase of 9.3% in fixed costs in 2019, compared with the previous year, explained mainly by the increase in the number of employees, a significant increase in expenses from external advisors and the training of the Bank's employees.

Future Prospects

As already mentioned, at the end of the first quarter of 2020, the prospects for the global economic activity are rapidly and unexpectedly deteriorating as a result of the effects of the COVID-19 pandemic, with a generalized scenario of a deep economic recession characterized by a high degree of uncertainty as to its duration and the trajectory of the recovery.

After a period of deleveraging as a result of economic growth in recent years, the support measures recently taken by the Government to ease the serious effects of the "halt" of the Portuguese economy will once again worsen the indebtedness of the State and companies, as in many other countries. On the other hand, the economic sectors that have contributed most to this economic growth (tourism, restaurants, real estate and traditionally exporting sectors) are precisely those that are now being most affected by the measures to combat the pandemic, posing increased challenges to the recovery process of the Portuguese economy and, inevitably, to its banking sector. At the moment, more than the European Central Bank, it is the political decision-makers of the European Union who have a decisive role to play in resolving these challenges in a financially coherent manner. Otherwise, other crises(political and instructional) may arise, which will certainly add to the already serious economic crisis in which we find ourselves.

In the case of Angola, after years of reform efforts aimed at macroeconomic stabilisation, and at a time when private investment was contributing more actively to economic growth, the very sharp fall in the international price of oil and in demand, the scenario for 2020 is particularly challenging, affecting one of the most significant business areas for BAIE, trade finance.

In this context, the outlook for BAIE's activity in early 2020 is more uncertain than in recent years and it is expected that financial support operations for exports to Angola will be reduced even more sharply than in 2019. On the other hand, the financial support to the activity and investment of Portuguese companies will have a very high level of associated credit risk.

In order to maintain its level of profitability and business sustainability, BAIE will have to streamline its strategy and carry out a careful assessment of the development and diversification of other business areas, without, however, compromising its risk profile, at a time when investment risks have significantly increased, and for the time being it will favour investment generating fixed income.
On the other hand, the pandemic is bringing new ways of working and interacting in society to different groups of the population, which will surely create new business opportunities, leading the Bank to speed

up the process of digital transformation of its business, continuing to take advantage of existing synergies with the BAI Group.

The Bank's team has been a key factor in the successful implementation of its strategy and there is evidence that the transformation of the organizational culture initiated a couple of years ago has been a fundamental decision that has allowed it to face the various business challenges and ambitions with confidence. In this regard, flexibility, proactivity and focus on the solution and the customer are essential features of the successful business dynamics that best address disruptive changes in markets and societies.

BAIE will be able to continue to maintain the agility of its commercial strategy, as well as the versatility of the solutions that it can offer to its customers, intensifying its commercial action to increase its company and institutional client portfolio and, simultaneously, effectively taking advantage of the business opportunities that may arise in its current customer portfolio.

Risk management policy – with special emphasis on credit risk – is expected to be maintained at past levels that have contributed to the consolidation of the Bank’s business.

Acknowledgements

The commitment of all employees, who continue to demonstrate high responsibility and competence in the performance of their tasks, is greatly appreciated. The professionalism and dedication demonstrated by this team makes it possible to fulfil our goals and objectives and to implement the Bank’s strategy.

The trust that the customers have placed in the Bank is recognised and appreciated, and encourages us to continue to provide a quality and added value service, especially aimed at further development of trade and economic relations between Portugal and Angola.

We also appreciate the support and special collaboration of the Parent Company in Angola, which has greatly contributed to the success of our business and on which we hope to continue to count, as well as the collaboration of the Angolan banks and other institutional customers to which BAIE provides services as a correspondent bank in Portugal.

Macroeconomic Environment 2019

I. Introduction

According to the IMF in its World Economic Outlook Update of January 2020, global economic activity decelerated significantly in 2019 compared with the previous year, sharpening the slowdown already observed in the second half of 2018. The most recent estimates of the IMF suggest a 2.9% expansion of world GDP in real terms, after a growth of 3.6% in 2018 and 3.8% in 2017. This was the lowest rate of expansion in a decade. This occurred amid a slowdown in economic activity in most economic blocs, with the notable exception of Japan.

High trade and geopolitical tensions increased uncertainty and weakened the confidence of economic agents globally, with the consequent negative impact on investment decisions and world trade flows. The manufacturing sector was particularly affected (especially the automotive sector in a context aggravated by significant environmental regulatory changes), with the dynamism receding to levels similar to those observed during the global financial crisis. In contrast, there was the monetary policy stance, increasingly accommodating in several economic blocs, and the support given to employment by the services sector.

In the advanced economies as a whole, there was a sharp deceleration in activity in 2019, which had already been seen globally in the previous year. The slowdown in the US, with GDP growth falling to 2.4% in 2019 (from 2.9% in 2018), and in the Euro Zone, with the rate of change in GDP standing at 1.2% in 2019 (compared to 1.9% in the previous year), should be highlighted. By contrast, in Japan, economic activity accelerated to a GDP growth rate of 1.0% in 2019 (from 0.3% in 2018).

As for the group of emerging and developing economies, there was a further deceleration of GDP overall in 2019, with a growth rate well below historical averages. Several of these economies continued to face unfavourable financial conditions in a context of outflows of financial capital and macroeconomic instability, although already less severe than in 2018 in various countries. In India, the deceleration was particularly intense, with GDP growth falling to 4.8% (from 6.8% in 2018). In China, GDP slowed down to a GDP growth rate of 6.1% in 2019 (6.6% in 2018). In Russia, the slowdown led to a GDP growth rate of 1.1% (compared to 2.3% in the previous year). Brazil recorded a marginal deceleration of GDP (by 0.1 p.p.) to a GDP growth rate of 1.2%.

In response to the slowdown in economic activity and the decline in the inflation rate (particularly when measured by the underlying indicator) recorded during 2019 in the advanced economies, the respective central banks adopted a more accommodating monetary policy stance. This evolution extended to the central banks of several emerging and developing economies (namely Brazil, India, Mexico and Russia).

In September 2019, the European Central Bank (ECB) reactivated the Asset purchase programme in order to offset the growing weakening of the Euro Zone economy (Germany in particular) and to achieve the medium-term objective of price stability (inflation close to, but below, 2%). The ECB announced this programme, which had been discontinued at the end of 2018, will remain active "for as long as necessary to reinforce the accommodation impact of key interest rates". The rate of monthly net purchases of debt securities (public and private) under this programme was set at Euro 20 billion. At the same time, the ECB kept its key interest rates unchanged during 2019 (at 0% for the interest rate on the main refinancing operations), with the exception of the deposit facility rate, which was reduced from -0.4% to -0.5%, although free of part of banks' excess reserves (in order to safeguard their profitability). A new series of Targeted longer-term refinancing operations (TLTRO) was also implemented (in March), with the aim of encouraging credit to businesses and consumers. In December, Christine Lagarde took up her duties as President of the ECB and announced that a strategic review of the ECB's monetary policy would take place throughout 2020 (the first to be implemented since 2003).

On 12 March 2020, with the aim of addressing the serious risks posed by the COVID-19 pandemic to the transmission of monetary policy in the euro area, the ECB announced that additional longer-term refinancing operations (LTRO) would be conducted on a temporary basis to provide immediate liquidity support to the financial system. It also announced a temporary "envelope" for net asset purchases, of 120 billion, which will be added by the end of 2020 to the existing asset purchase programme (APP). On 18 March the ECB announced the launch of a new purchase programme, the Pandemic Emergency Purchase Programme (PEPP), with an overall amount of 750 billion. The purchases will be carried out at least until the end of 2020 and will include all categories of eligible assets in the current APP. Purchases under the PEPP will be conducted in a flexible manner, allowing for changes in the distribution of purchasing flows over time between asset classes and between national central bank jurisdictions. Within the framework of the Corporate Sector Purchase Programme (CSPP), the ECB has also decided to expand the range of eligible assets to non-financial commercial paper, thus rendering all commercial paper with sufficient credit quality eligible. It also announced the easing of collateral standards by adjusting the main risk parameters in this framework to include in the ACC framework rights related to the financing of the corporate sector.

In the USA, the Federal Reserve reversed in 2019 the process of normalizing monetary policy conducted between 2015 and 2018 (a period in which there were a total of nine 0.25 p.p. increases in its main leading interest rate, the Fed Funds rate). The central bank conducted three 0.25 p.p. decreases in the Fed Funds rate in the course of 2019, moving this rate back in a range from 1.5% to 1.75%. In parallel, the Federal Reserve interrupted the process of decreasing its balance sheet. These measures were implemented in the face of reduced inflationary pressures and the weakening of investment and exports, although consumption and the labour market remained strong.

On 3 March 2020, the Federal Reserve announced a 50 basis point cut in the Fed Funds rate to a range between 1 and 1.25%, with the aim of containing the economic impact of the COVID-19 pandemic. This was the first time the Federal Reserve announced an emergency cut since the global financial crisis (GFC). This was followed by another, more drastic, cut on March 15, this time by 100 basis points to a range between 0% and 0.25%. The Federal Reserve also announced an increase in the asset purchase program by at least USD 700 billion (500 billion in government bonds and 200 billion in mortgage bonds). Also this month, coordinated action was initiated between the Federal Reserve and numerous central banks of other countries (including the Euro Zone, United Kingdom, Canada, Switzerland, Australia, New Zealand, South Korea, Mexico and Brazil) with a view to increasing liquidity provision in dollars in international markets through the provision of swap lines.

With regard to the foreign exchange market, in 2019, the appreciation of the US dollar, which had begun in the previous year, continued, particularly against the euro and several currencies of emerging and developing economies. This evolution occurred in a context of widening of the economic growth differential between the USA and the emerging economies (given the significantly sharper deceleration in the latter in the calculation of the year) and the maintenance of a significant interest rate differential between the USA and the Euro Zone. Also noteworthy are the appreciation trajectory of the yen and the Swiss franc throughout the year (benefiting from increased volatility in financial markets) and the irregular evolution of the pound sterling, with an intense depreciation in the first three quarters being countered by a sharp gain in value at the end of the year (in response to more recent developments in the Brexit process). The appreciating trend of the dollar resumed at the end of the first quarter of 2020.

Regarding commodity markets, in 2019 the commodity price indices compiled by the IMF halted the growth trajectory of recent years. There was a significant fall in the oil component (-11.3%, compared to an increase of 29.4% in 2018), while the non-energy component rose only slightly (0.9%, after 1.6% in the previous year). In particular, in relation to oil, the price of Brent in dollars per barrel fell 9.9% last year to an average price of 64 dollars/barrel (spot price), after significant rises of 30.7% and 23.5% in 2018 and 2017, respectively. In early 2020, the downward trend in oil prices continued, sharply accentuated from late February by the direct effect of the pandemic crisis and the disagreement between Russia and the OPEC countries over production cuts, the aim of which was to mitigate the effect on prices of lower demand due to the pandemic.
At the end of March, the price of Brent approached the mark of USD 20 per barrel, equivalent to less than one third of the value recorded at the end of 2019 and corresponding to a minimum value of almost two decades.

For 2020, the IMF expected in its January forecasts some recovery in the dynamism of global economic activity, with world GDP growing by 3.3%. This acceleration should result from the greater dynamism of the group of emerging and developing economies (growth rate of 4.4%), since it was expected that the advanced economies would slow down slightly in relation to the growth rate of the current year (to 1.6%). However, since March 2020, an abrupt and significant deterioration in the outlook for world economic activity has been taking place due to the very adverse effects of the COVID-19 pandemic. In the forecasts released on 2 March, the OECD presented a downward revision of the global growth outlook to only 2.4% growth for world GDP in 2020. As March progressed, the outlook for the world economy became even more negative according to the available economic indicators, pointing to a decline in world GDP, but no international economic organisation has made available new macroeconomic forecasts in that period.

II. US economy

As already mentioned, there was a slowdown in the US economy in 2019 as a whole, which thus resumed the performance observed two years earlier after an expansion above the long-term trend in 2018. The rate of change in GDP was 2.4% in 2019, against 2.9% in 2018. Despite the loss of dynamism, the evolution of the economy remained solid in the advanced economies.

In the context of growing economic tensions between the US and China, the weakening of manufacturing activity and, in parallel, of business investment and exports was clear. In contrast, the strong dynamism of private consumption (despite some slowing down) continued to be supported by a very robust labour market, the maintenance of favourable financial market conditions and a more expansionary monetary policy than in previous years. Public consumption accelerated significantly, supported by a clearly expansionary fiscal policy guidance.

In the labour market, employment continued to expand, although decelerating slightly in comparison with the previous year (1.1%, against 1.6% in 2018) and marginally more than GDP. Labour market conditions remained solid with the unemployment rate set at a new minimum level for several decades (down 0.2 p.p. to 3.7%, a minimum of 50 years).

There was a deceleration of consumer prices in the USA in 2019, in line with most advanced economies, favoured by the lower dynamism of aggregate demand, together with the effect of the decline in energy prices. In this context, the inflation rate fell 0.4 p.p. for an average annual value of 1.8%. This indicator was thus slightly below the US medium-term objective for monetary policy (2%).

The securities markets (stock) continued to grow in 2019, but with a less impressive performance than in the previous year, in line with the context of a slowdown in real economic activity.

For 2020, the outlook according to the January IMF forecast was for a further slowdown of economic activity in the US (this time to a GDP growth rate of 2.0%). However, in the forecasts released on 2 March, the OECD presented a downward revision of the global growth outlook to only 1.9% GDP growth in the US. As mentioned above, throughout March, expectations worsened significantly, making clear the prospects of economic recession for the US in 2020.

III. Eurozone economy

In 2019, the Euro Zone extended the deceleration of economic activity that had started in the previous year. The GDP growth rate stood at 1.2% throughout the year, compared with 1.9% in 2018. This was the lowest rate of expansion in the last five years. These developments resulted from a combination of adverse external shocks, namely associated with Brexit and international trade tensions, and the consequent increase in uncertainty and decline in economic agents' confidence. External demand and activity in the industrial sector have been the most severely affected. The downturn in activity covered most Member States. Regarding the largest economies, GDP slowed down in Germany by 1 percentage point (p.p.) to 0.5%, in Italy by 0.6 p.p. to 0.2%, in France by 0.4 p.p. to 1.3%, and in Spain by 0.4 p.p. to 2.0%.

2019 was also characterised by a slowdown in the smaller economies, with the exception of Lithuania and Luxembourg.

In 2019, the labour market extended the cycle of expansion that had been going on for several years. Nevertheless, employment showed some slowdown in relation to the previous year (1.1% growth rate, against 1.5% in 2018), although less intense than GDP, while the unemployment rate continued to fall (to an annual average of 7.6%, 0.6 p.p. less than in 2018). In December, the unemployment rate had already reached 7.4%, which was the lowest value since May 2008 and very close to the historical low reached in early 2008. As in 2018, the downward trend in the unemployment rate has spread to all Member States.

The inflation rate stood at 1.2% in 2019 in the Euro Zone, 0.6 p.p. below that observed in the previous year and clearly below the ECB's medium-term objective. This occurred despite robust wage growth, in a context of downward adjustment of corporate profit margins in reaction to the significant loss of dynamism in demand and also of falling international energy prices.

For 2020, the IMF expected in its January forecasts some recovery in the dynamism of global economic activity, with GDP in the Euro Zone accelerating slightly (to 1.3%). However, as already mentioned, an abrupt deterioration in the prospects for economic activity occurred from March 2020 onwards due to the effects of the COVID-19 pandemic. In the forecasts released on 2 March, the OECD presented a downward revision of expectations for growth in the Euro Zone, with a GDP growth rate of only 0.9%. Also, as previously mentioned, with the deterioration of the global picture during the month of March, the prospects of economic recession in the Euro Zone in 2020 became clear.

IV. Other economies

As for other economies, the following is briefly highlighted:

According to IMF data, the UK economy decelerated marginally compared to the previous year, with a GDP growth rate of 1.3% in 2019. This was the lowest growth rate in seven years, in a context marked above all by the uncertainty surrounding the process of leaving the European Union and the poor performance of private consumption. In the forecasts released on 2 March, the OECD expected a growth rate of 0.8% for 2020.

In Canada, GDP decelerated to a growth rate of 1.5% in 2019, from 1.9% in 2018. This loss of dynamism was due to the sharp slowdown in domestic demand, only partially offset by the improvement in net external demand. For 2020, the OECD forecast in its latest projections a GDP growth rate of 1.3%.

By contrast, in Japan, economic activity accelerated in 2019 to a growth rate of 1.0% (against 0.3% in 2018), partially recovering from the strong loss of dynamism seen in the previous year. GDP performance reflected dynamic domestic demand, with a positive contribution from investment and consumption. The recovery took place in both the private and public sectors, with the government implementing expansionary measures aimed at counteracting the restrictive effects of the recent increase in consumption taxes. In its latest forecasts, the OECD projected a GDP growth of 0.2% for 2020.

As a whole, the emerging Asian economies grew from 6.4% in 2018 to 5.6% last year. It is worth mentioning the deceleration already mentioned in India, by 2 p.p. to 4.8%, reflecting the significant loss of dynamism of domestic demand. In China, GDP slowed down by 0.5 p.p. to a rate of change of 6.1% in 2019, the lowest in several decades. This occurred in a context of downward pressure on both external and domestic demand. At the foreign level, the effects related to the increase in US tariffs and, at the domestic level, the impact of the restrictive measures implemented by the Government with the purpose of controlling the growing indebtedness of the corporate sector should be highlighted. In its most recent projections, the OECD forecast GDP growth of 5.1% in India and 4.9% in China in 2020.

In the group of European emerging economies, the deceleration was even more pronounced, with GDP reducing the average rate of expansion by 1.3 p.p. to 1.8% in 2019. In Russia, the slowdown was of 1.2 p.p. down to a growth rate of 1.1%. This was the lowest rate of expansion since the 2015-2016 recession. This dynamic reflected, in particular, the exhaustion of the momentum given by the public investment in infrastructure in previous years, the effect of the increase in consumption tax and the impact of the strong reduction in exports of some raw materials. In its latest forecasts, the OECD expected a 1.2% growth in GDP for 2020.

Similarly, the aggregate of Latin American and Caribbean economies recorded a slowdown in economic activity, with the rate of change in GDP falling 1 p.p. to 0.1% last year. However, the largest economies of this economic bloc had distinct deceleration intensities: Brazil experienced a marginal deceleration of GDP (by 0.1 p.p. to a rate of change of 1.2%), only slightly breaking the recovery dynamic in the face of the 2015-2016 recession, while Mexico experienced a significant slowdown (from 2.1% in 2018 to a zero change in GDP in 2019) in a context of some political uncertainty and financial instability and a drop in the sovereign debt rating. On the other hand, Argentina maintained its GDP contraction scenario, with a change of around -3% in 2019, as part of an effort to rectify serious macroeconomic imbalances. For 2020, in its most recent projections, the OECD forecast a GDP growth rate of 1.7% in Brazil, 0.7% in Mexico and -2% in Argentina.

In Saharan South Africa, IMF data indicate that the economies as a whole saw only a marginal acceleration of economic activity in 2019 to a GDP growth rate of 3.3%. However, the largest economies in this region saw lower than average growth rates and with discrepant dynamics compared to 2018: Nigeria recorded an acceleration of GDP from 1.9% in 2018 to 2.3% in 2019, while South Africa slowed from 0.8% to 0.4%.

V. Angolan economy

The maintenance of the international oil price at levels substantially lower than those observed until 2014 (despite some recovery in the subsequent years) has resulted in some important macroeconomic imbalances and has hampered the growth of the Angolan economy. Lower investment in the oil sector has limited the productive performance of this sector, only partially offset by the non-oil activity.

In terms of economic policies, the "Macroeconomic Stability Program" and the "2018-2022 National Development Plan", started in 2018, are being implemented. It should be noted that the former aims to reduce budgetary imbalances, strengthen debt sustainability, control inflation, implement a flexible exchange rate regime, increase the stability of the financial sector and implement a regulatory framework for the prevention of money laundering and the financing of terrorism that will allow for the normalisation of relations with correspondent banks. The second, with a longer time frame, establishes structural changes for the diversification of the economy, public sector reform, human development and inclusive growth. In support of these initiatives, the authorities have requested from the IMF a three-year Extended Arrangement programme under the IMF's Extended Fund Facility involving a total of USD 3.8 billion.

In this context, the Angolan economy will have seen a further drop in activity in 2019, after significant contractions in previous years, particularly in 2016 and 2018. According to the most recent estimates, contained in the IMF report on the Second Review of the Extended Arrangement, released in December 2019, the real GDP growth rate was -1.1% for 2019, after a decrease of -1.2% in 2018 and -0.2% in 2017. The further decline in activity last year has occurred against a backdrop of a slowdown in the oil sector activity compared to 2018, combined with some deceleration in non-oil sector activity. Despite some loss of dynamism, the latter continued to increase, benefiting from the easing of constraints on access to imported raw materials and intermediate goods due to the greater availability of foreign exchange reserves in a context of easing of the exchange rate regime (introduced in 2018) and the consequent depreciation of the kwanza.

Inflation, despite declining in the last two years, remained at high levels. Inflationary pressures reflected the effects of the removal of water tariff subsidies and the introduction of VAT, as well as the effect of the significant exchange rate depreciation following the 2018 exchange rate reform. Conversely, the disinflation process that has been implemented seems to have benefited from the tighter monetary conditions arising from BNA's policy and from the reduced dynamism of domestic demand, induced by the budget consolidation measures. Taking into account the evolution of the CPI (for Luanda), IMF estimates indicate an average inflation rate of 17.2% in 2019, compared with 19.6% in 2018 and 29.8% in 2017.

It is also worth mentioning the important acceleration of credit granted to the private sector, as it moved from a rate of change of 16.9% in 2018 to 25.8% in 2019, with a strong contribution of the impact of the devaluation of the Angolan currency on the share of Angolan credit institutions' foreign currency portfolios. However, simultaneously, the ratio of non-performing loans in the economy remained high, although showing some downward trend compared to the previous year (29.4% of total loans in May 2019 against 32.7% in May 2018). Overall, the banking sector remains fragile.

As for external trade flows, the most recent estimates point to growth in volume of both exports and imports of goods and services, in contrast to the previous year, although with greater dynamism in the latter. Also in contrast to the previous year, terms of trade seem to have deteriorated significantly. In this context, after three years of correction of the imbalance in external accounts, the external balance declined in 2019, although remaining positive. According to IMF estimates, the current account balance is estimated to have stood at 3.3% of GDP last year, after a significant surplus of 7.0% in 2018.

During 2019, BNA continued its efforts to implement a flexible exchange rate regime and to liberalise the operation of the foreign exchange market. As of October, BNA increased the frequency of foreign exchange auctions and removed restrictions in the bidding process, as well as the ceiling on the banks' resale margin. These measures allowed the kwanza's depreciation trajectory to be accentuated until the end of the year, as well as a decrease in the spread between the official exchange rate and the parallel market rate.

Net official foreign exchange reserves were set at USD 9.45 billion at the end of 2019, compared to USD 10.65 billion at the end of the previous year. This was a rather low rate of reduction of reserves at approximately half the rate recorded between 2017 and 2018.

The year 2019 was also characterised by the maintenance of the positive balance in the public accounts, despite the decline to 1.0% of GDP from 2.0% the previous year, according to IMF estimates. The share of public revenue in GDP has maintained the downward trend of the last 10 years, falling in 2019 to 19.8% of GDP (against 21.9% in 2018). The public expenditure ratio also maintained its downward trend of recent years, falling to 18.8% in 2019 (from 19.8% in the previous year). The budgetary consolidation strategy continued to rely on primary expenditure restraint and the effort to mobilise non-oil revenue, which increased its share in total revenue.

Despite the budget surplus, the effects of the new exchange rate depreciation period at the end of 2019 were estimated to have translated into a ratio of public debt to GDP (including the debt of the public oil company Sonangol and the airline TAAG) of 110.9% of GDP in 2019, 11.9 p.p. more than in the previous year. This figure more than triples the average level for the period 2010-2013 (31.6% of GDP).

IMF projections in the December 2019 Second Extended Arrangement Review report pointed to a GDP growth rate of 1.2% in 2020, supported by an expansion, in real terms, of both the oil and non-oil sectors, as well as a budget balance of 0.8% of GDP and a current account balance of 0.5% of GDP.

However, as already mentioned, the outlook for global economic activity worsens sharply throughout March 2020 as a result of the effects of the COVID-19 pandemic, with available economic indicators pointing to a generalised scenario of contraction in GDP. Angola has been greatly impacted by the decline in the international price of oil and the volume of oil demand and the fact that China has been greatly affected by the virus whilst representing a very significant share of both Angolan exports (oil) and imports and is also a significant creditor. At the same time, in late March, government bond yields skyrocketed (the yield on 10-year Eurobonds tripled, approaching 30%), while the long-term sovereign debt rating was downgraded by two international agencies.

In the context of a persistent negative outlook on the oil market, there are a number of important potential implications for the Angolan economy:

- GDP contraction, due to the postponement of investments in the oil sector and constraints on access to imported inputs and credit in the non-oil sector;
- Effects on public accounts, due to the deterioration of tax revenues generated by the oil sector, with severe implications on the budget balance (transition from a surplus to a high deficit) and/or on the capacity to implement public expenditure;
- Implications on the indebtedness of the economy, with difficulties both in servicing the existing debt and in issuing new debt, due to higher financing needs (in the case of a return of public accounts to a deficit scenario) and/or much higher interest rates than in the recent past;
- Reduced capacity to collect net official reserves in foreign exchange, as a reflection of the deterioration of the tax revenue collection framework, namely through lower oil revenue inflows;
- Lower pressure on the exchange rate, resulting from the reduced capacity to collect official reserves in foreign currency and, consequently, to make funds available in foreign currency to the banks, both by the oil operators and by the BNA.

In this framework, an interaction between the Government, the BNA and the IMF with the purpose of testing stress scenarios for the Angolan economy and of discussing macroeconomic policy options in the light of the different policy objective trade-offs that are presented to the authorities will prove very important.

VI. Portuguese Economy

According to the latest data from INE, the Portuguese economy slowed down again in 2019, registering an average real GDP growth rate of 2.2%, 0.4 p.p. less than in 2018. This development resulted from the positive but less intense contribution of domestic demand to the real change in GDP, which stood at 2.7 p.p. (3.1 p.p. in 2018), and a stronger negative contribution from net external demand, which stood at -0.6 p.p. (-0.4 p.p. in 2018). GDP growth in nominal terms was 3.9%, thus amounting to Euro 212.3 billion.

Despite the slowdown, the real GDP growth rate was still well above the Euro Zone average (1.2%). This was the third consecutive year of a positive and significant growth rate differential, after the systematic negative differential in the 2011-2015 period.

With regard to domestic demand, the deceleration in private consumption from 2.9% to 2.3% in real terms should be noted, while the public component recorded growth of 0.8%, slightly lower than in 2018 (0.9%). On the contrary, investment accelerated from 6.2% to 6.5%. Exports of goods and services recorded lower real growth than in 2018 (3.7% versus 4.5%), against a background of weaker growth in world trade and in external demand for Portuguese goods and services. The slowdown in imports of goods and services was slightly less marked than that seen in exports (real growth of 5.2%, 0.5 p.p. less than in 2018).

In terms of the main destinations of exports, and highlighting the performance of the goods in value component, 2019 recorded growth of 9.0% in the flow to Italy, 7.5% to Germany, 6.5% to the Netherlands, 6.2% to France, 5.2% to the USA and 1.7% to Spain, but a fall of 0.6% to the United Kingdom and 18.1% to Angola.

Considering the dynamics in value of exports and imports of goods and services, the balance of goods and services was only marginally positive, at 0.1% of GDP (National Accounts basis) in 2019, declining 0.3 p.p. from the previous year. In turn, the current and capital account balance (also on a National Accounts basis) fell to 0.8% of GDP, from 1.2% in 2018, combining movements towards a lower positive capital account balance and a marginally higher deficit in the primary income account.

The average annual unemployment rate fell again in 2019, standing at an average of 6.5% (compared with 7.0% in 2018), thus extending the downward trend recorded since 2014. The differential with the unemployment rate in the Euro Zone stood at -1.1 p.p. in 2019, practically the same value as in the previous year.

The inflation rate, as measured by the change in the CPI, fell again in 2019, standing at 0.3% on average per year (compared to 1.0% in the previous year). The inflation differential against the Euro Zone average (harmonised index) was nil, after having been in negative territory in 2018.

As for public finances, the budget balance again showed a favourable evolution in 2019, from a ratio of -0.4% to 0.2% of GDP (on a National Accounts basis). This indicator reached a positive value for the first time in many decades. The estimates of INE (Excessive Deficit Procedure) point, in turn, to a gross public debt to GDP ratio of 117.7% in 2019, corresponding to a decrease of 4.3 p.p. from the previous year. Since 2015, public debt has already accumulated a reduction of 15 p.p. of GDP.

The progress made by the Portuguese banking sector has been significant in relation to the pre-crisis period, showing considerable evolution in several relevant dimensions, such as asset quality, liquidity, solvency and profitability:

- The positive evolution observed in loans to customers and the continued reduction of non-performing loans (NPL), equivalent to a ratio of 6.1% in December 2019 (-1.6 p.p. than at the end of 2018).
- Regarding liabilities, there continued to be an increase in customer deposits as the main source of financing for the sector, in contrast with a significant decrease in market financing sources and in financing obtained from the ECB.
- The liquidity situation of the sector remained at comfortable levels: the transformation ratio extended the previous downward trajectory, which had already started in 2010, to 87.3% in December 2019, well below the regulatory maximum (120%), while the liquidity coverage ratio increased to 218.4%, well above the regulatory minimum (100%).
- The solvency of the sector continued to improve, with the total own funds ratio rising to 16.7% in December 2019 (0.3 p.p. more than in December 2018). This evolution benefited from the issuance of instruments eligible for additional Tier 1 capital and Tier 2 capital by some larger institutions.
- The return on assets (ROA) of the banking system remained positive and stable in comparison to 2018, at 0.8%, while the return on equity (ROE) increased by 1.0 p.p., to 8.1%.

Although the Portuguese banking sector is more robust and resilient than in the past, it continues to face important challenges, which constrain the capacity to generate capital, namely the continued low interest rate environment for a prolonged period, the new framework in terms of business model, the increasing competition from new entrants, as well as the importance of legislation and regulation. In the shorter term, the worsening of the economic environment stemming from the Covid-19 pandemic is likely to have a rather negative effect on the profitability and solvency of the banking sector, also implying challenges regarding the evolution of its liquidity indicators.

For 2020, Banco de Portugal expected, in its December 2019 forecasts, a further downturn in economic activity, pointing to a GDP growth rate of 1.7%, which would be close to the estimates available for potential output growth. However, already on 26 March 2020, the Bank of Portugal released a revision of its forecasts in response to the abrupt and significant deterioration of national economic activity due to the greatly adverse effects of the COVID-19 pandemic both in Portugal and in the rest of the world. Considering the recessive impact on activity in 2020 resulting from significant negative effects on both the supply and demand sides, forecasts regarding the rate of change of macroeconomic aggregates are surrounded by a much higher level of uncertainty than usual. Under these circumstances, Banco de Portugal decided to disclose two scenarios for the evolution of the economy. In the so-called baseline scenario, a reduction in GDP of 3.7% is expected in 2020. Private consumption is expected to fall by 2.8%, mainly due to a sharp fall in the durable goods component in the context of an increase in savings for precautionary reasons. Investment (GFCF) will fall by 10.8% reflecting the strong decline in the business component, conditioned by high uncertainty regarding the magnitude and duration of the pandemic. In contrast, public consumption will accelerate sharply, to 2.1%, mainly reflecting the significant increase in public expenditure on health. In a framework of contracting global demand and strong restrictions on the movement of people, exports of goods and services should fall 12.1% and imports 11.9%. In the so-called adverse scenario, a longer paralysis of economic activity in the various countries and greater turbulence in the financial markets are assumed. Under these conditions, a 5.7% reduction in GDP is expected in 2020 in Portugal. All the components of aggregate demand will show more intense variations than forecast in the baseline scenario.

BAI Europa's activity framework

Business areas

- Commercial banking

The Commercial Banking area is intended to provide high quality services primarily to the business sector, under a clearly defined business strategy, which involves the selective acquisition of new clients.

The main market for this business area are the Portuguese companies operating in Angola or developing commercial relations with this country. In this market, of trade finance operations between Portugal and Angola, BAIE is distinguished by its capacity to create value for its customers through the provision of financial services in an agile and flexible way and taking advantage of the experience and synergies that result from the fact that its Parent Company, BAI, is a leading institution in the Angolan financial market. Additionally, the other market in which BAIE operates regarding Commercial Banking consists of Portuguese exporting companies to Cape Verde, a country where the BAI group is also present.

The fact that the financial structure of Portuguese companies in general shows an excessive level of indebtedness requires financial institutions to be very cautious when lending.

On the other hand, the substantial drop in oil prices in the international market, triggered from the last quarter of 2014, has led to delays in payments by public sector entities in Angola and shortages of foreign exchange currency available from their credit institutions, with inevitable negative effects on the activity and risk faced by exporting companies to the Angolan market.

Given the need to maintain the deleveraging process by the Portuguese economic agents, both private and public, and given the uncertainties affecting the behaviour of the Angolan economy in the face of a sharp reduction in oil prices, the Bank maintained its strategy, constraining the development of its activity to high standards of caution.

The strategy of strong commercial focus on supporting export and internationalised companies for the Angolan market was maintained, both in the acquisition of new clients and in the strengthening of the relationship with the current ones, taking advantage of the opportunities to fund commercial exchanges between Angola and Portugal and in a complementary way between Cape Verde and Portugal.

As in 2018, the Bank ended 2019 without overdue loans, as a result of the cautious strategy pursued.

Also, in order to diversify the Bank's loan granting base, this business area also accompanies **private clients**, focusing on the clients of the Parent Company (BAI), living in Angola and who for professional or family reasons need to have an account in a Portuguese bank. In addition, taking advantage of the ECB's current ultra-accommodative monetary policy, the Bank will start attracting retail funds in the first quarter of 2019 through access to deposit intermediation platforms of Eurozone credit institutions and the provision of competitive remuneration fees.

- Investment banking

This business area aims to (i) invest the financial resources available in the group, seeking the best profitability by assuming pre-defined risk levels through simple and effective risk management structures and (ii) to find more specialised financial solutions for the corporate clients, in which the highlight is the setting up of *trade finance* operations in the form of a banking syndicate under the financial agreement between Portugal and Angola.

Regarding the **investment of financial resources** that are not by way of granting loans, in 2019 there was a very significant increase in the volume of business in the interbank money market (-39% when compared with 2018). In the fixed income investment area, the high quality liquid assets (HQLA) securities portfolio, which had strengthened in 2018 for the purposes of meeting the LCR liquidity requirement and the growth of the Bank's balance sheet, decreased by -53% in 2019. This significant decrease is justified (i) by the decrease in the Bank's balance sheet over 2019, translating into a lower need to invest in a HQLA portfolio and; (ii) by the fact that Banco de Portugal has clarified that compliance with the LCR liquidity ratio should be approached on a consolidated basis (and not by currency), and therefore the Bank now compensates compliance with the ratio through funds with the ECB (in Euro).

In the interbank activity, in 2019 there was a significant decline in financial flows from Angolan institutional customers, compared to 2018.

Regarding the investment in fixed income securities, with the gradual stabilization of the domestic public debt market, both public and private, investment opportunities in public debt and commercial paper have been significantly reduced, namely within short maturities and issuers with a better risk profile. As in 2018, taking advantage of some of the opportunities that arose in the market, the Bank has reallocated part of its securities portfolio, swapping from bonds with fixed remuneration to bonds with variable remuneration, in order to reduce its exposure to interest rate and market risks.

Regarding the **structuring of more specialised financial solutions**, at the end of 2019 the portfolio of loans not represented by securities in this business area amounted to EUR 25.6 million, representing a decrease of -21%.

- Correspondent banking services

This business area provides financial services to institutional clients (mainly trade finance and international payment services), mainly Angolan, with the financial institutions of the BAI Group taking a significant share in the total of operations performed.

In 2019, there was a significant reduction in the volume of foreign payment orders processed and other associated financial services, resulting in the decrease of revenues associated with these operations by -17.2%.

As for the trade finance area, in 2019 there was a reversal of the growth trend seen in letter of credit confirmations that had been taking place since 2017 (and which increased in 2018), both in terms of volume and amount. Income from these operations fell by -5.4%.

In recent years Angolan banks have generally seen their relations with direct correspondent banks in USD suspended, so that international payment flows from Angolan credit institutions have gradually been changed into Euro. This new reality has been a determining factor in strengthening the role of this business area.

Support Activities

- Internal Audit

It is the responsibility of the internal audit department (DAI) to monitor the Bank's internal control system through the development of control actions to assess its adequacy and effectiveness, proposing and reporting to the BD the necessary measures to improve the internal control system when deficiencies are identified at design or implementation level.

This function plays a key role in assessing the compliance and adequacy of the Bank's internal control system and risk management system, being the 3rd level of control of the Bank.

A decision was taken at the end of 2019 to strengthen the human resources allocated to this area in order to strengthen this function's skills and areas of operation, as well as to integrate this function into a broad project to review the Bank's risk management system to be implemented in 2020.

- Compliance

The Compliance Department is responsible for cooperate with management and administrative bodies to ensure that BAIE's activities are conducted in accordance with laws and regulations governing financial activity as well as internal policies and regulations, so as to avoid the risk of incurring financial or reputational-related sanctions or damages.

Money laundering and terrorist financing (MLTF) prevention and control activities are key and an important area requiring a scrutiny of operations and constant monitoring of the regular updates of the standards issued by the banking supervisory authority and other national and foreign entities.

This department will also participate in the project to review the Bank's risk management system to be implemented in 2020 with the aim of strengthening the areas where this department plays a significant role in managing the Bank's exposure to compliance and reputational risk.

- Information Systems

The Information Systems Department is responsible for the interpretation of BAIE's strategic vision and ensure, through an efficient management of available human and technical resources, the implementation and management of an information technology platform as well as new technological solutions aligned with the best market practices and with the strategic vision defined for the Bank.

This department is also responsible for providing support to all internal and external users of the systems and analysing their functional needs, in order to create a work environment as efficient and productive as possible.

In line with these objectives, applying the strong dynamics of digital business transformation, especially in the banking industry - to which BAIE and the BAI Group are no strangers - a process of functional reorganisation of this area began at the end of 2019, accompanied by the strengthening of related financial and human resources, the implementation of new work practices and processes and significant investment in training.

The Information Security area is responsible for defining, updating and monitoring adherence with information security policies, and in coordination with all departments of the Bank, for defining, implementing, managing and monitoring of the information security controls to ensure the appropriate levels of integrity, authenticity, availability and confidentiality required for their effective and efficient protection and to ensure business continuity in line with best market practices and strategic guidelines of the Bank and with the conservative risk profile defined by the Board of Directors.

As a result of the growing digitalisation of the Bank's processes and channels within the BAI Group, the information security area is a critical area in the management of the associated risks, thus also investing significantly in financial and human resources in the Information Security area and taking advantage of synergies with the BAI Group.

Among the several projects developed by these two departments during the year, the following engagements are highlighted:

- Definition of the processes for managing incidents and requests across the Bank, as well as implementation of a support system - service desk, in alignment with ITIL;
- Deployment of a new integrated IT application for the payments area in order to replace the previous IT solution;

- Adhesion to the debit card system of Multibank network;
- Preparation for the deployment of the 2nd Payment Directive;
- Provision of APIs for Third Party Providers (TPP's);
- Deployment of the General Regulation on Data Protection;
- Deployment of risk mitigation measures for information and regulatory compliance systems identified through the external audit of the information systems performed in 2017;
- Support for access to digital platforms for the intermediation of retail deposits from other European credit institutions.
- Deployment of a Security Operation Centre (SOC) to analyse and manage information security incidents;
- Deployment of security controls to protect digital channels (External Firewalls, Load Balancers and Web Applications Firewalls).

In this area 2020 will be a very challenging year, both in terms of completion of deployment of the ongoing projects and the implementation of new projects, many of a regulatory nature, namely:

- Adjustment of digital channels in accordance with the 2nd Payment Directive;
- Definition of the methodology and implementation of a Secure Software Development Life Cycle (S-SDLC) support system;
- Deployment of an integrated IT solution for handling documentary operations and a related front-end digital platform;
- Incorporation of new services and functionalities in the home banking platform;
- Deployment of a fraud analysis and monitoring system;
- Deployment of a centralized Log Manager;
- Deployment of an API Manager with firewall gateways;
- Deployment of a Data Loss Prevention system to ensure compliance with the General Data Protection Regulations;
- Opening a bank account remotely;
- Strengthening of controls related to cybersecurity, in particular to meet legal or regulatory requirements, including requirements arising from the NIS Directive, PSD 2, RGPD or the SWIFT Customer Security Program.

- Human Resources

As of 31 December 2019, the Bank had a total of 44 employees, 4 more employees than in the previous year. The employees of the Bank are clearly the most valuable and critical asset for success in implementing the business strategy.

The Bank has a team of professionals, most of whom are young, very talented and with a diverse range of experiences, focused on customer service quality and compliance with applicable legal and regulatory standards.

Throughout the years, the Bank developed a culture of its own, based on rigor and excellence, while maintaining a stimulating working environment, factors that have greatly contributed to the sustainable achievement of the commercial, operational and financial goals.

The importance given to recognition of merit and to the individual contribution of the employees were key for the establishment of open communication channels throughout all the employees, including the senior management team and the members of the Bank's Board of directors, and the attribution of variable remuneration to the employees that consistently contribute for the achievement of the Bank's goals and objectives. This process is associated with a system of performance evaluation in line with the Bank's objectives and the behavioural skills that allow them to be achieved in an extremely dynamic and competitive business and regulatory environment.

In 2019, the Bank continued to implement a broad cultural change management program, which began in 2018 and has made the Bank's organizational culture even more flexible and adaptable to the rapid changes that characterize the financial market, more proactive and with a greater focus on the client, while maintaining a conservative outlook with regard to risk management. One of the key factors for the success of this programme is that it is based on i) the alignment of business objectives and challenges with the individual employee's personal and professional development dynamics and ii) the contribution of team members in the preparation and development of the programme's various initiatives, thus allowing to face present and future challenges with optimism.

Risk Management system

BAIE's Risk Management system (SGR) was defined considering the strategic guidelines and risk tolerance defined by the Board of Directors (BD) and the size, nature and complexity of the Bank's activity. The SGR focuses on maintaining risks within the predefined limits, seeking to optimize the relationship between risk and its return, always ensuring the Bank's solvency under all circumstances.

According to the Bank's risk management model, the following are considered material risks:

- Credit risk
- Balance sheet risks:
  - Liquidity risk
  - Interest rate risk
  - Exchange rate risk
  - Market risk
- Concentration risk
- Operational risk
- Compliance, Reputational and Strategy Risk and
- Information system risk

- Organizational structure

The Bank's organizational structure was designed to provide the appropriate resources for the **identification**, **assessment, control and monitoring** of the risks to which it is exposed in its activity. This structure is characterised by few hierarchical levels and by the concentration of decision making in the managers, and there is no delegation of powers regarding decisions that involve material risk taking. This structure also promotes the vertical and horizontal flow of information, thus generating a great interaction between all the elements of each department and functional areas, as well as with the members of the management and supervisory bodies.

The **BD** has the responsibility to define, approve and deploy the SGR that allows for the identification, assessment, control and monitoring of all material risks to which the Bank is exposed, both internally and externally, in order to ensure that remain at the pre-defined level and will not significantly affect the Bank's financial position. The BD must also approve the level of risk appetite framework (RAF) and the general strategy, policies and associated standards.

Under the legal and statutory regulations, BAIE's supervisory body is the Supervisory Board (SB). Consisting of three members, a Chairman and two other members, in addition to supervising the Bank's management and other legal powers, this body is responsible for supervising the effectiveness of the risk management system and the internal control system. In addition, under the terms of the Legal Framework of Credit Institutions and Financial Companies, the SB is also responsible for performing the functions of the Risk Committee under the strict terms defined in Article 115 of that legal regime.

In accordance with the principles internationally recognised and accepted and as defined by Bank of Portugal in Notice No. 5/2008, and considering the purpose of better adapting the governance model to the increasing prudential requirements, there are two governance bodies: the Credit Committee (CC) and the Committee for the Monitoring of Risk Management (CMRM).

CC is a decision making body that integrates all the executive directors of the Bank with the responsibility for the approval of the higher level decision operations, with credit risk being the most significant risk in BAIE's activity. The **CMRM** is a follow-up body, with two members of the Board of Directors not directly responsible for business origination areas (corporate banking and investment banking), those responsible for risk management, compliance, information security and internal auditing functions, so that they jointly perform the permanent monitoring of the SGR, both financial and non-financial. This Committee is also attended by all BAIE departmental heads, internally referred to as the Management Team (MT). The CMRM is responsible for ensuring the effective application of the Bank's SGR in accordance with its internal policy, by continuously monitoring its adequacy and effectiveness, and the adequacy and effectiveness of the measures taken to correct any shortcomings in this system. The CMRM meets at least monthly to analyse the evolution of the Bank's material risks.

With the exception of the risk of compliance, which is monitored by the head of the respective department, the **Risk Management Function** (RMF) is assigned to an autonomous department led by one officer. These officers perform these functions independently as they do not have decision-making powers over the risks they monitor and on the functional areas subject to their assessments, and it is their responsibility to advise the CMRM in the performance of its tasks, which corresponds to the second level of control of the SGR.

As a result of its responsibilities for monitoring the Bank's internal control system, of which the SGR is an integral part, the **Internal Audit Department** (considered to be the 3rd level of control) and the **External Auditors** of the Bank monitor the SGR through assessment sessions, in order to evaluate their suitability and effectiveness, by identifying possible deficiencies in the design and implementation of the system. If a deficiency is identified, then measures for improvement and mitigation are proposed.

- Credit risk

Regarding the Commercial Banking and Investment Banking operations, the Credit Risk Department (DRC) is responsible for ensuring: (i) the detailed and independent assessment of the credit risk inherent in each credit transaction proposed by these areas; (ii) analysis of compliance with the business strategy defined by the Board of Directors and the prudential rules established by the banking supervisor; (iii) continuous monitoring of the credit portfolio risk; and (iv) in the case of non-compliance, the follow-up of recovery processes.

The approval of loans is the exclusive competence of the members of the BD or of the CC, depending on the amounts involved, being foreseen in internal regulations limits of maximum exposure per client, group of clients connected to each other and by sector of activity by country. The RMF is responsible for monitoring the compliance of these limits.

For operations of the Trading Room (SdM), the DRC ensures the independent periodic evaluation of the financial situation of each counterparty (institution/entity), proposing exposure limits for each of these counterparties for approval in CC.

The RMF monitors daily the exposures, in order to confirm that these are within the limits defined in internal regulations reporting to the CMRM the results of its monitoring.

The DRC estimates the impairment losses for all exposures to credit risk, on and off balance sheet. Impairments and provisions are reviewed and approved by the CC, and are also evaluated every six months by the External Auditors, the Supervisory Board and Bank of Portugal.

- Balance sheet risk:

Balance sheet risk management involves financial risks relating to assets and liabilities on the balance sheet, covering liquidity, interest rate and foreign exchange and market rate.

The SdM is responsible for the management and control of these risks, acting in accordance with the guidelines and within the limits established in the Risk Management Policy and internal regulations.

The RMF follows on a daily basis the Bank's exposure to the risks assumed in the balance sheet, ensuring that these are within the defined limits. Each month, the RMF reports the results of its follow-up to the CMRM.

i) Liquidity risk

Liquidity risk is the risk of the Bank not having sufficient funds to meet its monetary liabilities, particularly in the short term. The limits and guidelines established for the management of this risk adopts a conservative position in the management of liquidity, always maintaining a very liquid position in the short term. Limits of treasury position and reference levels are defined for alert according to the volume of funds raised for the shorter time periods.

On a daily basis, the cash position of the financial assets and liabilities and other off-balance sheet liabilities by currency and residual terms is determined, and this information is used by the SdM in the management and control of treasury.

The LCR liquidity requirement of Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRR), which requires the maintenance of a portfolio of HQLA enough to cover the difference between cash outflows and cash inflows at each point in time for the following 30-day period, must also be respected at all times.

The RMF monitors daily compliance with respective limits and the taking of corrective measures, whenever necessary.

ii) Interest rate risk

The interest rate risk is the impact on the net interest income of changes in interest rate, which are detected when there are mismatches in the terms of assets and liabilities.

The limits and guidelines established for the management of this risk seek to reduce the sensitivity of the financial margin to changes in the interest rate and, consequently, to preserve the economic value of the balance sheet. Subsequently, the Bank performs the matching in terms of the repricing periods of its assets and liabilities whenever possible, not assuming transactions of significant amounts of fixed rate over the medium term.

For monitoring purposes, in addition to using the prudential approach defined by the Bank of Portugal in its Instruction No. 34/2018, the Bank has developed an analysis model that performs the risk measurement on a monthly basis by applying the discount factors to all net cash flows (gap / position) of each individual transaction. The results of this monitoring are analysed monthly in the CMRM.

iii) Exchange rate risk

Exchange rate risk consists of the possibility that adverse variations in exchange rates may have a negative impact on the income statement or equity.

The limits and guidelines established for the management of this risk reflects the Bank's conservative attitude towards risk-taking and sets limited restrictions on open foreign exchange positions. The SdM is responsible for controlling these positions so that they remain within the predefined limits.

This risk is monitored by the RMF on a daily basis through the analysis of the global exchange position, as well as the periodic analysis of the behaviour of the open position against that of each currency. The results of this follow-up are also analysed monthly in the CMRM.

iv) Market risk

Market risk is defined as the probability of losses associated with a particular portfolio of financial instruments due to unfavourable movements of interest rates or exchange rates and/or the prices of the various instruments that comprise it.

The exposure of the Bank's balance sheet to market risk arises essentially from the need to invest in HQLA securities, in order to comply with the LCR liquidity ratio, and also, the limits and guidelines established to manage this risk (rating and limit of exposure to the issuer, Value at Risk, term residual and modified duration of the portfolio) are also intended to maintain a conservative exposure. The SdM is responsible for controlling these positions so that they remain within the predefined limits.

The valuation of the portfolio and its risk metrics are calculated daily, and this information is used by the SdM in the portfolio management, namely in the determination of the need for investment or disinvestment.

The DCR (regarding limits per issuer) and the RMF daily monitors the compliance with the respective limits and take corrective measures whenever necessary.

- Concentration risk

Concentration risk is defined as the risk of a negative impact on the Bank's income statement or capital, as a result of the concentration of investments made or funds raised with a small number of counterparties, namely in terms of credit and liquidity.

Given the size and financial structure of the Bank and the nature of its business model, BAIE has a high level of exposure to concentration risk, so maintaining a conservative risk profile means managing this risk in such a way as to keep its exposure within the approved limits and, at the same time, adopting a credit and liquidity risk management policy that translates into a profile and tolerance of risk within conservative limits. These limits are approved by the Board of Directors.

- Operational risk

Operational risk is defined as the risk of negative impacts on results or equity arising from failures in the analysis, processing or settlement of operations, internal and external fraud, the use of resources under a subcontracting regime, decision-making processes insufficient or inadequate human resources or the inoperability of infrastructures.

The Bank recognises operational risk as a potentially significant risk in its business and seeks to manage it within the acceptable limits through the implementation of an internal control system appropriate to its activity.

The BD is responsible for ensuring that the Bank's organizational structure is in line with the defined strategy and the development of the activity, as well as the evolution of the prudential requirements inherent in this activity, having as fundamental principles:

- Definition of responsibilities and competences;
- Ethics and deontology;
- Reporting and control procedures; and
- Segregation of duties.

The documents that formalise the policies and standards adopted by the Bank are approved by the Board of Directors and determine the overall strategy, procedures and the segregation of competencies of the several corporate bodies and departments regarding internal control and risk management.

The **Business processes** are documented in detail and have been defined in order to ensure adequate segregation of functions considering the size, nature and complexity of the activity. For each of these processes, one or more party has responsibility for ensuring the compliance with established procedures and control mechanisms, as well as ensuring that procedures are updated to changes in the activity.

In designing and implementing business processes, whether manual or automatic, they are carried out in such a way as to ensure adequate segregation of functions and consequent mitigation of the risk of carrying out improper operations/conflict of interest, which is essential to maintaining a robust internal control system.

Whenever, although justifiable, it is not possible to respect the principles presented in this document (e.g. for operational reasons), the Bank ensures that this information is considered in processes involving the definition of procedures or access profiles to the applications that support the business processes, ensuring that procedures are in place to confirm the accuracy and legitimacy of the task.

In addition, in circumstances where it is not feasible to completely segregate potentially conflicting functions, BAIE ensures the implementation of alternative control procedures in order to avoid, or reduce to a minimum, the risk of conflicts of interest.

The guidelines defined for operational risk management are approved by the Board of Directors and are detailed in their own internal regulations. The model adopted for operational risk management is based on a system of risk assessment inherent in business processes and in the recording of occurrences, directly performed by the areas where these situations occur.

The occurrences of operational risk are classified using a risk table provided for in the regulations of Bank of Portugal. These situations are reported and centralised in the RMF, which analyses them together with departmental officials and, whenever applicable, proposes changes to the procedures established in the business processes or other internal regulations, in order to mitigate the risk of a repeat occurrence of the same nature. Upon completion of this review process, operational risk occurrences are reported to the CMRM.

The RMF annually performs a review of the inherent risk to all of the Bank's business processes and the result of this review is submitted to the CMRM for approval.

In terms of going concern, BAIE has established a plan that comprises an integrated set of policies and procedures aimed at ensuring the Bank’s going concern or the timely recovery of its business in events likely to disrupt the normal course of the business, particularly because they imply the unavailability of physical infrastructures, computer systems or human resources.

The Business Continuity Plan (PCN) is documented and integrated in the critical processes of the BAIE, using as reference the recommendations on business continuity management issued by Bank of Portugal.

In case of total or partial inaccessibility of the building of the Bank's headquarters in Lisbon, an alternative physical space is located in the peripheral area of the city, which includes a data centre, which allows in a short period of time, access to all up-to-date data and critical information systems for the activity.

Each semester, test exercises are performed in the alternative data centre, and if necessary, the PCN review is performed. This process is monitored by the DSI, FSI and FGR officials and the results are submitted to the CMRM.

Additionally, under current legislation, BAIE has developed a Security Plan for its headquarters facilities, with periodic fire drills, awareness-raising and training activities, involving all the employees of the Bank.

A review process of the PCN is being finalised, a project that will be coordinated by the RMF and supported by DSI, FSI and a team of specialized external consultants.

- Compliance, Strategy and Reputational Risk

Compliance risk is the risk of negative impacts on results or equity arising from breaches or non-compliance with laws, regulations, specific determinations, contracts, rules of conduct and relationships with clients, established practices or ethical principles, which are materialised in legal sanctions, in the limitation of the business opportunities, in the reduction of the potential of expansion or in the impossibility of demanding the fulfilment of the contractual obligations.

The Compliance Department (DdC) ensures the Banks compliance with all legal obligations to which it is subject.

For this purpose, the DdC permanently monitors all regulatory changes and, considering the business areas in which BAIE performs its activities, evaluating whether these changes result in new obligations for the Bank. Whenever such changes have an impact on the activity, the DdC shall inform the BD and all the relevant departments, assessing with their respective departmental heads, the actions to be taken to ensure that the new obligations are properly complied. Subsequently, the DdC monitors the process of implementation of the defined actions with the responsible for each department, reporting to CMRM the results of this monitoring.

This department is also responsible for the assessment and monitoring of internal control procedures for the prevention of money laundering and terrorist financing, as well as centralization of information and its direct communication to the competent authorities.

Strategy risk is the risk of negative impacts on the income statement or capital resulting from inadequate strategic decisions, poor decision implementation or inability to respond to changes in the environment, as well as changes in the institution's business environment.

On a regular basis, taking into account the dynamics of the markets in which it is present or potential, the Board of Directors reviews and analyses its strategy and business model and, in liaison with the Bank's shareholder, implements the changes it deems necessary.

Reputational risk is defined as the risk of negative impacts on the income statement or capital, resulting from a negative perception of the company's public image, whether justified or not, by customers, suppliers, financial analysts, employees, investors, the press or public opinion in general.

Since the exposure to this risk is highly dependent on exogenous factors, the Board of Directors' concern in managing exposure to this risk is to ensure strict compliance with the laws and regulations to which the Bank's activities are subject and with the ethical behaviour of its employees and members of its management and supervisory bodies.

- Information systems risk

Information systems risk (SI) is the risk of negative impacts on income or equity as a result of the non-adaptability of information systems to new needs, their inability to prevent unauthorised access, to ensure data integrity or to ensure business continuity in case of failure, as well as the pursuit of an inappropriate strategy in this area.

The guidelines established for SI risk management are in line with the Bank's conservative position towards risk. This low risk tolerance implies that the management of this risk in order to ensure, on a permanent basis, that the SI of the Bank meets the needs of the business in an integrated way and that guarantees the integrity of the data in any circumstance.

The guidelines defined for SI risk management are approved by the BD and are detailed in a wider set of Information systems security policies and in another internal regulation.

The IS risk management process consists of four stages:

i. **Identification** – At this stage the SI risk is identified with the objective of knowing and estimating the risks to which the SI is potentially exposed and the mitigation measures are also defined. The head of the SI Department (RDSI) is responsible for the development of this stage.

ii. **Deployment**– Deploy the necessary controls to mitigate SI risks.

iii. **Control** – This stage is intended to control the application of the SI risk management system and its effectiveness, including the identification and communication by SI users to the RMF of occurrences with a potential risk to the SI and the analysis and assessment by the RDSI of the impact of occurrences and the definition of corrective and preventive measures.

iv. **Monitoring** – Includes the analysis and preparation of reports for the CMRM by the DAI, on the occurrences with potential risks to the SI and the evaluation of the adequacy of the corrective measures taken, as well as the identification of opportunities for improvement of the SI risk management system.

In 2020, the Bank initiated, with the support of external advisors, a comprehensive project to review the entire risk management system.

Financial analysis

A brief financial analysis of BAIE's activity in 2019 is provided below.

Income Statement

	31-Dec-19	31-Dec-18	Δ
Interest and similar income	21 473 405	20 274 525	5.9%
Interest and similar expense	(13 146 796)	(10 833 051)	21.4%
Net Interest Income (NII)	**8 326 609**	**9 441 474**	**-11.8%**
Financial Operations (FO)	1 578 868	1 416 227	11.5%
Gross Profit (NII+FO)	**9 905 477**	**10 857 701**	**-8.8%**
Fee and commission income/ expense (FCIE)	4 912 206	5 668 685	-13.3%
Other Operating Income/ (expense) (OPIE)	(2 065 047)	(1 959 915)	5.4%
Operating Income (OI=NII+FCIE+OPIE)	**12 752 636**	**14 566 471**	**-12.5%**
Fixed Costs (FC)	(6 094 692)	(5 574 723)	9.3%
EBITDA (OI-FC)	**6 657 944**	**8 991 748**	**-26.0%**
Depreciation for the period (D)	(748 035)	(288 347)	159.4%
Net provisions and impairments	(1 666 574)	409 427	-507.1%
Profit/ (loss) before tax	**4 243 335**	**9 112 828**	**-53.4%**
Taxes	(1 314 465)	(3 205 259)	-59.0%
Profit/(Loss) for the period	**2 928 871**	**5 907 569**	**-50.4%**
Cost to income [(FC+D)/OI]	**53.7%**	**40.3%**	**33.3%**

In 2019, ***Profit/(Loss) before Taxes*** for BAIE amounted to Euro 4,243 thousand, which represents a significant decrease of -53.4% when compared with the previous year, as well as the ***Profit/(Loss) for the period*** which amounted to Euro 2,929 thousand, which represents a decrease of approximately -50.4% when compared with the previous year.

Net Interest Income amounted to Euro 8,327 thousand, which represents a decrease of -11.8% when compared with the previous year. This decrease resulted both from the price variable (decrease in the remuneration rates) and the volume variable (decrease in credit assets). The volume variable made the main contribution to the change in net interest income due to the decrease in the credit portfolio (in terms of average volume in the year), an item with the greatest sensitivity in terms of net interest income. Also the reversal of the monetary policy of the United States Federal Reserve (FED) had a negative impact on the Bank's net interest income, since it led to the reduction of money market rates in USD, a currency in which the Bank is very active, and which, during 2018 had offset the negative impact associated with the increase in euro-denominated funds at Banco de Portugal, remunerated at a negative rate of -0.4% (-0.5% since 30 October 2019).

The **income from financial operations** increased 11.5% year-on-year, due to: i) an increase in income from foreign exchange operations (+ Euro 234 thousand compared to 2018), ii) an increase in income from financial assets at fair value through other comprehensive income (+ Euro 221 thousand compared to 2018) and partially offset by iii) the depreciation of assets at fair value through profit or loss (- Euro 263 thousand compared to 2018).

Fee and commission income/ expense amounted to Euro 4,912 thousand, reflecting a decline of approximately -13% when compared with the previous year. The performance of this item results mainly from the decrease in fees for services rendered (-17.2%). Despite a significant decrease in documentary credit activity, this was not proportionately reflected in profit or loss, since the strong activity in the 4th quarter of 2018 and the increase in commissions for extension of due dates because of changes in previous documentary credits had a positive impact on income in early 2019.

Other operating income showed a slight worsening in 2019 in comparison with the net expenditure of the previous year (+5.4%), explained by the fact that the contributions made to the National and Single Resolution Funds (Banking Union) and the Extraordinary Contribution to the Banking Sector have increased, due to the increase since 2016 in the resources raised from ICOs (the incidence base of the formula for calculating these charges). This effect was partially offset by income of Euro 209 thousand from the sale of the financial investment in an associated company in 2019.

Fixed costs, incurred in 2019, when compared with the same period of the previous year, show an increase of +9.3%, explained by the variation in the following items:

i) **General and administrative expenses** (+2.0%). Reflecting the effect of the first-time application of IFRS 16 - Leases (which requires that assets with right of use - facilities and vehicles under lease - are now recognised in the Bank's balance sheet and subject to depreciation), which resulted in the derecognition of rents paid as general administrative expenses, there would be an increase of +13% in charges under this caption, explained essentially by costs of licensing and development of systems and new products, strengthening of information security and advisory services for the implementation of various legal and regulatory projects;

ii) **Staff costs** (+16.3%), due to the increase of the employees in support and control areas;

iii) **Amortisations** (+159%). In contrast to the impact on the caption General administrative expenses, with regard to depreciation for the year, excluding the effect of the first-time application of IFRS 16, the variation would have been only +38%. This variation is explained by the beginning of amortisation of the work on the new premises of the Bank's headquarters only began in the second half of 2018.

The significant increase in fixed costs contributed to a deterioration in the cost to income ratio by 13.4 p.p.

Net provisions and impairment recognised in 2019 reflects the reversals of impairment related to loans and advances to customers and provisions for other risks and charges.

Balance sheet

	31-Dec-19	31-Dec-18	Δ
Financial Assets:			
Cash and cash equivalents repayable on demand	176 547 760	124 052 331	42.3%
Loans and advances to credit institutions repayable on demand	390 439 807	636 329 711	-38.6%
Loans and advances to customers	79 163 299	74 424 105	6.4%
Financial assets not held for trading mandatorily measured at fair value through profit or loss	660 302	1 566 620	-57.9%
Financial assets at fair value through other comprehensive income	137 250 776	271 584 142	-49.5%
Other financial assets at amortised cost	31 516 882	33 238 879	-5.2%
Other financial assets at fair value through profit or loss	336 977	224 373	50.2%
Total Financial Assets	**815 915 803**	**1 141 420 161**	**-28.2%**
Non-financial assets	6 849 258	4 582 071	49.5%
Total Assets	**822 765 061**	**1 146 002 232**	**-28.2%**
Financial Liabilities:			
Deposits from other credit institutions	556 718 259	912 875 738	-39.0%
Deposits from customers	170 277 884	136 815 632	24.5%
Other financial liabilities at fair value through profit or loss	336 977	224 373	50.2%
Total Financial Liabilities	**727 333 120**	**1 049 915 743**	**-30.7%**
Other non-financial liabilities	9 161 457	12 951 352	-29.3%
Share capital	40 000 000	40 000 000	0.0%
Revaluation reserves	182 102	(49 548)	-467.5%
Other reserves and retained earnings	43 159 512	37 277 116	15.8%
Profit/(Loss) for the period	2 928 871	5 907 569	-50.4%
Total Liabilities and Equity	**822 765 061**	**1 146 002 232**	**-28.2%**

In 2019, there was a considerable decrease in BAIE's balance sheet (-28.2%), reversing the growth in activity with institutional clients that had been taking place since the financial year 2016. The decrease in investments in credit institutions and financial assets at fair value through other comprehensive income should be highlighted. In average terms, the decrease in the balance sheet was less pronounced (-11.4%).

The main contribution to the decrease in assets was the significant decrease in the corresponding banking activity, which had a negative influence on the interbank market activity. There was a notable decrease in the fixed income portfolio eligible for HQLA and for compliance with the prudential LCR liquidity ratio, as a result of the decrease in the Bank's other balance sheet items.

The solvency indicator remains comfortably above the regulatory minimum limit, having increased to 25.5% from 18% in the previous year.

Proposal for the appropriation of net profits

The profit for the period in 2019 amounted to Euro 2,928,871 and, in accordance with the applicable legislation, the Board of Directors proposes the following appropriation:

• Transfer to Retained Earnings	2,635,984
• Transfer to Legal Reserves	292,887

Other Information

(i) Subsequent events
Subsequent events are disclosed in the Annex to the Management Report, Note 36 - Subsequent events.

(ii) In accordance with the applicable legislation, the Board of Directors expressly confirms that:
- The Bank does not own and has not disposed of or acquired treasury stock;
- There were no transactions between the Bank and its Directors;
- The Bank has no branches; and
- The Bank does not have any overdue debts to the State and other public entities.

(iii) On 31 October 2019, Inokcelina Ben'África Correia dos Santos was appointed as Non-Executive Director.

(iv) On 9 January 2020, the Chairman of the Board of Directors José Alberto Vasconcelos Tavares Moreira, presented a letter of resignation with effect from 29 February 2020.

Annex to the Management Report

1. In compliance with Article 447 of the Portuguese Commercial Companies Code, it is hereby declared that, with the exception of the Chairman of the Board of Directors José Alberto Vasconcelos Tavares Moreira (in office until 29 February 2020) and the executive director Omar José Mascarenhas de Morais Guerra, each holding one (1) share, none of the members of the Board of Directors and Supervisory Board holds shares in the share capital of the Bank.

2. As at 31 December 2019 and in accordance with Article 478 of Código das Sociedades Comerciais, the following shareholders hold more than one-tenth of the share capital of the Bank:

	No. Shares	%
Banco Angolano de Investimentos, S.A.	7,999,999	99.99995

Lisbon, 13 April 2020

The Board of Directors

António Pinto Duarte Vice Chairman	Omar Guerra Member
Henrique Carvalho da Silva Member	Inokcelina dos Santos Member

Banco BAI Europa, S.A.

Financial Statements as of 31 December 2019

BANCO BAI EUROPA, S.A.

BALANCE SHEETS (STATEMENT OF FINANCIAL POSITION)

AS OF 31 DECEMBER 2019 AND 2018

(Amounts expressed in Euro)

		31-Dec-19			
	Notes	Amount before impairment and amortisation	Impairment and amortisation	Net amount	**31-Dec-18**
Assets					
Cash and deposits at central banks	3	151 978 991	-	151 978 991	33 310 786
Loans and advances to credit institutions repayable on demand	4	24 579 357	(10 588)	24 568 769	90 741 545
Financial assets not held for trading mandatorily measured at fair value through profit or loss	5	660 302	-	660 302	1 566 620
Other financial assets at fair value through profit or loss	6	336 977	-	336 977	224 373
Financial assets at fair value through other comprehensive income	7, 18	137 250 776	-	137 250 776	271 584 142
Financial assets at amortised cost					
Other loans and advances to credit institutions	8, 18	390 650 553	(210 746)	390 439 807	636 329 711
Loans and advances to customers	9, 18	81 876 057	(2 712 758)	79 163 299	74 424 105
Other financial assets at amortised cost	10	31 559 203	(42 321)	31 516 882	33 238 879
Other tangible assets and right-of-use assets	11	4 375 929	(969 755)	3 406 174	1 155 278
Intangible assets	12	628 168	(454 703)	173 465	358 552
Investments in subsidiaries and associates	13	-	-	-	948 469
Current tax assets	14, 28	846 679	-	846 679	-
Deferred tax assets	14, 28	692 779	-	692 779	768 023
Other assets	15, 18	1 922 809	(192 648)	1 730 161	1 351 749
Total Assets		**827 358 580**	**(4 593 519)**	**822 765 061**	**1 146 002 232**

	Notes	**31-Dec-19**	**31-Dec-18**
Liabilities			
Other financial liabilities at fair value through profit or loss	6	336 977	224 373
Financial liabilities at amortised cost			
Deposits from central banks	16	-	3
Deposits from other credit institutions	16	556 718 259	912 875 735
Deposits from customers and other loans	17	170 277 884	136 815 632
Provisions	18	4 180 559	3 558 163
Current tax liabilities	14, 28	8	318 850
Deferred tax liabilities	14, 28	29 301	-
Other liabilities	19	4 951 589	9 074 338
Total Liabilities		**736 494 577**	**1 062 867 094**
Equity			
Share capital	20	40 000 000	40 000 000
Revaluation reserves	20	182 102	(49 548)
Other reserves	20	8 380 461	7 198 948
Retained earnings	20	34 779 050	30 078 169
Net profit/ (loss) for the period	20	2 928 871	5 907 569
(Prepaid dividends)		-	-
Total Equity		**86 270 484**	**83 135 138**
Total Liabilities + Total Equity		**822 765 061**	**1 146 002 232**

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

BANCO BAI EUROPA, S.A.
INCOME STATEMENT
FOR THE PERIODS ENDED 31 DECEMBER 2019 AND 2018

(Amounts expressed in Euro)

	Notes	31-Dec-19	31-Dec-18
Interest and similar income - effective rate	21	21 473 405	20 274 525
Interest and similar expense	21	(13 146 796)	(10 833 051)
Net interest income	21	**8 326 609**	**9 441 474**
Dividends from equity instruments	2.8, 13	-	28 333
Fees and commissions income	22	5 933 774	6 597 519
Fees and commissions expense	22	(1 021 568)	(928 834)
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	23	319 299	98 725
Net gains/ (losses) arising from financial assets mandatorily measured at fair value through profit or loss	24	(232 816)	30 625
Net gains/ (losses) arising from foreign exchange differences	2.3	1 492 385	1 258 544
Net gains/ (losses) arising from the sale of other assets	11	-	(44 987)
Other operating income/ (expense)	25	(2 065 047)	(1 914 928)
Operating income		**12 752 636**	**14 566 471**
Staff costs	26	(3 315 682)	(2 851 354)
General administrative expenses	27	(2 779 010)	(2 723 369)
Depreciation for the period	11, 12	(748 035)	(288 347)
Provisions net of reversals and recoveries	18	(745 397)	(1 026 274)
Impairment for financial assets not measured at fair value through profit or loss			
Financial assets at fair value through other comprehensive income	18	(56 274)	53
Financial assets at amortised cost			
Impairment for loans and advances net of reversals and recoveries	18	(832 732)	1 422 536
Impairment of other financial assets net of reversals and recoveries	18	(30 755)	97 732
Impairment for non-financial assets	18	(1 416)	(84 620)
Profit before tax		**4 243 335**	**9 112 828**
Taxes	28	(1 314 465)	(3 205 259)
Current	28	(1 260 846)	(2 508 291)
Deferred	28	(53 619)	(696 968)
Profit after tax		**2 928 871**	**5 907 569**
Net profit for the period		**2 928 871**	**5 907 569**
Earnings per share		**0.37**	**0.74**

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

BANCO BAI EUROPA, S.A.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIODS ENDED AT 31 DECEMBER 2019 AND 2018

(Amounts expressed in Euro)

	Notes	31-Dec-19	31-Dec-18
Net profit for the period		**2 928 871**	**5 907 569**
Items that will not be reclassified into the income statement			
Retained actuarial gains and losses from long-terme benefits	20	(25 174)	(80 139)
Items that may be reclassified into the income statement			
Fair value changes from debt instruments at fair value though other comprehensive income	20	226 302	(243 331)
Tax effect	20	(50 926)	31 956
Profit/ (loss) not included in the income statement		**150 202**	**(291 514)**
Comprehensive income for the period		**3 079 073**	**5 616 055**

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

BANCO BAI EUROPA, S.A.

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIODS ENDED AT 31 DECEMBER 2019 AND 2018

(Amounts expressed in Euro)

	Notes	Share capital	Retained earnings	Legal reserve	Revaluation reserves	Net profit for the period	Total Equity
Balance on 31 December 2017		**40 000 000**	**26 532 968**	**6 171 248**	**35 748**	**5 138 499**	**77 878 463**
Impact from the adoption of IFRS 9							
Gross amount		-	(627 117)	-	123 250	-	**(503 867)**
Tax effect		-	141 658	-	(22 762)	-	**118 896**
Balance on 1 January 2018		**40 000 000**	**26 047 509**	**6 171 248**	**136 236**	**5 138 499**	**77 493 492**
Appropriation of 2017 profits into retained earnings and legal reserve		-	4 110 799	1 027 700	-	(5 138 499)	**-**
Revaluation reserves	20	-	-	-	(185 784)	-	**(185 784)**
Retained actuarial gains and losses from long-term benefits	20	-	(80 139)	-	-	-	**(80 139)**
Net profit for 2018		-	-	-	-	5 907 569	**5 907 569**
Balance on 31 December 2018		**40 000 000**	**30 078 169**	**7 198 948**	**(49 548)**	**5 907 569**	**83 135 138**
Appropriation of 2018 profits into retained earnings and legal reserve		-	4 726 055	1 181 514	-	(5 907 569)	**-**
Revaluation reserves	20	-	-	-	231 650	-	**231 650**
Retained actuarial gains and losses from long-term benefits	20	-	(25 174)	-	-	-	**(25 174)**
Net profit for 2019		-	-	-	-	2 928 871	**2 928 871**
Balance on 31 December 2019		**40 000 000**	**34 779 050**	**8 380 461**	**182 102**	**2 928 871**	**86 270 484**

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

BANCO BAI EUROPA, S.A.

CASH FLOW STATEMENT

FOR THE PERIODS ENDED AT 31 DECEMBER 2019 AND 2018

(Amounts expressed in Euro)

	Notes	31-Dec-2019	31-Dec-18
Operating activities			
Interest, commissions and other income received	21, 22	28 726 327	26 216 495
Interest, commissions and other expense paid	21, 22	(15 584 649)	(11 508 339)
Foreign exchange and other financial operations gains and losses	2.3	1 492 385	1 258 544
Payments to employees and suppliers	26, 27	(5 794 157)	(5 283 171)
Net cash flow arising from operating activities before changes in assets and liabilities		8 839 906	10 683 529
Decreases (increases) in:			
Other financial assets at amortised cost	10	1 701 897	(7 319 152)
Loans and advances to credit institutions repayable on demand	8	245 300 914	(88 051 912)
Loans and advances to customers	9	(6 036 681)	(4 183 014)
Other assets	15	555 645	47 744
Net cash flows arising from operating assets		241 521 775	(99 506 334)
Increases (decreases) in:			
Deposits from other credit institutions and central banks	16	(355 708 878)	88 617 096
Deposits from customers	17	33 526 766	38 524 284
Other liabilities	19	(6 699 218)	6 949 958
Net cash flows arising from operating liabilities		(328 881 330)	134 091 338
Income tax payment	14, 28	(2 444 367)	(3 052 389)
Other taxes and contributions paid	25	(1 399 923)	(1 193 904)
Gross cash flow from operating activities		(82 363 939)	41 022 240
Investing activities			
Income arising from financial assets at fair value through other comprehensive income	23	319 299	98 725
Income arising from financial assets at fair value through profit or loss	24	-	30 625
Acquisitions of financial assets at fair value through other comprehensive income, net of disposals	7	134 391 960	(66 830 501)
Acquisitions of financial assets at fair value through other comprehensive income, net of disposals	6	673 502	-
Acquisition of tangible and intangible assets, net of disposals	11, 12	(135 024)	(1 291 038)
Dividends received	13	-	28 333
Net cash flows arising from investing activities		135 249 737	(67 963 856)
Financing activities			
Payments on lease liabilities	19	(382 219)	-
Net cash flows arising from investing activities		(382 219)	-
Net changes in cash and cash equivalents		52 503 579	(26 941 616)
Cash and cash equivalents at the beginning of the period	3, 4	124 054 769	150 996 385
Cash and cash equivalents at the end of the period	**3, 4**	**176 558 348**	**124 052 331**

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

Banco BAI Europa, S.A.

Notes to the Financial Statements
As of 31 December 2019

(Amounts expressed in Euro)

1. Introduction

BANCO BAI EUROPA, S.A. (hereinafter referred to as BAIE or Bank) was incorporated on 26 August 2002 under authorisation granted by Ministerial Order of the Minister of State and Finances, of 10 May 2002, succeeding BANCO ANGOLANO DE INVESTIMENTOS, S.A. Branch in Portugal (BAI). The company has its head office in Lisbon and its corporate object is the performance of banking activities.

BAI´s branch in Portugal was incorporated in Lisbon under Decree-Law no. 298/92, of 31 December (Credit Institutions and Financial Companies General Regime - RGICSF), and had its establishment authorised by the Minister of Finance through Ordinance 4/97, of 7 January, with a share capital of PTE 3,500,000,000 converted into Euro 17,457,926 fully subscribed through capital originated from BAI.

BAI is a private capital bank with head office in Luanda, Angola. BAI was incorporated in 13 November 1996 with the corporate object of performing banking activities, in accordance with the terms defined by National Bank of Angola (NBA). Its business activity started on 4 November 1997. On 4 May 2008 BAI changed the abbreviation of its legal entity name from Limited Liability Company (S.A.R.L) to Limited Company (S.A.). On 11 January 2011 the Bank changed its corporate name from BANCO AFRICANO DE INVESTIMENTOS, S.A. to BANCO ANGOLANO DE INVESTIMENTOS, S.A. BAIE is part of BAI Group.

Currently the Bank exercises its activity through its head office, a branch in Lisbon and an office in Oporto.

BAIE´s activity is subject to the supervision of Bank of Portugal, and it is considered a financial institution in accordance with RGICSF.

2. Basis of presentation and main accounting policies

These financial statements were prepared in order to comply with the legislation in force.

2.1 Basis of presentation

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and the Counsel, of 19 July and Regulation no. 5/2015 of Bank of Portugal, from 7 December, BAIE’s financial statements are required to be prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body.

These financial statements relate to the period ended at 31 December 2019 and were prepared in accordance with the IFRS in force, as adopted in the European Union, up to that date.

The Bank has adopted the IFRS and interpretations of mandatory application for periods beginning on or after 1 January 2019. The accounting policies are consistent with those used in the preparation of the financial statements for the prior period, except for changes in IFRS, namely the adoption of IFRS 16 - Leases. This standard replaced IAS 17 - Leases and establishes the new requirements for the scope, classification/recognition and measurement of leases.

On 1 January 2019, the Bank carried out a survey of the contracts existing on that date and used the practical expedient provided for in the standard, i.e., it only applied the standard to contracts that were previously identified as leases under IAS 17 - Leases and IFRIC 4.

In accordance with IFRS 16, the Bank has applied this standard retrospectively with the impacts of the transition recognised on 1 January 2019. Accordingly, the comparative information was not restated.

In using the practical expedient available in the transition to IFRS 16, the Bank recognised a liability for the present value of future payments, using an incremental interest rate at the initial date of application of the standard and the right to use the underlying asset for the amount of the lease liability.

The impacts resulting from the implementation of IFRS 16 as at 1 January 2019, as well as the movements between the balances at 31 December 2018 and as at 1 January 2019, are detailed in Note 2.16. IFRS 16 – Leases in accordance with IFRS 16.

These financial statements were approved by the Board of Directors of the Bank on 13 April 2020, and are pending approval from the General Shareholders Meeting. However, the Board of Directors believes that these will be approved without amendments.

2.2 Use of estimates in the preparation of the financial statements
The preparation of financial statements requires that the Bank´s management establishes assumptions and perform estimates that affect assets, liabilities, income and expenses, which will be analysed below.

Impairment losses in Loans and Advances to customers and in other assets
The Bank performs monthly assessments on the existence of objective evidence of impairment, using estimates of recoverable cash flows including those from possible recoveries and realisation of collateral (Note 2.4.1.3). This process includes factors such as probability of default, credit ratings, the value of the collateral associated with each operation, recovery rates and the cash flow estimates, either from future cash flows or at the time of their receipt.

Income taxes
The Bank recognised deferred tax assets based on the assumption of the existence of future taxable profits and considering the current legislation in force or legislation already published for future application, as well as the requirements set in IAS 12. Probable future amendments to tax legislation may influence the amounts expressed in the financial statements regarding deferred taxes.

In 2018, the Bank adopted IFRS 9 - Financial Instruments, which replaced IAS 39. This standard changed significantly the way of calculating impairment as it now considers a model of expected losses for this purpose. In this respect, there are no transitional arrangements providing the tax treatment to be given to transition adjustments to IFRS 9, and therefore, the treatment given resulted from BAIE's interpretation of the application of the general rules of the Corporate Income Tax Code.

Fair value of derivatives and unlisted financial assets
Fair value of derivative financial instruments and unlisted financial assets (i.e. not traded in active markets) was estimated based on techniques and financial theories using market assumptions or third parties assumptions (Note 33). Results achieved may differ according to the assumptions considered.

Employee benefits and other
Liabilities arising from retirement and survival pensions and the income generated by the Pensions Funds to cover those liabilities are estimated through the use of actuarial tables, pensions and wages increase assumptions and pension future income assumptions (Note 30). These assumptions are based in BAIE expectations at the balance sheet date for the period in which liabilities will be settled.

Impairment and measurement of assets at fair value through other comprehensive income
The Bank determines the existence of impairment losses in their debt instruments at fair value through other comprehensive income considering all the reasonable, reliable and duly supported information available at each reporting date, including forward looking information.

Evaluations are obtained through market prices (mark-to-market) or valuation models (mark-to-model), which require the use of certain assumptions or judgment in the calculation of fair value estimates.

The Bank's assets and liabilities fair value is measured according to the following hierarchy, in accordance with IFRS 13 - Fair Value:

Listed market prices (Level 1)
This category includes Financial Instruments with listed market price available in official markets and entities that regularly disclose transaction prices for these instruments traded in liquid markets.

The priority in prices used is given to those observed in official markets, and where there is more than one official market the option falls on the main market where these financial instruments are traded.

The Bank considers as market prices those disclosed by independent entities (namely Bloomberg and Reuters), assuming they act in their own economic interest and that such prices are representative of an active market, using, whenever possible, prices provided by more than one entity (for a given asset and/or liability). In the revaluation process of financial instruments, the Bank reviews the different prices in order to select the one that is most representative for the instrument under analysis.

Under this category are included, among others, the following financial instruments:
i) Derivatives traded on an organised market;
ii) Shares listed on a stock exchange market;
iii) Open-end securities funds listed on a stock exchange market;
iv) Closed-end funds whose underlying assets are only financial instruments listed on the stock exchange market;
v) Bond securities with more than one provider whose instruments are listed on the stock exchange market.

Valuation methods with observable prices/parameters in the market (Level 2)
In this category, financial instruments valued using internal models are considered, such as discounted cash flow models and option valuation models, which involve the use of estimates and require judgments that vary according to the complexity of the products being valued. Nevertheless, the Bank uses as inputs in its models observable variables in active markets, such as interest rate curves, credit spreads, volatility and indexes on prices.

Under this category are included, the following financial instruments:
i) Bonds not listed on stock exchange market;
ii) Derivatives (OTC) over-the-counter; and
iii) Commercial paper in which there are observable inputs in the market, namely yield curves and credit spread, applicable to the issuing entity.

Valuation methods with parameters not observable in the market (Level 3)
This level includes valuations determined through the use of internal valuation models or quotes provided by third parties but whose parameters are not observable in the market. The basis and assumptions for the calculation of fair value are in accordance with the IFRS 13 principles.

Under this category are included, the following financial instruments:
i) Debt securities valued using inputs not observable in the market;
ii) Shares not listed on the stock exchange market;
iii) Closed-end real estate funds;
iv) Hedge Funds;
(v) Private equities; and
vi) Restructuring Funds.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses recognised with a consequential impact in the income statement of the Bank.

Provisions
The provisions measurement is based on the principles defined on IAS 37 regarding the best estimate of the expected cost, the most probable result of the actions in progress and considering the risks and uncertainties inherent to the process.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reversed through profit and loss in the proportion of the payments that are not probable. Provisions are derecognised through their use for the obligations for which they were initially recognised or for the cases that the situations were no longer observed.

2.3 Transactions in foreign currency (IAS 21)

These financial statements are expressed in the functional currency, Euro, since it is the currency used in the main business environment where the bank operates.

The assets and liabilities denominated in foreign currency are accounted for using a multi-currency system, in their respective denomination currency.

Assets and liabilities denominated in foreign currency are translated into Euro based on the following:

i) Monetary assets and liabilities expressed in foreign currency are translated into the functional currency at the exchange rate in force at the balance sheet date;
ii) Non-monetary assets and liabilities expressed in foreign currency and recorded at historical cost are translated to the functional currency at the exchange rate on the date of the transaction; and
iii) Non-monetary assets and liabilities recorded at fair value are translated into the functional currency at the exchange rate on the date when the fair value is determined.

Exchange rate differences resulting from translation of the net positions are recognised in the income statement, under the balance Net gains/ (losses) arising from foreign exchange differences.

The spot position in a given currency corresponds to the net balance of assets and liabilities expressed in that currency, plus the amounts of spot operations pending settlement and forward operations maturing in the following two business days.

The forward position in a given currency corresponds to the net balance of forward operations pending settlement, except for those maturing in the following two business days.

The translation of income and expense in foreign currency is performed on a monthly basis at the exchange rate prevailing at the end of each month.

The foreign exchange rates used in the functional currency translation process of assets, liabilities, income and expenses expressed in foreign currency, are the exchange rates disclosed by the European Central bank, designated as fixing rates.

With the purpose of mitigating its foreign exchange exposure, BAIE may use derivative financial instruments as “currency forwards” and “currency swaps”. The accounting policies used to record these transactions are described in Note 2.4.6. As of 31 December 2019, BAIE does not hold any derivative financial instrument.

2.4 Derivative financial instruments (IFRS 9)

Financial instruments are recognised on their trade date, which is the date on which the Bank becomes part of the contract and are classified by considering its underlying purpose, under the categories described below.

On initial recognition, financial assets are classified in one of the following categories:
i) Financial assets at amortised cost
ii) Financial assets at fair value through other comprehensive income
iii) Financial assets mandatorily measured at fair value through profit or loss

The classification is made considering the following aspects:

- the Bank's business model for financial asset management; and
- the contractual cash flow characteristics of the financial asset.

2.4.1 Loans and advances to customers (Financial assets at amortised cost)
2.4.1.1 Valuation, initial and subsequent recognition
Loans and other receivables includes all financial assets corresponding to the supply of cash, goods or services to a debtor. This concept includes the typical credit granting to customers, as well as the creditor positions resulting from operations with third parties under the institution´s business activities except operations with credit institutions.

Loans and advances to customers are initially recognised at fair value plus any directly attributable transaction costs and fees and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

In summary, revenue arising from fees for services rendered that are directly associated with loan operations is recognised on straight-line basis over their term.

The Bank writes-off credits to the assets of operations whenever it considers then to be irrecoverable and whose impairment is registered as the total amount of the operation.

2.4.1.2 Derecognition
The derecognition of these assets occurs when: (i) the contractual rights of the Bank to their respective cash flows have expired; or (ii) the Bank transferred substantially all the associated risks and rewards of ownership; or (iii) notwithstanding the fact that the Bank may have retained part, but not substantially all the associated risks and rewards of ownership, control over the assets was transferred and (iv) the changes to the contractual conditions of a financial asset originated a substantial variation in the present value of the cash flows, i.e., the new contractual conditions discounted using the initial contract interest rate resulted in a change of, at least 10%, of the remaining present value of cash flows of the original financial asset.

2.4.1.3 Impairment losses
Impairment losses identified are recorded in the income statement being subsequently reversed, if there is a reduction of the estimated impairment loss, in a subsequent period.

IFRS 9 establishes a new asset impairment model based on “expected credit losses”, which replaces the “incurred loss” model followed by IAS 39, which considers the expected losses throughout the life of financial instruments. Thus, macroeconomic factors are considered when determining ECL, as well as other forward looking information, whose changes impact the expected losses.

<u>Collective analysis</u>
Instruments that are subject to impairment calculations are divided into three stages considering their credit risk level, as follows:

• Stage 1: no significant increase in credit risk since initial recognition. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur within 12 months after the reporting date;
• Stage 2: instruments in which there is a significant increase in credit risk since their initial recognition, however no objective evidence of impairment exists. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur over the expected residual life of the instrument;
• Stage 3: instruments for which there is objective evidence of impairment losses as a consequence of events that resulted in losses. In this case, impairment losses will correspond to expected credit losses over the expected residual life of the instrument.

It should be noted that BAIE also considered the following assumptions for the purpose of calculating impairment losses on loans and advances to customers:
• Default contamination: the contamination is performed by client number, being considered in default all the operations of a client for which one of the operations is considered in default;
• Cure period: a cure period of 6 months is considered for contracts that were in default and a period of 12 months is considered for contracts that were forborne.

The calculation of impairment losses in accordance with IFRS 9 is complex and requires decisions from Management, estimates and assumptions, particularly in the following areas:
• Assessment of the existence of a significant increase in credit risk since the initial recognition; and
• Incorporation of forward-looking information in ECL calculation.

ECLs Calculation
ECL correspond to weighted estimates of credit losses that will be determined as follows:
• Financial assets without signs of impairment at the reporting date: the actual value of the difference between the contractual cash flows and the cash flows that BAIE expects to receive;
• Financial assets with signs of impairment at the reporting date: difference between the gross book value and the actual value of the estimated cash flows;
• Unused credit commitments: the actual value of the difference between the contractual cash flows that would result if the commitment is used and the cash flows that BAIE expects to receive;
• Financial guarantees: the actual value of expected reimbursement payments deducted from the amounts that BAIE expects to recover.

Definition of default
Under IFRS 9, the Bank considered the recommendations of EBA “Final Report on Guidelines on default definition (EBA-GL-2016-07)”, issued on 28 September 2016.

Significant increase in credit risk
Under IFRS 9, in order to determine if a significant increase in credit risk has occurred (risk of default) since the financial instrument´s initial recognition, BAIE considers all relevant information available without costs and/or excessive effort, including either quantitative and qualitative information or an analysis based on BAI Europa´s history, (expert judgement and forward looking).

Consequently, taking into account the Bank's activity, it was defined that a significant increase in credit risk takes place when, from the moment of initial recognition, any of the following situations occur: i) Contract in default between 30 and 90 days; ii) more than 2 non-performing payments in the last 12 months; iii) overdue credit in the Central Credit Register (CRC) between 2 and 3 months; iv) debts to the Tax Authorities; v) Overdue credit above 3 months or with credit written-off in the CRC in the last 3 years; vi) renegotiated credit in CRC; vii) credits forborne due to financial difficulties / renegotiation of the payment plan; viii) PERSI (Private); and ix) Deceased (Private).

In addition, in the process of monitoring a significant increase in credit risk, the Bank also considers the following qualitative factors: i) management problems; (ii) high investments; (iii) high competition / reduced margins; iv) concentration of the volume of business in a reduced number of clients; v) loss of concessions or representations; vi) economic group with difficulties; vii) evidence of forbearance in the financial system; viii) problems with suppliers; ix) worsening of economic and financial situation; (x) high concentration in a market; xi) employer company (Private); and (xii) Divorce (Private).

BAI Europa monitors the effectiveness of the criteria used for the identification of significant increase in credit risk through regular assessments in order to confirm that:

• The criteria enable identification of significant increases in credit risk before the exposure enters in default;
• There are negative indicators by the time the customer is 30 days overdue;
• The average time between the identification of the significant increase in credit risk and the default is reasonable;
• The exposures usually do not change directly from the calculation of the 12 month ECL for a situation where they show signs of impairment;
• There is no unjustified volatility in the impairment value of transfers between the 12 month ECL value and the lifetime ECL value.

Inputs for the measurement of ECL
The main inputs used for measuring ECLs in a collective basis include the following parameters:

• Probability of Default – PD;
• Loss Given Default – LGD; and
• Exposure at Default – EAD.

These parameters are obtained using market references adjusted to reflect forward-looking information, when applicable.

The EAD represents the expected exposure if the exposure and/or customer go into default. BAIE obtains the EAD values from the counterpart´s current exposure and potential changes to its current value in accordance with the contractual conditions, including amortisation and prepayments. For commitments and financial guarantees, the value of EAD includes both the amount of credit used and the expectation of the future potential value that may be used in accordance with the contract.

The EAD calculation is performed differently by stage:
- Stage 1 and 3: corresponds to the sum of outstanding loans, overdue loans, accrued interest and any off-balance sheet loans (to which, depending on the product segment considered, a credit conversion factor is applied), after deducting any existing financial collateral associated with the credit operation (pledges of deposits made with BAI Europe and credit insurance guaranteed by the Portuguese Government);

- Stage 2: corresponds to the expected projection over the residual maturity of the contract, i.e., the sum of outstanding loans, overdue loans, accrued interest and any off-balance sheet loans (to which a credit conversion factor is applied, depending on the product segment considered), after deducting any existing financial collateral associated with the credit operation (pledges of deposits made with BAI Europe and credit insurance guaranteed by the Portuguese Government). Given the need to calculate the expected loss for the lifetime of the contract, future amortisation is deducted from the exposure considering the financial plan of each contract, in 12-month buckets.

Forward-looking information
Under IFRS 9, BAI Europa includes forward looking information both in its assessment of the significant increase in credit risk and in the measurement of the ECL, for probability of default calculation purposes. The Bank includes projections of relevant macroeconomic variables based on external data (Moody's) into the measurement of the ECL, without using internal parameters for this purpose. This approach represents a forecast of what is most likely to occur and will be in line with other data used by BAIE for other purposes, such as strategic planning and budgeting.

Individual analysis
The individual analysis corresponds to the impairment calculation of individual contracts, as opposed to the collective analysis. The contracts eligible for this analysis have the following individual analysis criteria: i) exposure with country risk; ii) exposures above Euro 1 million. All contracts that have the following characteristics are removed from the segments to which they are aggregated and an individual impairment rate is applied, depending on the internal considerations regarding the associated risk.

The determination of the impairment loss estimate results from the difference between the book value and the estimated recoverable amount of the credit, considering the recovery expectation of the amounts owed, the existing guarantees and, if possible, the recovery costs. For the customers to whom no impairment is attributed in the individual analysis, the Bank applies the impairment calculated through the collective model.

POCI Assets
Purchased or originated credit impaired (POCI) are assets in default on initial recognition, which can have resulted from: (i) New financial assets originated after changes in the contractual conditions that result in the derecognition of the original asset and the recognition of a new asset; (ii) New contracts of customers in default.

The calculation of the ECL for assets classified as POCI is based on the following principles:
- Impairment at initial recognition (inception): on inception, POCI assets are not impaired. The gross book value of POCI assets at inception corresponds to the net book value before its recognition as POCI. Therefore, at inception, the ECL of a POCI asset should be zero and the respective fair value is determined in accordance with a proxy of Net Carrying Amount (i.e. gross carrying amount deducted from the initial ECL).
- Impairment in subsequent periods: the ECL for POCI assets is always calculated on a lifetime perspective (from the moment an asset is recognised as POCI, can never be allocated to stage 1). Considering that the ECL, at inception, is incorporated in the value of the POCI asset, the amount recognised as ECL corresponds only to the amounts related to the ECL changes since the initial recognition.

In 2019 and 2018, there were no assets classified as POCI.

2.4.2 Other financial assets at amortised cost

2.4.2.1 Valuation and recognition

The Bank measures a financial asset at amortised cost if it meets, simultaneously, the following requirements and is not recorded at fair value through profit or loss (FVTPL) by choice (use of the Fair Value Option):

- the financial asset is held in a business model whose main purpose is to hold the asset to collect its contractual cash flows (HTC – Held to collect); and
- its contractual cash flows occur on specific dates and correspond solely to payments of principal and interest on the principal amount outstanding (SPPI - Solely Payments of Principal and Interest).

These financial assets are initially recorded at fair value and subsequently measured at amortised cost. Interest is calculated based on the effective interest rate method and recognised in Net Interest Income. Impairment losses are recognised in the income statement when identified.

2.4.2.2 Impairment losses

IFRS 9 introduced the calculation of expected impairment losses for all financial assets. BAIE's policy is to regularly assess the objective existence of impairment of its Financial Assets. Impairment losses identified are recorded in the income statement being subsequently reversed, if there is a reduction of the estimated impairment loss, in a subsequent period.

<u>Inputs for the measurement of ECL</u>
The inputs for the measurement of ECL of these assets are:

- Probability of Default – PD;
- Loss Given Default – LGD; and
- Exposure at Default – EAD.

These parameters are also obtained using market references. In the calculation of the ECL, the PDs made available by a rating agency are used, and its maturity is adjusted to the residual maturity of each asset, in the case of Loans and advances to credit institutions repayable on demand. In case of Other financial assets its maturity is adjusted through the allocation of a 12 month PD.

The EAD represents the accumulated balance of the financial asset (deposits or other debtors) or the sum of the nominal value of the security, the amount of accrued interest and the premium to be amortised (premium paid on the acquisition of the security less the amount already amortised), less the discount to be amortised (the total value of the discount obtained on the acquisition of the security less the amount already amortised).

<u>Allocation to Stages</u>
The inputs for the measurement of ECL of these assets are:
- Stage 1: assets that do not meet the criteria to be considered in Stages 2 and 3;
- Stage 2: assets which simultaneously meet 2 or more criteria indicative of deterioration in the quality of the asset;
- Stage 3: assets with a “D” rating (default) assigned by a rating agency.

BAI Europa does not have an internal rating scale, i.e., it does not have a scale of internal risk grades to apply to its assets in order to ascertain the deterioration of their quality. Evidence of deterioration of the quality of a financial asset is considered to be the simultaneous occurrence of two or more conditions described below:
- Failure to pay coupons or capital repayments on the established dates (only for debt securities);

- A significant decrease (above 20% in the 12 months prior to the reference date) and continuous negative variation in the quotation value (considering as reference the dates of 12, 6 and 2 months prior to the reference date) of its quotation price;
- The absence of quotation evidence for the security, in the active market (in case of a listed asset);
- Unfavourable market information.

2.4.3 Financial assets at fair value through other comprehensive income

2.4.3.1 Valuation and recognition

A financial asset is measured at fair value through other comprehensive income (FVOCI) if both of the following conditions are met and if is not designated at fair value through profit or loss (FVTPL) by option (use of Fair value option):

- the financial asset is held within a business model whose objective is to both collect contractual cash flows and the sale of that financial asset (HTC and Sell – Held to collect and Sell); and
- the contractual cash flows occur on specified dates and correspond solely to payments of principal and interest on the principal amount outstanding (SPPI).

The financial assets at fair value through other comprehensive income are initially accounted at fair value, including all expenses or income associated with the transactions and subsequently measured at fair value. The changes in fair value are accounted for against Fair value reserves.

a) Debt instruments

On the sale, or if impairment is determined, the accumulated gains or losses recognised in fair value reserves are recognised in the income statement under Net gains / (losses) arising from assets and liabilities at fair value through other comprehensive income or under Impairment losses from other financial assets, respectively. Interest income from debt instruments is recognised in Net interest income based on the effective interest rate, including a premium or discount when applicable.

b) Equity instruments

At the initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably choose to classify it as at fair value through other comprehensive income (FVOCI). This option is exercised on a case-by-case basis, instrument by instrument. This option is only available for financial instruments that comply with the definition of equity instruments provided for in IAS 32, and cannot be used for financial instruments whose classification as an equity instrument under the scope of the issuer is made under the exceptions provided for in paragraphs 16A and 16D of IAS 32.

In accordance with IFRS 9, no impairment is recognised in equity instruments recorded at fair value through other comprehensive income, being the corresponding accumulated gains or losses recognised in the fair value reserve transferred into Retained earnings when its sale occurs.

Dividends are recognised in the income statement when the right to receive the dividends is attributed.

2.4.3.2 Impairment losses

IFRS 9 introduced the calculation of expected impairment losses for all financial assets. Impairment losses identified are recorded in the income statement being subsequently reversed, if there is a reduction of the estimated impairment loss, in a subsequent period.

Inputs for the measurement of ECL

The inputs for the measurement of ECL of these assets are:

- Probability of Default – PD;
- Loss Given Default – LGD; and
- Exposure at Default – EAD.

These parameters are also obtained using market references. The PDs made available by a credit rating agency are used in the calculation of the ECL and their maturity is adjusted.

The EAD represents the accumulated balance of the financial asset (deposits or other debtors) or the sum of the nominal value of the security, the amount of accrued interest and the premium to be amortised (premium paid on the acquisition of the security less the amount already amortised), less the discount to be amortised (the total value of the discount obtained on the acquisition of the security less the amount already amortised).

Allocation to Stages
The inputs for the measurement of ECL of these assets are:
- Stage 1: assets that do not meet the criteria to be considered in Stages 2 and 3;
- Stage 2: assets which simultaneously meet 2 or more criteria indicative of deterioration in the quality of the asset;
- Stage 3: assets with a "D" rating (default) assigned by a rating agency.

BAIE does not have an internal rating scale, i.e., it does not have a scale of internal risk grades to apply to its assets in order to ascertain the deterioration of their quality. Evidence of deterioration of the quality of a financial asset, is considered to be the simultaneous occurrence of two or more conditions described below:
- Failure to pay coupons or capital repayments on the established dates (only for debt securities);
- A significant decrease (above 20% in the 12 months prior to the reference date) and continuous (negative variation in the quotation value considering as reference the dates of 12, 6 and 2 months prior to the reference date) of its quotation price;
- The absence of quotation evidence for the security, in the active market (in case of being a listed asset);
- Unfavourable market information.

2.4.4 Financial assets and liabilities at fair value through profit or loss
All financial assets that are not measured according to the criteria described above, at amortized cost or at fair value through other comprehensive income (FVOCI), are measured at fair value through profit or loss (FVTPL).

Additionally, at initial recognition, the Bank may irrevocably designate a financial asset, which otherwise meets the requirements to be measured at amortised cost or FVOCI, such as FVTPL, if the designation significantly eliminates the accounting mismatch that would otherwise exist (Fair Value Option).

a) Financial assets and liabilities held for trading

The financial assets and liabilities acquired or issued with the purpose of sale or re-acquisition on the short term, namely bonds, treasury bills or shares, or that are part of a financial instruments portfolio and for which there is evidence of a recent pattern of short-term profit taking, or that can be included in the definition of derivative (except in the case of a derivative classified as hedging) are classified as trading. The dividends associated to these portfolios are recorded in Gains arising from trading and hedging operations. The interest from debt instruments is recognised as Net interest income.

Trading derivatives with a positive fair value are included in the financial assets held for trading and the trading derivatives with negative fair value are included in the Financial liabilities held for trading.

In 2019 and 2018, the Bank had no financial assets and/or liabilities held for trading.

b) Financial assets, not held for trading, mandatorily at fair value through profit or loss

This category includes assets for which the main purpose of the business model is to hold the assets to collect their contractual cash flows and debt instruments that are mandatorily classified at fair value through profit or loss due to non-compliance with the SPPI criteria.

At inception, IFRS 9 allows that an entity makes an irrevocable designation (instrument by instrument) in order to present as comprehensive income the subsequent fair value changes from an equity instrument. This option only applies to instruments not held for trading.

c) Other financial assets and liabilities at fair value through profit and loss (Fair value Option)

The designation of other financial assets and liabilities at fair value through profit and loss (Fair Value Option) is performed whenever at least one of the following requirements is met:
- the financial assets and liabilities are managed, evaluated and reported internally at its fair value;
- the designation of those financial assets and liabilities eliminates or significantly reduces the accounting mismatch of the transactions; and
- the financial assets and liabilities include embedded derivatives that significantly change the cash flows of the original contracts (host contracts).

Considering that the transactions performed by the bank in the normal course of business are concluded at market prices, the financial assets and liabilities at fair value through profit or loss are initially accounted at their fair value, with the expenses or income related to the transactions being recognised in profit or loss at the initial moment and subsequent fair value changes under IFRS 9, according to the following:
- the amount related to the fair value change attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of the fair value change is presented in the income statement.

The accrual of interest and the premium / discount (when applicable) is recognised in Net Interest Income based on the effective interest rate of each transaction, as well as the accrual of interest on the derivatives associated to financial instruments classified in this category.

2.4.5 Other financial liabilities
This category includes all financial liabilities that are not recognised as financial liabilities at fair value through profit and loss, namely, deposits from central banks, from other financial institutions and from customers.

These financial liabilities are initially recognised at fair value, including accrual of any commissions included in the effective interest rate and also including all incremental expenses directly attributable to the transaction. Subsequently, these financial assets are measured at amortised cost using the effective interest rate method.

2.4.6 Derivative financial instruments
Derivative financial instruments are recognised on the trade date at fair value and subsequently at fair value. Fair value is obtained through market prices listed in active markets, including recent market transactions and valuation models, namely discounted cash flows models and option valuation models. Derivatives are considered assets when their fair value is positive and liabilities when their fair value is negative.

Certain embedded derivatives in other financial instruments, as debts instruments for which profitability is indexed to share prices or share indexes, are bifurcated and treated as separate derivatives, when its risk and economical features are not clearly related to the host contract, and the latter not measured at fair value with changes through profit or loss. These embedded derivatives are measured at fair value with subsequent changes recognised in the income statement.

Derivatives are also recorded in off-balance sheet accounts by at their theoretical value (notional value).

As at 31 December 2019 and 2018, BAIE does not own any derivative financial instruments.

2.4.7 Reclassifications between financial instruments categories
Reclassifications of financial assets can only occur when the entity changes its business model used in the management of financial assets, which it is expected to be very unusual. In this case, all financial assets affected must be reclassified. The reclassification must be applied prospectively from the date of reclassification, and any gains, losses (including gains or losses from impairment) or interest previously recognised should not be restated. IFRS 9 does not allow the reclassification of investments in equity instruments measured at fair value through OCI or when the fair value option was exercised for financial assets and liabilities.

Reclassifications of financial liabilities are not allowed.

2.5 Guarantees provided and irrevocable commitments
Liabilities with Guarantees provided and irrevocable commitments are recorded in off-balance sheet accounts at their value at risk. Interest, commissions and other income are recorded in the income statement over the useful life of the operations (Note 29).

2.6 Intangible assets (IAS 16)
The Bank´s other tangible assets are recorded at acquisition cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Rented buildings	10
Equipment	3 to 5
Other tangible assets	4 to 12

The acquisition cost includes expenses which are directly attributable to the acquisition of assets. Repairs and maintenance expenses are recognised as costs as they are incurred under the balance “General administrative expenses”.

According to IAS 16, these assets are subjected to impairment tests whenever there is an indication that its net book value exceeds its recoverable amount, being the difference, if exists, recognised in the income statement. The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use.

The accounting policy concerning the right-of-use is disclosed in Note 2.16 IFRS 16 - Leases.

The impairment losses of property and equipment are recognised in profit and loss for the period.

2.7 Intangible assets (IAS 38)
This balance includes the costs incurred with the acquisition, development and implementation of software to be used in the bank´s operating activity.

Intangible assets are booked at acquisition cost less accumulated amortisation and impairment losses. Depreciation is calculated on a straight-line basis over the expected useful life of the asset, usually three years.

Software maintenance costs are charged to the income statement when incurred.

The bank does not recognise internally developed intangible assets.

Impairment losses are recognised in the income statement.

2.8 Investments in associates (IAS 27 and IAS 28)
Associates are those entities, in which the Bank holds between 20% and 50% of the voting rights or has significant influence, but not control, over the financial and operating policy decisions of the investee. When the share of the losses in an associate exceeds the value of the investment in the associate, the Bank recognises additional losses if it has assumed commitments or made payments on behalf of the associate.

Investments in associates are recorded in the financial statements at its historical cost net of any impairment losses.

The recoverable amount of investments in associates is reviewed whenever there is evidence of impairment. Impairment losses are determined based on the difference between the recoverable value of investments and their book value. Impairment losses identified are recorded in the income statement being subsequently reversed, if there is a reduction of the estimated impairment loss, in a subsequent period.

In the second half of 2019, the Bank sold the investment in the associate over which it held 17% of the capital and voting rights and over which it has significant influence. This asset was recorded at cost (Note 13).

The investment is expressed in foreign currency being translated into the functional currency at the exchange rate in force at the respective acquisition date (Note 2.3).

Dividends received from associated companies are recorded under Income from equity instruments.

2.9 Income taxes (IAS 12)
BAIE is subject to the tax regime of the Corporate Income Tax Code (CITC) and Tax Benefits Code (TBC).

Income tax recognised in profit or loss comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in reserves in which case it is also recognised in reserves. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

According to Law no. 98/2019, of 4 September, which established the tax regime of credit impairment and provisions for guarantees for tax periods beginning on or after 1 January 2019, the Bank joined the definitive regime provided in Articles 2 and 3 of the Law under review, hence the new regime has already been considered in the estimation of current and deferred taxes.

Deferred taxes are calculated under the liability method based on the balance sheet date, in respect of temporary differences between the accounting values of assets and liabilities and its tax base, using the rates of tax approved or substantially approved at the balance sheet date. Tax credits and tax losses carried forward are also recorded as deferred tax assets.

In accordance with IAS 12, deferred tax liabilities are recognised for all taxable temporary differences, except for differences related to goodwill not deductible for tax purposes, differences resulting from the initial recognition of assets and liabilities that do not affect accounting and tax profit, differences that do not result from business combinations and differences related to investments in subsidiaries, which are not expected to be reversed. Under the same standard, deferred tax assets are recognised only to the extent when it is probable that future taxable profits will be available to absorb deductible temporary differences for taxation purposes or tax losses carried forward.

It should be noted that the taxable profit or tax loss calculated by the Bank may be subject to adjustments by the tax authorities within four years. In years in which there are deductions or use of tax credits, the period for the tax authorities to make adjustments depends on the exercise of such right, particularly five or twelve years, according to the year, in the case of tax losses.

At this date, in accordance with the Portuguese legislation, tax losses generated in periods beginning on or after 2014 may be carried forward for a period of 12 years and tax losses generated in 2017 for a period of 5 years after their occurrence, being available for deduction to the extent of 70% of the tax profits generated during the loss-making period.

Deferred taxes regarding temporary differences arising at the initial recognition of assets and liabilities related to transactions that do not affect the accounting result or the taxable profit are not recognised.

Deferred tax assets related to financial investments in associates are also not recognised since it is not probable that the difference will reverse in a predictable future.

The main situations that originate temporary differences on BAIE are related to provisions/temporary non-deductible impairments, financial assets at fair value through other comprehensive income and long term employee benefits.

Deferred taxes are calculated, using the tax rates enacted or substantively enacted at the balance sheet date and that are expected to be applied when the temporary difference is reversed.

2.10 Employee benefits (IAS 19)
Liabilities with employee benefits are recognised in accordance with IAS 19 – Employee benefits. The main employee benefits are retirement and survival pensions, post-employment health charges, other long term and short term benefits:

2.10.1 Retirement and survival pensions and post-employment health charges
In accordance with the Pension Plan attached to the subscription contract to the Fundo de Pensões da Ocidental - Sociedade Gestora de Fundos de Pensões, S.A., BAIE has responsibility for the obligation to its employees and their families arising from the Vertical Collective Labour Agreement for the Portuguese Banking Sector (VCLA) regarding old age monetary benefits or disability retirement, early retirement or survival.

These benefits currently consist of an increasing percentage of the employee's years of service in the bank, applied to salary. The plan is classified as a defined benefit plan.

With the publishing of Decree-Law 1-A/2011, of 3 January, under the Vertical Collective Labour Agreement (VCLA) for the banking sector, the active employees at 4 January 2011 were covered from that date, by the Social Security General Regime (SSGR) for old age retirement benefit and in cases of maternity, paternity and adoption, for which the Bank is no longer responsible. Considering the complementarity character of the VCLA rules, the bank continues to guarantee the difference between the amounts paid under the Social Security General Regime and those estimated under this Agreement.

BAIE determines, on an annual basis, the total amount of these obligations, through calculations performed by independent actuaries, using the "Projected Unit Credit" method and actuarial assumptions considered appropriate (Note 30). The amount of liabilities includes benefits with post-employment medical care (Serviços de Assistência Médico-social – SAMS), besides the benefits with retirement and survival pensions.

The actuarial assumptions consider estimated increases in pensions and salaries and are based in mortality tables used by other institutions operating in the Portuguese financial market. The discount rate used to update the liability is determined by reference to interest rates associated with high quality corporate bonds, in the currency in which the liabilities are settled, and with a similar maturity to the average date of termination of liabilities.

In terms of sensitivity analysis of changes in the discount rate and their impact on total past service liabilities, the methodology of using assumptions remained stable, with no changes in the method used.

Until 4 January 2011, the liabilities were exclusively financed by one pension fund, being the amount corresponding to the difference between the actual amount of liabilities and the fair value of the fund´s assets at the balance sheet date, if applicable, adjusted by the deferred actuarial gains and losses, either positive or negative, recognised under Other liabilities or Other assets, respectively. The value of the pension fund corresponds to the fair value of its assets at the balance sheet date. Concerning the application of the above mentioned decree-law 1-A/2011, the defined benefit plan for employees covered by the VCLA regarding old age retirement, become to be financed by the pension fund in the part regarding past service cost until 4 January 2011, and by the Social Security in the remaining part regarding past services cost after that date. Thus, from 2011 onwards, the current service cost and the annual increase of liabilities for past services have reduced as from the beginning of that year the bank has assumed an additional charge corresponding to a fee (Taxa Social Única – TSU) of 23.75% over all remuneration paid to employees covered by the VCLA.

Actuarial gains and losses are recognised in equity under the balance Retained Earnings and disclosed in Other Comprehensive Income Statement.

Accruals with past service responsibilities, namely those related to early retirement of employees, are recognised as expenses in the income statement in the period to which they occur.

In addition, Notice 12/2001 from Bank of Portugal requires full financing of pension liabilities for retired beneficiaries and a level of financing of 95% for past service liabilities with employees still working.

The costs with Bank employees include the following costs regarding liabilities with retirement pensions:

- current service cost (cost for the period);
- interest regarding all liabilities; and
- expected return of the pension fund.

2.10.2 Other long term benefits

Pursuant to clause no. 74 of the VCLA, the Bank has taken the responsibility of granting to its employees who are covered by this scheme and in active service, an end-of-career bonus corresponding to 1.5 times their effective monthly remuneration, on the date of their retirement due to disability or alleged disability.

The Bank determines, on an annual basis, the present value of past liabilities with seniority awards through evaluations performed by independent qualified actuaries using the "Projected Unit Credit" method. The actuarial assumptions used (demographic and financial) consider expectations, at the balance sheet date, for increases in salaries and a mortality table appropriate to the bank´s workforce. The discount rate is determined by reference to interest rates associated with low risk corporate bonds with a similar maturity to the date of termination of liabilities. These assumptions are equal to those used in the retirement pension's liability calculation.

For accounting purposes, the Bank registers the amount of the liabilities calculated as an expense (Note 19) against the income statement. Payments made to employee are deducted from the provision recorded.

The costs with bank employees include the following costs regarding seniority awards liabilities:
- Current service cost (cost for the period); and
- Interest expense.

2.10.3 Short-term benefits

Short-term benefits (remuneration and charges on remuneration) are recorded at their undiscounted amount under Staff costs (Note 26) in the period to which they relate in accordance with the accrual principle.

2.11 Provisions and contingent liabilities (IAS 37)

Provisions are recognised when (i) the Bank has a present obligation (legal or constructive), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation (iii) as a result of past events and (iv) a reliable estimate can be made of the amount of the obligation.

When the probability of an outflow of resources or the estimation on the amount of the obligation cannot be reliably estimated, it is categorised as a contingent liability which should only be subject to disclosure, unless the probability of occurrence is remote.

Provisions are reviewed at the end of each reporting date and adjusted to reflect the best estimate, being reversed against the income statement in proportion to the payments that are not likely.

Provisions cease to be recognised when they are used to settle the liabilities for which they were initially set up or reversed in cases where those liabilities are no longer observed.

2.12 Assets received as payment in exchange for credit recovery

Assets received as payment in exchange for credit recovery, namely real estate, equipment and other assets are classified in the balance as Other Assets and are recorded on initial recognition, at the lower of fair value net of selling costs and the book value of the related credit.

Subsequently, these assets are recorded by the lower of the initial amount and the corresponding present fair value net of selling costs, and are not depreciated. Unrealised gains or losses generated are recognised in the income statement. Regular assessments are performed, which give rise to impairment losses whenever the amount determined in those assessments is lower than the book value. Subsequent reversal of these unrealised losses is limited to the initial amount of the assets received as payment in exchange for credit recovery.

Potential gains on assets received as payment in exchange for credit recovery are not recognised in the balance sheet.

2.13 Recognition of revenue from services and commissions (IFRS 15)

IFRS 15 redefines revenue recognition principles and is applicable to all contracts with customers that are not contracts under other standards.

IFRS 15 establishes a five-step model (identifying the contract with a customer, identifying performance obligations in the contract, determining the transaction price, allocating the transaction price and recognising revenue) to depict the revenue arising from contracts with customers and requires the recognition of such revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for services rendered to the customer.

Revenue from services and commissions is recognised in accordance with the following criteria:

i) when obtained as services are rendered, they are recognised in the income statement in the period to which they relate;
ii) when they result from services rendered, they are recognised in the income statement when the service is completed; and
iii) when they form an integral part of the effective interest rate of a financial instrument, the income resulting from services and commissions is recorded in Net interest income.

Many of the Bank's sources of revenue (for example, interest income, gains and losses on financial instruments) are outside the scope of IFRS 15, and therefore the recognition of these flows has not changed with the adoption of IFRS 15. The revenue of the Bank generated under IFRS 15 refer to income from services and commissions disclosed in Note 22.

2.14 Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the trade date, including cash and deposits with banks.

2.15 IFRS 9 Adoption – Financial Instruments
This standard is included in the project for the upgrade of IAS 39 and establishes the new requirements regarding the classification and measurement of financial assets and liabilities, the methodology for calculating impairment and the application of hedge accounting rules.

IFRS 9 - Financial Instruments was approved by the EU in November 2016 and entered into force for periods beginning on or after 1 January 2018. IFRS 9 replaces IAS 39 - Financial Instruments: Recognition and Measurement and establishes new rules for the accounting of financial instruments presenting significant changes mainly in relation to impairment requirements. For this reason, it is a standard that has been subject to a detailed and complex implementation process that has involved all key stakeholders, in order to understand the impacts and changes in processes, governance and business strategy that it may imply.

The requirements presented by IFRS 9 are generally applied retrospectively by adjusting the opening balance sheet at the date of the initial application.

Financial Instruments
In July 2014, IASB released the final version of IFRS 9 – Financial Instruments. IFRS 9 entered into force for periods beginning on or after 1 January 2018, with early adoption allowed, and replaces IAS 39 - Financial Instruments: Recognition and Measurement.

In October 2017, the IASB issued the document “Prepayment features with negative compensation” (amendments to IFRS 9). These amendments are applicable for periods beginning on or after 1 January 2019 and early adoption is allowed.

The Bank applied IFRS 9, as issued in July 2014 and early adopted the changes made to IFRS 9 in the period beginning on 1 January 2018. The impact (before taxes) of the adoption of IFRS 9 in the equity of the Bank, as at 1 January 2018, is negative by approximately Euro 504 thousand.

Evaluation of the business model
As at 1 January 2018, BAIE performed an evaluation of the business models under which the financial instruments are held, at the portfolio level, as this approach reflects the best way in which assets are managed and how the information is made available to the management bodies. The information considered in this evaluation included:

- the policies and objectives established for the portfolio and the practical use of these policies, including how the management strategy focuses on receiving contractual interest, maintaining a certain interest rate profile, adjusting the duration of financial assets to the duration of liabilities that finance these assets or in the realisation of cash flows through the sale of assets;
- how the portfolio performance is assessed and reported to BAIE management bodies;
- the assessment of the risks that affect the performance of the business model (and the financial assets held under this business model) and how these risks are managed;

- the remuneration of business managers – e.g. to what extent the compensation depends on the fair value of the assets under management or contractual cash flows received; and
- the frequency and amount of sales in previous periods, the reasons for such sales and the expectations about future sales. However, sales information shall not be considered individually, but as part of an overall assessment of how the BAIE sets financial asset management objectives and how cash flows are obtained.

Financial assets held for trading and financial assets managed and valued at Fair Value Option are measured at FVTPL since they are not held either for the collection of contractual cash flows (HTC) nor for the collection of cash flows and sale of these financial assets (HTC and Sell).

<u>Assess whether the contractual cash flows correspond solely to payment of principal and interest (SPPI)</u>
For the purposes of this assessment, "principal" is defined as the fair value of the financial asset at its initial recognition. "Interest" is defined as the consideration for the time value of money, the credit risk associated to the amount overdue through a certain period of time and for other risks and costs associated with the activity (i.e. liquidity risk and administrative costs), as well as a profit margin.

In the evaluation of financial instruments where contractual cash flows refer solely to the payment of principal and interest, BAIE considered the instrument's original contractual terms. This assessment included the analysis of potential situations where the contractual terms could change the periodicity and the amount of cash flows so they would not satisfy the SPPI condition. In the assessment process, BAIE considered:
- contingent events that may change the periodicity and amount of cash flows;
- characteristics that result in leverage;
- prepayment and extension of maturity clauses;
- clauses which may limit BAIE's right to claim cash flows relating to specific assets (e.g. contracts with clauses preventing access to assets in default cases – “non-recourse asset”); and
- characteristics that may change the time value of monetary compensation.

A contract with prepayment option is consistent with the SPPI criteria, if the prepayment amount represents the unpaid principal and interest amounts over the amount of principal (accrual), which may also include reasonable compensation for the anticipated payment (i.e. administrative expenses or servicing fee incurred by early termination of the contract).

Additionally, a prepayment is consistent with the SPPI criteria, if i) the financial asset is acquired or originated with a premium or discount relating to the contractual nominal value, ii) the prepayment represents substantially the nominal amount of the contract plus accrued but unpaid contractual interest (it may include reasonable compensation for prepayment), and iii) the fair value of the prepayment is insignificant at the initial recognition.

<u>Impact assessment</u>
The standard had an impact on the classification and measurement of financial assets held on 1 January 2018 as follows:

- Loans and advances to customers and Other loans and advances to credit institutions measured at amortised cost under IAS 39 were measured at amortised cost under IFRS 9;
- Investments in securities held to maturity, measured at amortised cost under IAS 39 are, generally, measured at amortised cost under IFRS 9;
- Investments in debt securities that were classified as held for sale under IAS 39, in accordance with IFRS 9 were measured at amortised cost, FVOCI or FVTPL, depending on certain circumstances;
- Equity instruments that were classified as held for sale under IAS 39 are measured at FVTPL under IFRS 9. BAIE chose not to irrevocably designate any equity instrument as FVOCI on transition.

Based on this analysis and the strategy defined there were no material changes in the measurement criteria associated with the Bank's financial assets (financial assets measured at amortised cost versus financial assets measured at fair value) with impact on the transition to IFRS 9.

Most of the available-for-sale financial assets were reclassified to the portfolio of financial assets at fair value through other comprehensive income (FVOCI) (Euro 205,066,730). Financial assets that did not pass the SPPI (Solely Payments of Principal and Interest) tests were reclassified to the category of financial assets mandatorily recorded at fair value through profit or loss (FVTPL) (Euro 1,481,009).

Regarding held-to-maturity investments, since almost all of them maintained the same approach within the business model, they were reclassified to the portfolio of other financial assets at amortised cost (Euro 25,786,189), with the exception of one subordinated bond that does not comply with the SPPI criteria and, for this reason, was reclassified to financial assets mandatorily recorded at fair value (FVTPL) (Euro 152,948).

ASSETS	IAS 39	FVOCI		FVTPL		Amortised cost		IFRS 9
	31-Dec-17	Reclassification	Remeasurement	Reclassification	Remeasurement	Reclassification	Remeasurement	01-Jan-18
Financial assets mandatorily measured at fair value through profit or loss	-	-	-	1 669 043	(35 086)	-	-	1 633 957
Financial assets available for sale	206 547 739	(206 547 739)	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	205 066 730	-	-	-	-	-	205 066 730
Other financial assets at amortised cost	-	-	-	-	-	25 786 189	-	25 786 189
Held-to-maturity investments	25 939 137	-	-	-	-	(25 939 137)	-	-
	232 486 876	**(1 481 009)**	-	**1 669 043**	**(35 086)**	**(152 948)**	-	**232 486 876**

The impacts recognised in equity as at 1 January 2018 present the following nature:

ASSETS	Impact on the transition to IFRS 9		
	Retained earnings	**Fair value reserve**	**Equity**
Reclassification of gains from equity instruments	(98 284)	98 284	-
Assets at FVTPL - Remeasurement	(35 086)	-	(35 086)
Impairment			-
Loans and advances to credit institutions	(4 561)	-	(4 561)
Securities	(24 966)	24 966	-
Commercial paper	(11 652)	-	(11 652)
Other loans and advances to credit institutions	(218 653)	-	(218 653)
Other debtors	(1 615)	-	(1 615)
Loans and advances to customers	(419 076)	-	(419 076)
Provisions for off-balance sheet items	186 777	-	186 777
Tax impact	141 658	(22 762)	118 896
	(485 459)	**100 488**	**(384 971)**

The estimated tax impact of Euro 118,896 was calculated using the tax rules currently in force, given that the tax authorities have not yet ruled on any specific tax frameworks for the impact on the transition, as mentioned in Note 2.2.

The Bank of Portugal issued guidelines on the transition requirements in the context of the implementation of IFRS 9. These guidelines allowed a choice between two approaches for recognising the impact on regulatory capital of the adoption of the standard (own funds):

i) Transition period of the total impact over a period of 5 years, based on the following percentages for some components: 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021 and 75% in 2022;
ii) Recognition of the full impact on the date of adoption.

The Bank decided to adopt the second approach, therefore, the impact of the adoption of IFRS 9 on the Bank's regulatory capital was fully recognised at the date of adoption of IFRS 9.

The Bank benefited from the exception which allows that comparative information of previous years may not be restated if related to modifications in classification and measurement (including impairment). Differences in financial assets and liabilities recorded in the balance sheet as a result from the application of IFRS 9 where recognised in Reserves and Retained Earnings as of 1 January 2018.

The assessment of the adoption was made on the basis of the facts and circumstances existing at the time of initial application, namely:
a) the determination of the business model in which the financial asset is held;
b) the designation and revocation of prior designations of certain financial assets and liabilities at FVTPL;
c) the designation of certain equity instruments that are not held for trading as FVOCI.

2.16 IFRS 16 - Leases
As described in Note 2.1, the Bank adopted IFRS 16 - Leases on 1 January 2019, replacing IAS 17 - Leases, which was in force until 31 December 2018. Its implementation had no material impact on the Bank's Financial Statements.

The standard introduced a single lease accounting model in the Balance Sheet. Accordingly, the Bank, as a lessee, is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accounting as a lessor remains unchanged due to the accounting policies already in place, and the Bank did not carry out leasing operations as a lessor in 2019 and 2018.

The Bank has adopted IFRS 16 using the Modified Retrospective approach, which has no impact on its own funds (regulatory capital), since - with the exception of prior or accrued lease payments related to that lease recognised in the Statement of Financial Position immediately before the initial application date - there are no differences between the right to use the asset and the lease liability at the time of initial recognition (1 January 2019). Therefore, the comparative information presented for 2018 was not restated - i.e., it is presented as previously reported, in accordance with IAS 17 and related interpretations. Details of changes in accounting policies are disclosed in the following paragraphs.

A. Lease definition
The new lease definition entails a focus on control of the identified asset, i.e., a contract is, or contains a lease, if it gives the right to control the use of an identified asset (underlying asset) for a certain period of time in exchange of consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use.

B. Lessee accounting
From the lessee's perspective, the Bank previously classified leases as operating or finance leases based on an overall assessment of whether the lease transfers substantially all the risks and rewards of ownership of the underlying assets. Currently, in accordance with IFRS 16, the Bank recognises right-of-use assets and lease liabilities for some classes of assets - i.e. these leases are recognised in the Bank's balance sheet.

The Bank recognises a right-of-use asset and a lease liability at the inception of the lease.

Right-of-use assets
The right-of-use asset is initially measured at cost and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurements of lease liabilities.

The Bank records right-of-use assets under Other tangible assets, i.e. on the same item line as the underlying property assets of the same nature.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined, at the Bank's incremental borrowing rate. The Bank generally uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and reduced by the lease payments made. It is remeasured (remeasurements are treated as adjustments to the right-of-use assets) to reflect changes in future lease payments resulting from a change in an index or rate, in the amounts expected to be payable under residual value guarantees, or, if appropriate, in the assessment of whether a call or put option is reasonably certain to be exercised or an exit option is reasonably certain not to be exercised.

The Bank records lease liabilities under Other liabilities in the statement of financial position.

Judgement used in determining the lease term

The Bank has used judgment to determine the lease term of some contracts in which it is the lessee, which include put and exit options. The Bank determines the lease term as the non-cancellable period during which it has the right to use an underlying asset together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The assessment of whether the Bank will exercise such options will have an impact on the lease term, which will significantly affect the amount of the lease liabilities and the right-of-use assets recognised.

The Bank has the option to lease the assets for additional periods, particularly in property rental contracts. The Bank uses judgement in assessing whether it is reasonably certain to exercise the put option, i.e., it considers all relevant factors that create an economic incentive to exercise it or not.

Previously, the Bank classified property leases as operating leases in accordance with IAS 17. Some leases include options to extend the lease for additional periods after the end of the non-cancellable period. Some leases also provide for additional rent payments due to changes in the consumer price index.

In the transition to leases classified as operating leases in accordance with IAS 17, the lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equivalent to the lease liability, adjusted for the amount of any anticipated or accumulated lease payments - the Bank has adopted this approach for all other leases.

C. Lessor accounting

In accordance with IFRS 16, lessors will continue to classify leases as finance or operating and will not involve significant changes from those defined in IAS 17.

D. Impact on Financial Statements

The adoption of the standard requires changes in the Bank's financial statements, namely:

- in the income statement:

i) interest expense related to leasing liabilities is recorded under Net interest income;
ii) the amounts related to short-term leasing contracts and leasing contracts of low value assets (currently the Bank does not have this type of contracts) are recorded under Other administrative expenses;
iii) depreciation cost of right-of-use assets is recorded under Amortisation.

- in the balance sheet:

i) the right-of-use assets are recorded under Other tangible assets;
ii) the value of the recognised lease liabilities is recorded under Other liabilities

- in the cash flow statement, cash flows from financing activities – cash payments to employees and suppliers includes amounts relating to short-term leasing contracts and leasing contracts of low value assets and the caption (Increase)/decrease in other liabilities includes amounts relating to payments of principal of lease liabilities.

i) Transitional impacts

In the transition to IFRS 16, the Bank recognised right-of-use assets and lease liabilities. The impact on the transition is detailed as follows:

in Euro	1 January 2019
Right-of-use assets (presented under Other tangible assets – right-of-use assets)	
Real Estate	2 337 437
Vehicles	68 583
Total Right-of-use assets	**2 406 020**
Lease liabilities (presented under Other liabilities)	
Real Estate	2 313 412
Vehicles	68 583
Total Lease liabilities	**2 381 995**

At transition date, the average incremental borrowing rates applied to lease liabilities recognised in the statement of financial position were as follows:

	Real Estate	**Vehicle**
Average incremental borrowing rate	2.78%	3.85%

When measuring lease liabilities, the Bank discounted lease payments using its incremental financing rate as at 1 January 2019.

ii) Impacts for the period

As a result of the application of IFRS 16, regarding leases that were previously classified as operating leases and new leases accounted for in 2019, the Bank recognised at 31 December 2019, right-of-use assets (net of depreciation) and lease liabilities of Euro 2,327,703 and Euro 2,341,428, respectively.

During the period ended 31 December 2019, the Bank recognised depreciation charges on right-of-use of Euro 351,188 (Note 11) and interest charges associated with lease liabilities of Euro 68,788 (Note 21).

2.17 Subsequent Events

The Bank analyses events occurring after the balance sheet date, i.e., favourable and/or unfavourable events occurring between the balance sheet date and the date on which the financial statements were authorised for issue. Within this context, two types of events can be identified:

i) Those that provide evidence of conditions existing at the balance sheet date (adjusting events after the balance sheet date); and
ii) Those that provide information on conditions arising after the balance sheet date (non-adjusting events after the balance sheet date).

Events occurring after the date of the financial statements that are not considered adjustable events, if significant, are disclosed in the notes to the financial statements (Note 36).

3. Cash and deposits at central banks

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Cash	97 539	148 928
Deposits repayable on demand at Bank of Portugal	151 881 452	33 161 858
	151 978 991	**33 310 786**

The balance Deposits repayable on demand at Bank of Portugal corresponds to mandatory deposits required to comply with the Minimum Reserve System of the European System of Central Banks (SBCE), which at 31 December 2019 amount to Euro 7,487,100 (31 December 2018: Euro 10,717,100).

These deposits are remunerated at the reference interest rate defined by the European Central Bank (ECB) for the main refinancing operations of the Euro system (MRO) up to the amount required to meet the requirements of the Minimum Reserve System. The balance of deposits recorded exceeding the Minimum Reserve System requirements is remunerated at the reference interest rate defined by ECB for the deposit facility (DF).

After this date, with the introduction of a two-tier remuneration system (tiering), excess reserves are now exempt from remuneration (exempt tier) up to the amount that results from the product between the balance required to comply with the Minimum Reserves System and a multiplier.

As at 31 December 2019, the multiplier set by the ECB is 6. Since 18 September 2019, the reference interest rate for the MRO and DF was 0.00% and -0.50%, respectively.

4. Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Loans and advances to credit institutions in Portugal		
Deposits repayable on demand	8 151 905	47 658 300
Loans and advances to foreign credit institutions		
Deposits repayable on demand	16 427 452	43 085 683
Impairment losses (Notes 18 and 32)	(10 588)	(2 438)
	24 568 769	**90 741 545**

5. Financial assets not held for trading mandatorily measured at fair value through profit or loss

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Equity instruments		
Issued by national private entities	84 097	128 236
Issued by foreign private entities	131 277	408 821
Debt instruments		
Issued by foreign private entities	276 439	160 190
Others – investment funds		
Issued by national private entities	-	757 186
Issued by foreign private entities	168 489	112 187
	660 302	**1 566 620**

As mentioned in Note 2.4.4, as from 1 January 2018, through the adoption of IFRS 9, financial assets that are not measured at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

Income relating to dividends from financial assets mandatorily measured at fair value through profit or loss has been recorded under Net gains/ (losses) arising from financial assets mandatorily measured at fair value through profit or loss (Note 24).

The item Others - investment funds – Issued by foreign private issuers relates to investment in a private equity investment fund (Note 33).

As at 31 December 2018, the item Others - investment funds – Issued by national private entities refers to participation units of the Unicampus Fund, which was redeemed on 5 July 2019.

6. Other financial assets and liabilities at fair value through profit or loss

This balance is analysed as follows:

	31-Dec-19		31-Dec-18	
	Assets	Liabilities	Assets	Liabilities
Other financial assets at fair value through profit or loss				
Investment funds				
Non-resident	336 977	-	224 373	-
Other financial liabilities at fair value through profit or loss				
Structured financial resources	-	(336 977)	-	(224 373)
	336 977	**(336 977)**	**224 373**	**(224 373)**

The financial resource presented under the balance Other financial liabilities at fair value through profit or loss is relates to and pledges in full the underlying asset (units in a non-resident investment fund).

The gain and loss in 2019 related to financial assets and liabilities at fair value through profit or loss, resulting from the distributions from the Fund, of Euro 108,679 and Euro - 108,679, respectively.

7. Financial assets at fair value through other comprehensive income (FVOCI)

Financial assets at fair value through other comprehensive income are analysed as follows:

	31-Dec-19	31-Dec-18
Financial assets at fair value through other comprehensive income		
Debt instruments		
Issued by national public entities	6 694 369	10 320 484
Issued by national private entities	5 316 561	602 212
Issued by foreign public entities	91 391 588	225 514 377
Issued by foreign private entities	33 592 879	34 723 982
Interest receivable	255 379	423 087
	137 250 776	**271 584 142**

As at 31 December 2019, part of debt instruments consisting of Portuguese public debt, are included in the pool of assets eligible for Euro system monetary policy operations, using contingent liquidity facilities or intraday credit granting (Notes 29 and 32).

A minor part of these securities are pledged in favour of the Deposit Guarantee Fund (FGD) for the purpose of replacing part of the payment obligation of the annual contribution to the FGD through an irrevocable commitment (Notes 29 and 32). As at 31 December 2019 and 2018, the value of these securities amounts to Euro 21,772.

Income relating to dividends from financial assets at fair value through other comprehensive income, as well as realised gains/losses on transactions are recorded under Income from financial assets at fair value through other comprehensive income (Note 23). In 2019 and 2018, the Bank did not receive dividends from assets at fair value through other comprehensive income.

As at 31 December 2019 and 2018, the Bank has no equity instruments accounted for under Financial assets at fair value through other comprehensive income.

Impairment related to financial assets at fair value through other comprehensive income is recognised in equity, similarly to what happens with the fair value reserve of those assets (Note 20).

8. Financial assets at amortised cost – Loans and advances to credit institutions

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Loans and advances to credit institutions in Portugal		
Very-short loans and advances	-	34 934 498
Deposits	96 136 728	231 441 048
Subordinated loans and advances	3 270 465	3 220 087
Interest receivable	165 263	388 419
Loans and advances to foreign credit institutions		
Very-short loans and advances	8 901 549	56 768 559
Deposits	220 758 412	262 882 096
Loans and advances	39 166 815	15 283 843
Other loans and advances – financial discounts from letters of credit	22 139 002	31 143 754
Interest receivable	330 873	540 947
Deferred income commissions	(218 554)	(58 121)
Total gross amount	**390 650 553**	**636 545 130**
Impairment (Notes 18 and 32)	(210 746)	(215 419)
Total net of impairment	**390 439 807**	**636 329 711**

The amount corresponding to Subordinated loans and advances is a set of collateral deposits (Note 29), which refers to the indirect representation of another institution in the SEPA credit transfer payments and SEPA direct debit systems, both STEP2.

The Loans and advances amount relates to financing granted to a South African bank.

Very short-term loans and advances have a maximum maturity of 2 business days.

Changes in impairment during 2019 and 2018 are disclosed in Note 18.

9. Financial assets at amortised cost – Loans and advances to customers

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Loans not represented by securities		
Domestic loans		
Loans and advances	58 795 377	46 494 136
Current account loans	875 659	-
Foreign loans		
Loans and advances	22 261 120	29 227 612
Current account loans	222 539	-
Overdrafts on deposits repayable on demand	-	396 266
Interest receivable	438 781	586 102
Prepaid interest	-	(52 347)
Commissions associated with amortised cost	(717 419)	(347 638)
Total gross amount	**81 876 057**	**76 304 131**
Impairment for loans and advances to customers (Notes 18 and 32)	(2 712 758)	(1 880 026)
Total net of impairment	**79 163 299**	**74 424 105**

Changes in impairment for loans and advances to customers during 2019 and 2018 are disclosed in Note 18.

As at 31 December 2019 and 2018, the analysis of this balance by business sector:

	31-Dec-19		31-Dec-18	
Financial activities and insurance	17 912 424	21.8%	8 039 844	10.6%
Construction	13 866 703	16.9%	9 676 544	12.7%
Other business services	13 764 869	16.8%	11 135 371	14.6%
Real estate activities	13 184 482	16.0%	9 665 645	12.7%
Public administration (regional and local)	9 802 836	11.9%	17 567 796	23.1%
Trade and repair	5 646 268	6.9%	13 179 139	17.3%
Other activities and retail	3 685 897	4.5%	5 415 449	7.1%
Accommodation, restaurants and similar activities	1 966 667	2.4%	-	-
Transportation and storage	1 654 079	2.0%	-	-
Food, beverage and tobacco industries	670 470	0.7%	633 609	0.7%
Metal industries	-	-	804 617	1.1%
	82 154 695	**100.0%**	**76 118 014**	**100.0%**

Note: includes overdue credit and interest, except for interest receivable, monthly commissions and prepaid interest.

Other business services amount refers to corporate headquarters' and management consulting activities.

10. Other financial assets at amortised cost

Other financial assets at amortised cost are analysed as follows:

	31-Dec-19	31-Dec-18
Securities issued by residents		
Debt instruments		
Issued by other national public entities	7 299 999	-
Other residents	24 247 832	33 249 728
Interest receivable	9 578	4 148
Prepaid interest	1 794	46
Total gross amount	**31 559 203**	**33 253 922**
Impairment (Notes 18 and 32)	(42 321)	(15 043)
Total net of impairment	**31 516 882**	**33 238 879**

As at 31 December 2019 and 2018, this caption includes investments in commercial paper issues to which the Bank subscribed in the primary market.

11. Other tangible assets and right-of-use assets

The changes in these balances during 2019 were as follows:

	31-Dec-18						31-Dec-19		
	Gross amount	Accumulated depreciation and impairment	Net amount	IFRS 16 Transition Adjustment	Acquisitions	Depreciation for the period	Gross amount	Accumulated depreciation and impairment	Net amount
Properties for own use									
Leasehold improvements	825 565	(41 039)	784 526	-	1 270	(82 683)	826 835	(123 722)	703 113
Equipment									
Furniture and material	162 797	(18 137)	144 660	-	11 113	(19 945)	173 910	(38 082)	135 828
Machinery and tools	4 395	(1 667)	2 728	-		(616)	4 395	(2 283)	2 112
IT equipment	538 181	(333 463)	204 718	-	111 646	(104 578)	649 827	(438 042)	211 785
Interior installations	19 860	(10 417)	9 443	-		(990)	19 860	(11 407)	8 453
Security equipment	10 588	(1 385)	9 203	-		(3 018)	10 588	(4 403)	6 185
Other equipment	698	(698)	-	-	10 995	-	11 693	(698)	10 995
Right-of-use assets									
Real Estate	-	-	-	2 337 437	22 342	(272 798)	2 359 779	(272 798)	2 086 981
Vehicles	-	-	-	68 583	250 459	(78 320)	319 042	(78 320)	240 722
Tangibles assets under construction	-	-	-		-	-	-	-	-
	1 562 084	**(406 806)**	**1 155 278**	**2 406 020**	**407 825**	**(562 948)**	**4 375 929**	**(969 755)**	**3 406 174**

Right-of-use assets concern essentially real estate (the Bank's head office in Lisbon and a representative office in Oporto) and a residual number of vehicles and are depreciated in accordance with the lease term of each contract, as described in accounting policy 2.16.

The acquisition of Right-of-use assets – real estate, of Euro 22,342, refers to the remeasurement of the lease liability due to a change in future lease payments resulting from the legal updating of the lease terms.

The changes in these balances during 2018 were as follows:

	31-Dec-17					Disposals			31-Dec-18		
	Gross amount	Accumulated depreciation and impairment	Net amount	Acquisitions	Depreciation for the period	Gross amount	Accumulated depreciation and impairment	Net amount	Gross amount	Accumulated depreciation and impairment	Net amount
Properties for own use											
Leasehold improvement	212 836	(187 455)	25 381	825 565	(43 107)	212 836	(189 523)	23 313	825 565	(41 039)	784 526
Equipment											
Furniture and material	205 547	(189 138)	16 409	153 964	(11 275)	196 715	(182 277)	14 438	162 797	(18 137)	144 660
Machinery and tools	24 508	(23 420)	1 088	2 077	(302)	22 206	(22 072)	134	4 395	(1 667)	2 728
IT equipment	732 925	(697 402)	35 523	231 361	(61 274)	426 104	(425 212)	892	538 181	(333 463)	204 718
Interior installations	211 531	(202 592)	8 939	9 906	(1 511)	201 577	(193 686)	7 891	19 860	(10 417)	9 443
Security equipment	90 332	(88 480)	1 852	10 588	(1 869)	90 333	(88 963)	1 370	10 588	(1 385)	9 203
Other equipment	5 209	(5 209)	-	16	(16)	4 511	(4 511)	-	698	(698)	-
Tangible assets under construction	-	-	-	-	-	-	-	-	-	-	-
	1 482 888	**(1 393 696)**	**89 192**	**1 233 477**	**(119 354)**	**1 154 281**	**(1 106 244)**	**48 038**	**1 562 084**	**(406 806)**	**1 155 278**

During 2018, the Bank sold assets generating a loss of Euro 44,987.

12. Intangible assets

The changes in these balances during 2019 were as follows:

	31-Dec-18					31-Dec-19		
	Gross amount	Accumulated amortisation and impairment	Net amount	Acquisitions	Amortisation for the period	Gross amount	Accumulated amortisation and impairment	Net amount
Automated data-processing system (software)	628 168	(269 616)	358 552	-	(185 087)	628 168	(454 703)	173 465
Intangible assets in progress	-	-	-	-	-	-	-	-
	628 168	**(269 616)**	**358 552**	**-**	**(185 087)**	**628 168**	**(454 703)**	**173 465**

The changes in these balances during 2018 were as follows:

	31-Dec-17						Sales			31-Dec-18		
	Gross amount	Accumulated amortisation and impairment	Net amount	Acquisitions	Amortisation for the period	Transfers (net amount)	Gross amount	Accumulated amortisation and impairment	Net amount	Gross amount	Accumulated amortisation and impairment	Net amount
Automated data-processing system (software)	947 969	(823 623)	124 346	57 561	(168 993)	345 638	723 000	(723 000)	-	628 168	(269 616)	358 552
Intangible assets in progress	345 638	-	345 638	-	-	(345 638)			-	-	-	-
	1 293 607	**(823 623)**	**469 984**	**57 561**	**(168 993)**	**-**	**723 000**	**(723 000)**	**-**	**628 168**	**(269 616)**	**358 552**

13. Investments in subsidiaries and associates

As at 31 December 2019, the Bank does not hold any investments in subsidiaries or associates.

On 13 August 2019, the Bank sold its investment in the associated company Founton, Ltd of Euro 1,157,000, for a profit of Euro 208,531 (Note 25).

As at 31 December 2018, the value of this financial investment in the associated company Founton, Ltd, is detailed as follows:

Effective participation (%)	BAIE Book value (a)	Acquisition cost in USD	Impact of the application of the Equity Method (b) (c)	
			In revaluation reserves	In revaluation reserves
17.0%	948 469	834 937	3 172 371	47 641

(a) The EUR / USD exchange rate is 0.8803 for the historical fixing rate at the date of acquisition in November 2001.

(b) The EUR / USD exchange rate used is 1.1450 which corresponds to the fixing rate as at 31 December 2018.

(c) Amounts calculated based on the unaudited financial statements of the shareholding as at 31 December 2017.

An estimate of the fair value of the shareholding, performed by the Bank's Board of Directors, as at 31 December 2018 using the Company's financial information and the expected discounted cash flow model, concluded that the fair value was greater than the book value and therefore there was no evidence of impairment of the investment recognised in the balance sheet.

The equity method was not applied in the measurement of the financial investment because all the conditions necessary for its exemption were met, as provided in paragraph 17 of IAS 28 (2011 amended version), namely:

a) The entity is a wholly or partly owned subsidiary of another entity and its other owners, including those who would not otherwise have the right to vote, were informed that the entity does not apply the equity method and did not object to such situation;
b) The entity's debt or equity instruments are not traded on a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
c) The entity has not filled or is in the process of filling its financial statements with a securities commission or other regulatory body for the purpose of issuing any class of instruments in a public market;
d) The ultimate or any intermediate parent of the entity prepares consolidated financial statements available for public use that comply with IFRS.

During 2018, the Bank received dividends from Founton, Ltd of Euro 28,333.

As at 31 December 2018, the balances outstanding in the Bank's financial statements with the investee are disclosed in Note 31.

14. Taxes

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Current tax assets		
Income tax receivable (IRC)	846 679	-
Deferred tax assets		
Arising from temporary differences		
In assets	-	21 625
In liabilities	692 779	746 398
	1 539 458	**768 023**
Current tax liabilities		
Income tax payable	(8)	(318 850)
Deferred tax liabilities		
Arising from temporary differences		
In assets	(29 301)	-
	(29 309)	**(318 850)**

During 2019, the changes in deferred taxes were as follows:

	31-Dec-18 Opening balance	Reserves	Income Statement (Note 28)	31-Dec-19 Closing balance
Deferred tax assets				
Financial assets at fair value through other comprehensive income (Note 20)	21 625	(21 625)	-	-
Financial assets mandatorily measured at fair value through profit or loss (Note 20)	37 692	-	56 902	94 594
Impairments (Note 18)	637 483	-	(154 818)	482 665
Provisions for other risks (Note 18)	27 675	-	36 011	63 686
End-of-career bonus (VCLA)	8 803	-	(782)	8 021
Pension funds and post-employment benefits	34 745	-	9 068	43 812
	768 023	**(21 625)**	**(53 619)**	**692 779**
Deferred tax liabilities				
Financial assets at fair value through other comprehensive income (Note 20)	-	(29 301)	-	(29 301)
	-	**(29 301)**	**-**	**(29 301)**
	768 023	**(50 926)**	**(53 619)**	**663 478**

During 2018, the changes in deferred taxes were as follows:

	31-Dec-17 Opening balance	Impact of transition to IFRS 9	Reserves	Income Statement (Note 28)	31-Dec-18 Closing balance
Deferred tax assets					
Financial assets at fair value through other comprehensive income (Note 20)	-	-	21 625	-	21 625
Financial assets mandatorily measured at fair value through profit or loss (Note 20)	-	22 114	-	15 578	37 692
Impairments (Note 18)	866 755	111 093	-	(340 365)	637 483
Provisions for other risks	397 717	-	-	(370 042)	27 675
End-of-career bonus (VCLA)	8 706	-	-	97	8 803
Pension funds and post-employment benefits	36 985	-	(4)	(2 236)	34 745
	1 310 163	**133 207**	**21 621**	**(696 968)**	**768 023**
Deferred tax liabilities					
Financial assets at fair value through other comprehensive income (Note 20)	-	(33 093)	33 093	-	-
Available-for-sale financial assets	(10 331)	10 331	-	-	-
	(10 331)	**(22 762)**	**33 093**	**-**	**-**
	1 299 832	**110 445**	**54 714**	**(696 968)**	**768 023**

The expected recovery periods for deferred tax assets and liabilities are as follows:

	31-Dec-19	31-Dec-18
Deferred tax assets		
For more than 12 months	629 779	768 023
Deferred tax liabilities		
For more than 12 months	(29 301)	-
	663 478	**768 023**

15. Other assets

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Debtors and other investments		
Other investments		
FGCT Contributions	5 699	3 896
Government sector		
Value added taxes (VAT) receivable	326 471	688 122
Others (a)	425 000	425 000
Other sundry debtors	857 241	2 199
Other income receivable		
Documentary credits	44 891	108 340
Insurance	38 108	37 740
Other administrative costs	225 399	172 686
Pension liabilities and other benefits (Notes 2.10.1 and 30)		
Retirement pensions		
Past service liabilities	-	-
Pension fund assets	-	-
Post-employment benefits	-	-
Total gross amount	**1 922 809**	**1 437 983**
Impairment (Note 18)	(192 648)	(86 235)
Total net of impairment	**1 730 161**	**1 351 749**

(a) Government sector - Others relates mainly to an amount receivable from the Tax Authorities resulting from an auctioning procedure for the acquisition of a property purchased from a customer as a payment for a credit transaction following a tax dispute regarding the settlement of Municipal Property Tax (IMI) concerning the same property. The balance of Euro 425,000 corresponds to the property's acquisition value net of IMI payable and its default interest and estimated fines. Impairment of Euro 85,000, mainly relates to an estimate of the eventual loss on realisation of this asset.

(b) Other sundry debtors includes an amount receivable of Euro 857,118, which is an advance payment made within an ongoing legal dispute. Impairment of Euro 105,000, relates to an estimate of final loss on realisation of this asset.

As at 31 December 2019 and 2018, the equity value of the pension fund is lower than the Bank's liability for past services by Euro 157,974 and Euro 46,721, respectively, which is recognised in the balance sheet under Other liabilities (Notes 2.10.1 and 19).

16. Deposits from central banks and other credit institutions

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Deposits from other central banks		
Repayable on demand	-	3
	-	**3**
Deposits from national credit institutions		
Repayable on demand	22 579	29 949
Deposits from foreign credit institutions		
Repayable on demand	81 878 513	117 303 068
Very short term	4 450 774	-
Term deposits	469 815 837	794 543 561
Interest payable	550 556	999 157
	556 718 259	**912 875 735**

The amount of Euro 62,215,116 (31 December 2018: Euro 233,645,089) included in the balance Deposits from foreign credit institutions – term deposits, is collaterising liabilities with loans and advances to customers, other loans and advances to credit institutions, open documentary credits and irrevocable credit facilities (Note 29).

17. Deposits from customers

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Deposits repayable on demand		
Other residents	44 145 586	33 471 496
Non-residents	48 968 981	36 114 466
Term deposits		
Other residents	30 675 363	30 117 229
Non-residents	46 086 488	36 646 461
Interest payable	401 466	465 980
	170 277 884	**136 815 632**

The amount of Euro 886,754 (31 December 2018: Euro 1,461,651) included in the balance Deposits from customers, is collaterising liabilities with loans and advances to customers and irrevocable credit facilities (Note 29).

18. Provisions and impairment

The changes in these balances during 2019 were as follows:

	31-Dec-18 Opening balance	Charge for the period	Adjustments /(Reversals)	Transfers	Recoveries /(Charge-off)	31-Dec-19 Closing balance
Impairment						
Loans and advances to credit institutions repayable on demand (Note 4)	2 438	12 192	(4 042)	-	-	10 588
Financial assets at fair value through other comprehensive income (Notes 7 and 20)	24 913	76 504	(20 230)	-	-	81 187
Other financial assets at amortised cost (Note 10)	15 043	55 045	(27 767)	-	-	42 321
Other loans and advances to credit institutions (Note 8)	215 419	546 946	(551 619)	-	-	210 746
Loans and advances to customers (Note 9)	1 880 026	1 808 209	(975 477)	-	-	2 712 758
Impairment for other assets (Note 15)	86 235	17 357	(15 941)	105 000	(3)	192 648
	2 224 074	**2 516 253**	**(1 595 076)**	**105 000**	**(3)**	**3 250 248**
Provisions						
Bank guarantees and letters of credit	95 350	310 709	(32 717)	-	-	373 342
Off-balance sheet liabilities	18 822	66 442	(69 906)	-	-	15 358
Other	3 443 991	470 869	-	(105 000)	(18 001)	3 791 859
	3 558 163	**848 020**	**(102 623)**	**(105 000)**	**(18 001)**	**4 180 559**
	5 782 237	**3 364 273**	**(1 697 699)**	**-**	**(18 004)**	**7 430 807**

The changes in these balances during 2018 were as follows:

	31-Dec-17 Opening balance	Impact of IFRS 9 transition (Note 2.15)	Charge for the period	Adjustments /(Reversals)	Recoveries /(Charge-off)	31-Dec-18 Closing balance
Impairment						
Loans and advances to credit institutions repayable on demand (Note 4)	-	4 562	-	(2 124)	-	2 438
Financial assets at fair value through other comprehensive income (Notes 7 and 20)	-	24 966	2 681	(2 734)	-	24 913
Financial assets held for sale (Note 7)	225 129	(225 129)	-	-	-	-
Other financial assets at amortised cost (Note 10)	-	11 652	9 793	(6 402)	-	15 043
Other loans and advances to credit institutions (Note 8)	95,765	218,653	534 768	(633 767)	-	215 419
Loans and advances to customers (Note 9)	2 883 484	419 078	325 609	(1 748 145)	-	1 880 026
Impairment for other assets (Note 15)	-	1 615	84 844	(224)	-	86 235
	3 204 378	**455 397**	**957 695**	**(2 393 396)**	**-**	**2 224 074**
Provisions						
Bank guarantees and letters of credit	304 444	(130 223)	141 207	(167 766)	(52 312)	95 350
Off-balance sheet liabilities	73 537	(56 557)	89 117	(87 275)	-	18 822
Other	2 393 000	-	1 050 991	-	-	3 443 991
	2 770 981	**(186 780)**	**1 281 315**	**(255 041)**	**(52 312)**	**3 558 163**
	5 975 359	**268 617**	**2 239 009**	**(2 648 436)**	**(52 312)**	**5 782 237**

In 2018, the amount of Euro 225,129 has no impact neither on retained earnings nor on fair value reserves, since it was an estimate of impairment at the time of transition to IFRS 9 (the fair value of the reclassified security was determined at the amount net of impairment).

The charge for the period and reversals of impairment and provisions occurred in 2019 and 2018 result from the Bank's normal course of business.

The balance Provisions – Off-balance sheet refers to provisions for bank guarantees, letters of credit and irrevocable credit facilities.

The balance Provisions – Other refers to provisions for legal proceedings and contingencies.

19. Other liabilities

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Creditors and other contributions		
Government sector		
Tax withholding	126 240	108 784
Social security contributions	56 137	44 415
Other contributions	310	215
Third parties collections	1 533	1 176
Other health services contributions (SAMS)	11 377	9 224
Sundry creditors (a)	77 538	60 746
Expenses payable		
Staff costs		
Holiday allowance and other allowances (b)	188 445	168 690
Charges with deferred variable remuneration (c)	449 587	291 960
Other expenses payable	196 088	274 900
Rents payable (d)	2 341 428	-
Revenue with deferred income		
From guarantees provided (Note 29)	4 643	5 768
From documentary credits (Note 29)	209 079	200 718
Pension liabilities and other benefits (Note 30)		
Pension fund liabilities (e)	3 262 279	2 960 300
Pension fund assets (e)	(3 283 643)	(3 044 931)
Post-employment benefits (e)	179 338	131 352
Long-term benefits – end-of-career bonus	35 649	39 127
Operations pending settlement (f)	1 095 561	7 821 894
	4 951 589	**9 074 338**

a) As at 31 December 2019 and 2018, the amount disclosed under Sundry creditors concerns essentially amounts payable to suppliers, without seniority.

a) In accordance with the Portuguese legislation, employees are entitled to one month of vacation and one month of vacation allowance each year, which is acquired in the year prior to its payment. Thus, this liability is recorded in the period in which the employees acquire that right, regardless of the date of its payment.

c) Charges with deferred variable remuneration includes the amounts of variable remuneration payable to members of the Board of Directors and Management, as defined in the Bank's Remuneration Policy (Note 26).

In 2019, of the total variable remuneration payable, Euro 199,927 will be deferred over 3 years (2021 to 2023). In 2018, of the total variable remuneration payable, Euro 100,562 will be deferred over 3 years (2020 to 2022).

d) As at 31 December 2019, Rents payable refers to lease liabilities recognised under IFRS 16 and as described in accounting policy 2.16. Lease liabilities, presented by residual term, are as follows:

	Real Estate	Vehicles
Maturity of lease liabilities		
Below 1 year	253 812	92 830
1 to 5 years	752 225	150 031
Above 5 years	1 081 652	10 878
Total Lease liabilities in the balance sheet as at 31 December 2019	**2 087 689**	**253 739**

During 2019, the changes in deferred taxes were as follows:

1 January 2019 - impact of the IFRS 16 adoption (Note 2.16)	**2 381 995**
Additions	250 473
Accrued interest	68 788
Payments	(382 171)
Remeasurement adjustments (Note 11)	22 342
31 December 2019	**2 341 428**

e) As at 31 December 2019 and 2018, the value of pension fund assets is lower than the Bank's liability for past services by Euro 157,974 and Euro 46,721, respectively, which is recognised in the balance sheet under Other liabilities - Note 2.10.1.

f) As at 31 December 2019, the amount of operations pending settlement relates essentially to balances in the interbank clearing system, which are settled on the first following working day. As at 31 December 2018, the value of the balance relates to trading floor operations whose settlement date took place only on 2 January 2019.

20. Equity

	31-Dec-19	31-Dec-18
Paid-up share capital	**40 000 000**	**40 000 000**
Revaluation reserves		
From financial assets at fair value through other comprehensive income		
Debt instruments (Note 7)	130 216	(96 086)
Credit risk adjustment from financial assets at fair value through		
Other comprehensive income (IFRS 9) (Note 7)	81 187	24 913
Reservas por impostos diferidos (nota 14)		
Arising from temporary differences		
From financial assets at fair value through other comprehensive income	(29 301)	21 625
From actuarial gains nad losses	-	-
Revaluation reserves	**182 102**	**(49 548)**
Other reserves and retained earnings		
Legal reserve	8 380 461	7 198 948
Retained earnings		
Approved	30 961 557	26 235 502
Changes in accounting policies		
IFRS 1 Transition adjustment - NCA (in 2006)	830 264	830 264
Elimination of corridor rule IAS 19 (in 2011)	14 503	14 503
Survival and disability liability	(749 709)	(749 709)
Entry into force of Notice 5/2015 from Bank of Portugal (in 2016)	2 490 579	2 490 579
IFRS 9 Transition adjustment	(627 117)	(627 117)
IFRS 9 Transition adjustment - Tax effect	141 657	141 658
Retained actuarial gains and losses (Notes 2.10.1 and 30)	(531 798)	(506 625)
Correction of accounting errors (in 2012)	2 249 114	2 249 114
	43 159 511	**37 277 117**
Net profit for the period	**2 928 871**	**5 907 569**
	86 270 484	**83 135 138**

The share capital, fully subscribed and paid up, is represented by 8,000,000 ordinary shares, with a nominal value of Euro 5 each. On 31 December 2019, Banco Angolano de Investimentos, S.A., a credit institution resident in Angola, holds 99.99% of the Bank's capital.

In accordance with Article No. 97 of Credit Institutions and Financial Companies General Regime ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" – RGICSF), approved by the Decree-Law No. 298/92, of 31 December and subsequent amendments, the Bank should annually appropriate 10% of annual net profits to the legal reserve up to an amount equal to the value of share capital or to the sum of the reserves and retained earnings, if higher.

In 2019, the change in revaluation reserves was as follows:

	31-Dec-19
Opening balance as at 31 December 2018	**(49 548)**
Fair value changes	545 601
Disposals (note 20)	(319 299)
Deferred taxes recognised in reserves during the year	(50 926)
Credit risk adjustment of financial assets at fair value through other comprehensive income	56 274
Movement for the 2019 period	231 650
Closing balance as at 31 December 2019	**182 102**

As mentioned in Note 2.16, the adoption of IFRS 16 had no impact on the Bank's own funds as the modified retrospective approach was adopted.

In 2018, the change in revaluation reserves was as follows:

	31-Dec-18
Opening balance as at 31 December 2017	**35 748**
Impact of IFRS 9 adoption	100 488
Balance at 1 January 2018	**136 236**
Fair value changes	(240 449)
Deferred taxes recognised in reserves during the year	54 718
Credit risk adjustment of financial assets at fair value through other comprehensive income	(53)
Closing balance as at 31 December 2018	**(49 548)**

21. Net interest income

Net interest income is detailed as follows:

	31-Dec-19	31-Dec-18
Interest and similar income from		
Financial assets at amortised cost		
Other loans and advances to credit institutions	12 377 153	11 715 207
Loans and advances to customers	4 270 126	4 415 053
Of which: commissions received at amortised cost	*445 675*	*228 602*
Other financial assets at amortised cost	115 431	106 828
Financial assets at fair value through other comprehensive income	4 710 695	4 037 437
	21 473 405	**20 274 525**
Interest and similar expense from		
Financial liabilities measured at amortised cost		
Deposits from other credit institutions	(12 047 539)	(9 857 296)
Deposits from customers	(775 034)	(641 581)
Interest expense over assets (a)	(234 743)	(268 453)
Interest on leases (b)	(68 788)	-
Commissions paid at amortised cost from:		
AFJORI Portfolio Management Committee (c)	(19 490)	(65 721)
Loans and advances to customers	(1 202)	-
	(13 146 796)	**(10 833 051)**
Net interest income	**8 326 609**	**9 441 474**

a) Balance regarding interest from bank deposits repayable on demand with Bank of Portugal that exceed the requirements of Minimum Reserves. This remainder is remunerated at the rate defined by the ECB for the permanent deposit facility (Note 3).

b) The balance Interest on leases refers to interest expense related to lease liabilities recognised under IFRS 16, as described in accounting policy 2.16.

c) Management fee related to the portfolio of financial assets measured at fair value through other comprehensive income.

22. Fee and commission income/ expense

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Fee and commission income:		
On guarantees provided	3 948 372	4 198 706
On commitments assumed with third parties	-	2 659
On services rendered	1 985 402	2 396 155
	5 933 774	**6 597 519**
Fee and commission expense:		
On services rendered by third parties	(917 566)	(916 185)
Other commissions paid	(104 002)	(12 649)
	(1 021 568)	**(928 834)**
	4 912 206	**5 668 685**

Income on guarantees provided includes income from services and commissions associated with guarantees and securities provided and open documentary credits (Note 29).

As at 31 December 2019, the balance Other commissions paid refers to an annual performance fee paid to a credit institution for the management of part of the Bank's portfolio of financial assets at fair value through other comprehensive income.

23. Income arising from financial assets at fair value through other comprehensive income

Net gains/ (losses) arising from financial assets at fair value through other comprehensive income are analysed as follows:

	31-Dec-19	31-Dec-18
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income (IFRS 20)		
Debt instruments		
Resident	26 740	47 422
Non-resident	292 559	51 303
	319 299	**98 725**

In 2019 and 2018, Net gains/ (losses) arising from financial assets at fair value through other comprehensive income are mostly related to gains on the disposal of debt instruments.

24. Net gains/ (losses) arising from financial assets mandatorily measured at fair value through profit or loss

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Net gains/ (losses) arising from financial assets measured at fair value through profit or loss		
Equity instruments		
Resident	(17 216)	-
Non-resident	(282 834)	(32 026)
Debt instruments		
Non-resident	(11 100)	7 064
Others – investment funds		
Resident	23 994	43 877
Non-resident	54 340	11 710
	(232 816)	**30 625**

In 2019, the Bank had no dividends on financial assets at fair value through profit or loss (2018: Euro 57,696).

In 2019, the fair value of the financial assets at fair value through profit or loss, which are measured using methods not observable in the market, is Euro 221,716 (Note 33).

25. Other operating income/ (expense)

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Other operating income		
Investments in associates (Note 13)	208 531	-
Recovery of bad debts	7 522	-
Income from services rendered	17 522	16 535
Other operating income	4 471	5 158
	238 046	**21 693**
Other operating expense		
Contributions	(1 419)	(2 453)
Contributions to the Deposit Guarantee Fund	(235)	(235)
Contributions to the Single Resolution Fund	(439 388)	(357 719)
Contributions to the Resolution Fund	(434 843)	(309 831)
Value added tax (VAT)	(332 177)	(259 236)
Extraordinary contribution by the banking sector	(1 048 964)	(922 228)
Other indirect taxes and fees	(18 782)	(12 440)
Other charges and operating expenses	(27 285)	(72 479)
	(2 303 093)	**(1 936 621)**
Other operating income/ (expense)	**(2 065 047)**	**(1 914 928)**

Expenses incurred under Contributions to the Resolution Fund (CFR), to the Single Resolution Fund (CFUR) and Extraordinary contribution by the banking sector are recognised in expenses at the moment the liability is generated (application of IFRIC 21 - Levies).

The caption Extraordinary contribution by the banking Sector is estimated according to the terms of the Decree-Law 55-A/2010. The determination of the amount payable focuses on:
(i) the annual average liability recorded in the balance sheet deducted from core capital (Tier 1) and supplementary capital (Tier 2) and deposits covered by the Deposit Guarantee Fund; and
(ii) the notional amount of derivative financial instruments.

The caption Contribution to the Resolution Fund corresponds to the mandatory periodic contributions paid to the Fund, in accordance with Decree-Law No 24/2013. The periodic contributions are determined using a base rate, established by the Bank of Portugal, to be applied in each year and which may be adjusted to the credit institution's risk profile. The periodic contributions focus on the liabilities of the member credit institutions, in accordance with article 10 of the Decree-Law, deducted from the liability elements that are part of the Tier 1 and Tier 2 capital and from the deposits covered by the Deposit Guarantee Fund.

Contributions to the Single Resolution Fund correspond to the annual *ex-ante* contribution made by the Bank to support the implementation of resolution measures at European Union level. The Single Resolution Fund was established by Regulation (EU) no. 806/2014 (the "Fund Regulation") and is financed by *ex-ante* contributions made annually and individually by all credit institutions within the Banking Union system.

Contributions to the Single Resolution Fund consider the annual target level as well as the size and risk profile of the institutions. The Single Resolution Fund applies the methodology set out in the Commission Delegated Regulation (EU) no. 2015/63 and Regulation (EU) no. 806/2014 of the European Parliament and of the Council, for determining *ex-ante* contributions.

The annual contribution to the Fund is based on the liabilities of the institutions, excluding own funds and hedged deposits and considering adjustments arising from derivatives and intra-group liabilities, and on a risk adjustment factor that depends on the institution's risk profile. In accordance with Article no. 67 (4) of the Fund Regulation and the intergovernmental agreement on the transfer and pooling of contributions to the Single Resolution Fund, *ex-ante* contributions are collected by the national resolution authorities and transferred to the Single Resolution Fund by 30 June of each year.

26. Staff costs

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Remuneration of the Management and supervisory boards	(705 967)	(594 050)
Remuneration of the employees	(1 801 557)	(1 519 766)
Mandatory social security charges	(703 182)	(593 459)
Obligations for pension plans:		
VCLA pension plans (Defined benefit) (Note 30)	(30 049)	(30 358)
Directors Pension Plan	(11 060)	(11 096)
Other staff costs	(63 867)	(102 625)
	(3 315 682)	**(2 851 354)**

The number of Bank employees is detailed as follows:

	31-Dec-19		31-Dec-18	
	Average for the period	End of the period	Average for the period	End of the period
Executive directors	3	3	3	3
Non-executive directors	1	2	1	1
Senior management	10	10	10	10
Other middle management and employees	31	34	25	31
Total	**45**	**49**	**39**	**45**

In compliance with Law no. 28/2009 of 19 June and Notice of Bank of Portugal no. 10/2011 of 29 December, as well as EBA/GL/2015/22 guidance, we present below the Remuneration Policy of the members of the management and supervisory bodies of BAI Europa for 2019:

Policy definition
The Bank's remuneration policy was defined with the objective of detailing clear rules aligned with the Bank´s culture, considering the specific features of the Bank's activity, in particular its small size and the nature of its business activity which is characterized by the provision of services within a narrow and traditional range resulting in an activity of limited complexity and focused on pre-defined market niches.

The remuneration policy provides specific rules for the Bank's various employees, distinguishing between:

a) Board of Directors and Supervisory boards members;
b) Employees who, by the nature of their duties, are considered by Commission Delegated Regulation (EU) No 604/2014, of 4 March 2014, as having a significant impact on the Bank's risk profile, which in the case of BAIE are considered to be responsible for the control functions, as well as the other heads of department, who the Bank as a whole considers to be the Management Team;
c) Employees who have directly contact with customers as part of the commercialization of deposits and products, as well as the employees responsible for the management and supervision of those business areas;
d) Other employees.

With respect to subparagraphs a) and b), if the payment of the remuneration includes a variable component, the following deferred payment criteria applies:

1. The amount corresponding to 40% of the variable component is deferred, being raised up to 60%, when the amount is higher than Euro 45 thousand;
2. The deferral is made over a three-year period, which is the minimum period legally established given the nature of the Bank's business and economic cycles, characterised by short and medium term operations;
3. The part of the variable component not subject to deferral is paid in the following year;
4. If there are no conditions for reduction of the variable remuneration, the part of the variable remuneration subject to deferral is paid over the next 3-year period, in 3 equal annual instalments.
5. Whenever the amount of the variable remuneration exceeds Euro 45 thousand, the deferred and non-deferred components shall comprise, in equal proportions, financial instruments and cash.

Policy approval
It is the responsibility of the Board of Directors (BD) to ensure that the remuneration policy is defined, maintained and applied in accordance with the Bank's culture and governance processes, as well as the adequacy of remuneration practices to the capital structure and to the risk profile assumed by BAIE, in order to promote healthy and prudent management of risks.

Decisions concerning the remuneration of the Bank's employees are approved annually by the BD.

On an annual basis, under the terms of art. 115º-C of the General Regime of Credit Institutions and Financial Companies, the Supervisory Board (SB) assesses the adequacy and compliance of the remuneration policy of the Bank's and its employees' governing bodies, issuing an opinion to that effect.

The remuneration of the members of the corporate bodies is approved annually at the General Shareholders' Meeting (GSM). For this purpose, accompanied by the opinion of the SB and the joint opinion of the Heads of the Audit, Compliance and Risk Management Functions, the BD submits, to the appreciation of the shareholders, a statement in accordance with the provisions of article 2 of Law 28 / 009, of 19 June, and Notice of Bank of Portugal No 10/2011, together with the provision of information to enable shareholders to assess the overall cost of the remuneration and incentives structure and the extent to which risk-taking is encouraged and controlled.

The annual decisions of the Board of Directors regarding remuneration of employees, as well as the preparation of the statement of remuneration to be submitted to the GSM, are always preceded by an evaluation which considers, in particular:

a) If the implementation of the policy remains appropriate to the Bank's risk profile;
b) the identification of staff members whose professional activities may have a significant impact on the Bank's risk profile, considering the qualitative and quantitative criteria set out in Commission Delegated Regulation (EU) No 604/2014, of 4 March 2014;
c) If the allocation and payment of variable remuneration is compatible with the maintenance of a solid equity position.

By proposal of the Bank's Board of Directors, the General Meeting approved, on its meeting held on 15 April 2019, the statement for the remuneration policy for 2019 concerning the corporate bodies.

The variable remuneration of the corporate bodies for the year 2019 and which will be paid in 2020 and in subsequent periods (part subject to payment deferral) were approved by the General Meeting of Shareholders on the meeting held on 05 February 2020.

Executive Directors
The fixed remuneration of executive directors is determined based on the following considerations:

(i) individual skills;
(ii) the level of responsibilities of each employee;
(iii) the position held in the Board of Directors;
(iv) the length of service in the Group.

The variable remuneration shall depend on the following factors:

(i) individual and Bank performance;
(ii) economic aspects;
(iii) extent of risks assumed;
(iv) compliance with the standards applicable to the Bank's business activity;
(v) the level of responsibilities of each employee.

The performance evaluation of the Bank's executive directors is the responsibility of the General Meeting.

The variable remuneration allocation is performed annually basis based of that evaluation, and its calculation shall allow adjustments to be made considering the various types of risks, current and future, as well as the Bank's profitability, adequacy of shareholder's equity and liquidity.

In order to maintain a prudent balance between fixed and variable remuneration components, the fixed remuneration amounts of executive directors must be sufficient; and the percentage corresponding to variable remuneration over fixed annual remuneration should be relatively low, not exceeding 35%. The amount corresponding to 50% of the total variable component of the remuneration is paid in cash and the remainder in kind, whenever the respective amount exceeds Euro 45 thousand. If the total amount of the variable component of the remuneration for a full fiscal year, does not exceed Euro 45 thousand, without prejudice to the defined deferral procedures, its payment can be made fully in cash. In 2019 the Bank did not pay variable remuneration in kind.

Non-Executive Directors
The fixed remuneration of non-executive directors is determined based on the following considerations:

(i) the position held in the Board of Directors;
(ii) individual skills;
(iii) the length of service in the Group.

Fixed remuneration is paid 12 times a year.

Non-executive directors do not receive a variable remuneration.

Supervisory Board
The members of the Supervisory Board receive a fixed remuneration, determined according to the position held in this body and considering the size and complexity of the Bank's business activity.

Fixed remuneration is paid 12 times a year.

The members of the Supervisory Board do not receive a variable remuneration.

Annual remuneration paid to members of the corporate bodies

	2019						2018					
	Gross remuneration paid			Cost with remunerations			Gross remuneration paid			Cost with remunerations		
	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total
2017/2020 Mandate (designated on 16 May 2017)												
Executive Directors												
António Manuel Pinto Duarte (Deputy Chairman)	171 500	12 600	**184 100**	171 500	24 500	**196 000**	147 000	19 000	**166 000**	147 000	21 000	**168 000**
Omar José Mascarenhas de Morais Guerra **(a)** (Member)	168 000	12 000	**180 000**	168 000	24 000	**192 000**	140 000	18 000	**158 000**	140 000	20 000	**160 000**
Henrique Manuel Forte Carvalho da Carvalho da Silva (Member)	140 000	9 600	**149 600**	140 000	20 000	**160 000**	112 000	14 000	**126 000**	112 000	16 000	**128 000**
Non-Executive Directors												
José Alberto Vasconcelos Tavares Moreira (Presidente)	72 000	-	**72 000**	72 000		**72 000**	72 000	-	**72 000**	72 000	-	**72 000**
Inokcelina Ben` África Correia dos Santos **(b)** (Member)	7 116	-	**7 116**	7 116		**7 116**	-	-	**-**		-	**-**
Supervisory Board												
Henrique Marçal (Chairman)	30 000	-	**30 000**	30 000	-	**30 000**	30 000	-	**30 000**	30 000	-	**30 000**
Pedro Cabrita (Member)	24 000	-	**24 000**	24 000	-	**24 000**	24 000	-	**24 000**	24 000	-	**24 000**
João Augusto (Member)	24 000	-	**24 000**	24 000	-	**24 000**	24 000	-	**24 000**	24 000	-	**24 000**
	636 616	**34 200**	**670 816**	**636 616**	**68 500**	**705 116**	**549 000**	**51 000**	**600 000**	**549 000**	**57 000**	**606 000**

a) Additional remuneration was also paid in 2019 to Omar José Mascarenhas de Morais Guerra of Euro 11,060 (2018: Euro 11,096) relating to a supplementary pension plan under a defined contribution plan, in the terms set out below, in the form of acquisition, on behalf of the beneficiary, of investment units of a pension fund.
b) Inokcelina Ben'África Correia dos Santos was appointed non-executive director at the General Meeting of 19 July 2019 and started her duties after obtaining the respective approval from the Bank of Portugal, on 31 October 2019.

Remuneration expenses presented above do not include the mandatory social security charges paid by the Bank, which generally correspond to amounts resulting from rates ranging from 16.4% to 23.75%, applied over remuneration paid to corporate bodies. In addition, the Bank supports costs with medical expenses – SAMS for one of the members of the Board of Directors, which correspond to a rate of 6.5% applied to the remunerations paid.

With exception of one of the members of the Board of Directors, the Bank does not undertake any commitments regarding retirement or disability pensions, early retirement or survival, advances, loans or guarantees of any sort to the members of the Boards of Directors and Supervisory Board. The Bank undertakes the commitment for retirement or disability, early retirement or survival of Omar José Mascarenhas de Morais Guerra, under the terms agreed in the scope of the VCLA (Note 30).

After 2015, executive directors with an employment agreement suspended with the Bank and who, by virtue of this quality, benefit from the pension plan applicable to most of the Bank's employees covered by social security by VCLA (Note 28), are entitled to a supplementary pension benefit under a defined contribution plan for which the Bank contributes with 7% of the total amount of remuneration paid in the previous year. These contributions are made through the acquisition of investment units of the pension fund, on behalf of the beneficiary, which finances the Bank's responsibilities for the retirement pensions of its employees, under the terms agreed within the VCLA, or another pension fund available on the market.

Under the terms of the Notice no. 10/2011 from Bank of Portugal, of 29 December, we present below the quantitative information regarding the remuneration paid by the Bank to employees responsible for performing the control functions set forth in Notice no. 5/2008, namely, the risk management, compliance and internal audit functions.

	2019						2018					
	Gross remuneration paid			Cost with remunerations			Gross remuneration paid			Cost with remunerations		
	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total
Aggregate remuneration of employees responsible for performing the control functions set forth in Notice no. 5/2008	183 348	21 600	**204 948**	183 348	36 500	**219 848**	182 490	27 250	**209 740**	182 490	36 000	**218 490**

In accordance with Section VIII of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013, the aggregate remuneration of staff members who do not perform control functions but who are specified in BAIE's remuneration policy as having a significant impact on the Bank's risk profile is set out below.

	2019						2018					
	Gross remuneration paid			Cost with remunerations			Gross remuneration paid			Cost with remunerations		
	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total
Aggregated remuneration of employees **not** responsible for performing the control functions set forth in Notice no. 5/2008, but with a significant impact on the Bank's risk profile	482 682	60 600	**543 282**	499 015	97 000	**596 015**	452 087	74 089	**526 176**	452 087	101 000	**553 087**

Deferred variable remuneration is detailed in Note 19.

27. General and administrative expenses

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Specialised services	(2 015 290)	(1 669 661)
Communication	(278 065)	(363 878)
Travel, hotel and representation costs	(107 365)	(74 736)
Training	(104 784)	(7 610)
Insurance	(102 393)	(102 984)
Rental costs	(46 126)	(391 261)
Water, energy and fuel	(44 552)	(35 655)
Maintenance and repair	(31 834)	(21 885)
Consumables	(23 463)	(34 313)
Advertising costs	(22 970)	(13 008)
Others	(2 168)	(8 378)
	(2 779 010)	**(2 723 369)**

In 2019, Specialised Services presents a significant increase over the same period of last year, mainly due to the need for consultancy services and acquisition of software licenses for the implementation of new products and other projects of a legal and regulatory nature, namely PSD 2 - Payment services and GRDP (General Regulation on Data Protection).

As at 31 December 2019, the balance Rental costs shows a lower amount given the effect of the adoption of IFRS 16 (which was not reflected at 31 December 2018 as BAIE adopted the modified retrospective approach - Note 2.16).

In compliance with paragraph b) of Article no. 66-A (1) of the Portuguese Commercial Companies Code, the total fees invoiced in 2019 by the Statutory Auditors, Ernst & Young Audit & Associados - SROC, SA, are as follows:

	2019	2018
Audit services:		
- Statutory Audit of Annual Financial Statements and Interim Review	68 500	57 500
- Reliability and Assurance Services	5 000	7 500
Other services	7 500	2 500
	81 000	**67 500**

As at 31 December 2019 and 2018, in addition to the Statutory Audit, the audit services include the review of the interim financial statements (June), the review to the Internal Control System (Notice no. 5/2008, of Bank of Portugal), the review of Internal Control in the specific scope of the prevention of money laundering (Notice no. 2/2018 of Bank of Portugal, which revokes Notice No. 9/2012 of Bank of Portugal) and the Process of Quantification of Impairment of the Loan Portfolio with reference to 30 June and 31 December (Instruction no. 18/2018 of Bank of Portugal which revokes Notice No. 5/2013 of Bank of Portugal) and the audit of the financial reporting for the purposes of the Statutory Audit of the parent company of the BAIE.

Costs incurred for these services are recorded under Specialised services.

28. Income taxes

The nominal tax rate is detailed as follows:

	31-Dec-19	**31-Dec-18**
Corporate Income Tax	21.0%	21.0%
Municipal Surcharge	1.5%	1.5%
State Surcharge	3% to 9%	3% to 9%

The amount of current taxes refers to the sum of tax related to the taxable profit for the period, if applicable, the tax rate in force on the balance sheet date, municipal and state surcharges (if applicable) and autonomous taxes.

The State Surcharge is an additional rate only applicable to the taxable income exceeding Euro 1,500,000. Pursuant to Article no. 87-A of CIRC, as amended by Law no. 114/2017 29/12, in 2019 and 2018, taxable income exceeding Euro 1,500,000 and up to Euro 7,500,000 is levied at an additional rate of 3% and taxable income above Euro 7,500,000 and up to Euro 35,000,000 is levied at an additional rate of 5%. Taxable income exceeding Euro 35,000,000 is levied at a 9% rate.

The Municipal Surcharge is a tax established under Law No. 73/2013, of 3 September, which is levied on taxable profit subject to and not exempt, and the rates for 2019 financial year were disclosed through Circular Letter No. 20218 of 19 February 2020.

During 2019 and 2018, costs with income taxes recognised in profit or loss, as well as the tax burden, measured by the ratio between tax credits and profit for the period before that charge, are presented below:

	31-Dec-19	**31-Dec-18**
Current taxes		
For the period	(1 287 836)	(2 494 790)
Changes related to previous periods	26 990	(13 501)
Deferred taxes		
Recognition and reversal of temporary differences (Note 14)	(53 619)	(696 968)
Total income tax expense	**(1 314 465)**	**(3 205 259)**
Profit/ (loss) before tax	4 243 335	9 112 828
Effective tax rate	**31.0%**	**35.2%**

The reconciliation between the nominal tax rate and the effective tax rate in 2019 and 2018 is presented as follows:

	31-Dec-19		31-Dec-18	
	Rate	Tax	Rate	Tax
Profit/ (loss) before tax		4 23 335		9 112 828
Tax based on the nominal rate – First tax level	0.0%	-	0.0%	-
Tax based on the nominal rate – Tax level above	-21.0%	(891 100)	-21.0%	(1 913 694)
Changes in equity not reflected on the net profit	0.2%	6 902	0.1%	8 984
Extraordinary contribution over the banking sector	-5.2%	(220 282)	-2.1%	(193 668)
Provisions and adjustments of asset values	-0.6%	(23 447)	0.8%	73 957
Other taxable income and expenses	-0.1%	(4 601)	-0.3%	(23 682)
Pension funds and other benefits	-0.2%	(9 347)	0.0%	385
Earnings subject to tax transparency	0.0%	-	0.0%	-
Taxable provisions in previous taxable periods	0.5%	21 551	0.0%	-
Tax benefits	0.3%	12 900	0.2%	14 290
Accounting gains	1.0%	43 792	0.0%	-
Accounting losses	0.0%	-	-0.1%	(9 435)
Fiscal gains	0.0%	-	0.1%	13 048
Elimination of international double taxation	0.0%	399	0.0%	798
Autonomous taxation and surcharges	-5.3%	(224 604)	-5.1%	(465 774)
Changes related to previous periods	0.6%	26 990	-0.1%	(13 501)
Deferred taxes:				
Financial assets mandatorily measured at fair value through profit or loss	1.3%	56 902	0.2%	15 578
Provisions for overdue loans and non-deductible write-offs	-3.6%	(154 818)	-3.7%	(340 365)
Provisions for other risks	0.8%	36 011	-4.1%	(370 041)
VCLA end-of-career bonus	0.0%	(782)	0.0%	97
Pension funds and post-employment benefits	0.2%	9 068	0.0%	(2 236)
Tax losses carried forward	0.0%	-	0.0%	-
	31.0%	**(1 314 465)**	**35.2%**	**(3 205 259)**

29. Off-balance sheet items

This balance is analysed as follows:

	31-Dec-19	31-Dec-18
Contingent liabilities		
Guarantees and commitments (a)	681 960	1 212 809
Open documentary credits (a)	107 940 038	253 373 474
Guarantees granted (Notes 6, 7 and 9)	4 271 236	9 220 859
Securities	500	500
Commitments to third parties		
Irrevocable credit facilities (a)	46 837 047	11 169 266
Commitments from third parties		
Irrevocable credit facilities	32 102 906	36 460 502
Guarantees and commitments received (Notes 16 and 17)	173 782 421	311 777 874
Exchange transactions to be settled	20 480 029	8 948 808
	386 096 137	**632 164 092**

(a) Balances identified are subject to the accounting of provisions, calculated as disclosed in Note 2.2 (2019: Euro 155,459,045 and 2018: Euro 265,755,549).

Commitments to third parties – Irrevocable credit facilities refer to credit facilities granted irrevocably to customers, which are not being used.

The amount shown under Commitments from third parties - Irrevocable credit facilities refer to credit facilities granted to the Bank.

As at 31 December 2019 and 2018, Guarantees received is analysed as follows:

	31-Dec-19	31-Dec-18
Collaterals (Notes 8, 16 and 17)	63 438 848	235 331 114
Pledge and security deposits	25 548 427	20 507 991
Mortgages (Real estate and land)	17 301 517	16 031 536
Commitments and other personal guarantees	67 493 629	39 907 233
	173 782 421	**311 777 874**

Collaterals received relate to term deposits made with the Bank and are valued by the respective amounts presented in the balance sheet. Mortgages of real estate and land are registered at the value of the valuations carried out by independent specialised technicians, in compliance with the requirements of the Circular Letter of Bank of Portugal No. 6/2018, which replaces the Circular Letter No. 2/2014 /DSP, revoked, regarding the seniority of the evaluations. Pledges and security deposits of debt and equity relate to guarantees received to cover the risk of credit transactions to customers, which are valued at their net book value. Commitments and other personal guarantees also relate to guarantees received to cover the risk of credit transactions to customers and are valued at the amount of the liability to be covered, which is outstanding as of the reference date.

30. Employee benefits

As described in Note 2.10.1, the Bank grants to its employees covered by the VCLA or to their families, benefits for old age retirement or disability, early retirement or survival, under the terms agreed within the VCLA attached to the subscription contract to the Pension Fund of Ocidental - Sociedade Gestora de Fundos de Pensões, S.A.

With the release of Decree-Law no. 1-A / 2011, of 3 January, the employees covered by the VCLA who were active on 4 January 2011, are now covered by the General Social Security System (RGSS), for the benefit of old age retirement and in cases of maternity, paternity and adoption leave, whose costs the Bank no longer has to bear. Thus, the defined benefit plan for the employees covered by the VCLA relating to the old age retirement benefit, is now financed by the Pension Fund, for the liabilities for services rendered up to that date, and by the Social Security, for the obligation for services rendered after that date. However, as of 4 January 2011, liabilities for death and disability, survival, as well as for old-age supplementary pension remain as liabilities of the Pension fund, in order to match the retirement of the participants in the Pension Fund to the values of the current pension plan.

With the release of Decree-Law no. 167-E/2013 and Ordinance no. 378-G /2013, the normal retirement age in the RGSS was changed, becoming variable and depending on the evolution of the average life expectancy (at 65 years). This amendment means that the retirement pension to be paid by BAIE, between the age of 65 (in case of disability) and the new normal retirement age by the Social Security, will be the responsibility of BAIE and not deducted from the Social Security pension.

The calculation of the amount of liabilities for past services of Bank employees is made in accordance with IAS 19.

Ocidental - Sociedade Gestora de Fundos de Pensões, S.A., is the entity responsible for preparing the actuarial valuations necessary for the calculation of pension and retirement pension liabilities, as well as for managing the pension fund.

The actuarial valuation method used is the Projected unit credit.

As at 31 December 2019 and 2018 employees and pensioners who benefit from pension plans financed by the pension fund are:

	31-Dec-19	**31-Dec-18**
Employees – workforce	9	10
Pensioners	1	1
Old age retirement pensioners	2	1
Former employees	20	20

As at 31 December 2019 and 2018, the main actuarial and financial assumptions used for calculating pension liabilities are:

	Assumptions		Actual	
	31-Dec-19	**31-Dec-18**	**31-Dec-19**	**31-Dec-18**
Financial assumptions:				
Fund income rate	1.10%	2.00%	9.36%	-4.57%
Wage growth rate	2.00%	2.50%	1.29%	0.31%
Technical interest rate	1.10%	2.00%	1.10%	2.00%
Pension growth rate	1.50%	1.50%	1.50%	1.50%
Demographic assumptions:				
Mortality table	TV88/90	TV88/90		
Disability table	SuisseRe 2001	SuisseRe 2001		
Normal retirement age	65 years	65 years		
Percentage of married couples	80.00%	80.00%		

Under the VCLA Pension Plan, the actuarial study that was the basis for the accounting records, as at 31 December 2019 and 2018, includes the total service period in the banking sector of all BAIE's employees on those dates. For the population consisting of the Fund's former employees, the period considered for the purpose of calculating liabilities was the service period in BAIE. The duration of the Fund's obligation at 31 December 2019 is 25 years.

In addition, the Bank recognises responsibilities for post-employment medical care (SAMS) and long-term employee benefits (VCLA seniority premium). The amount of liabilities with SAMS and seniority premiums is as follows:

	31-Dec-19	**31-Dec-18**
Past service liabilities with medical care - SAMS (Notes 15 and 19)	179 338	131 352
Changes in loss/ (gains) for the period	47 986	(2 265)
Past service liabilities with end-of-career bonus – VCLA (Notes 15 and 19)	35 649	39 127
Changes in loss/ (gains) for the period	(3 478)	(432)

The financial coverage of past service liabilities is as follows:

	31-Dec-19	31-Dec-18
Total past liabilities		
Liabilities with the payment of pensions	316 356	225 833
Liabilities with past services of active employees	2 945 923	2 734 467
	3 262 279	**2 960 300**

As at 31 December 2019, the sensitivity analysis to changes in the technical interest rate and its impact in terms of past total liabilities under IAS 19 is as follows:

	- 0.25%	+ 0.25%
Impact on liabilities of the change in the discount rate	214 487	(198 975)
Total	**214 487**	**(198 075)**

Pension fund assets are as follows:

	31-Dec-19	31-Dec-18
Pension fund assets		
Opening balance	3 044 931	3 188 523
Net income from pension funds	265 242	(125 192)
Pension funds contributions	-	-
Retirement pensions paid by the pension fund	(13 339)	(5 378)
Survival pensions paid by the pension fund	(13 192)	(13 022)
Commissions	-	-
Closing balance	3 283 643	3 044 931
Of which: captive balance for Complementary Plan	-	-
	3 283 643	**3 044 931**
Coverage level according to actuarial report	105.4%	102.9%
Minimum level of responsibilities to be covered [95% of (b) + 100% of (a)]	3 114 983	2 823 577
Required value to be transferred to the pension funds	-	-

In 2019 and 2018, there were no contributions to the Pension Fund. The increase in liabilities was partially offset by the increase in the Fund's net income.

In addition to the VCLA Pension Plan, BAIE granted to its employees a supplementary pension until 30 June 2005, provided for in the Complementary Plan to VCLA. Under this plan, salaried employees at that date are entitled to a supplementary retirement and survival's pension, calculated based on the length of service provided in BAIE and the salary received up to that date. Considering that according to the Collective Membership Agreement these liabilities should be transferred to a personal plan or to another pension fund that complies with the legislation in force, in 2010 the respective individual benefits were transferred for Euro 93,633.

As at 31 December 2019 and 2018, the financial statements included the following items related to the coverage of pension liabilities:

	31-Dec-19	**31-Dec-18**
Total liabilities		
Total liabilities for pensions payable	316 356	225 833
Total liabilities for past services	2 945 923	2 734 467
	3 262 279	**2 960 300**
Pension fund assets (Note 19)	3 283 643	3 044 931
Provision for liabilities with retirement pensions (Note 19)	3 262 279	2 960 300
Actuarial gains/ (losses) recognised in retained earnings (Note 20):		
Annual variation	(25 173)	(80 139)
Accumulated amount (Note 30)	(531 798)	(506 625)

Within pension fund assets there are no: i) assets being used by the Bank; and ii) securities issued by the Bank.

The amounts reflected in staff costs (Note 26) with the Bank's retirement pensions liabilities in 2019 and 2018 are as follows:

	31-Dec-19	**31-Dec-18**
Net financial costs:		
Current service expense	20 351	21 021
Interest expense	58 779	59 267
Expected income from pension fund assets	41 037	(41 927)
Contributions from employees	(8 044)	(8 003)
Total	**112 123**	**30 358**

The changes during 2019 and 2018, in the present value of liabilities for past services, were as follows:

	31-Dec-19	31-Dec-18
Liabilities at the beginning of the period	**2 960 300**	**2 985 392**
Current service expense	20 351	21 021
Interest expense	58 779	59 270
Expected income from pension fund assets	41 037	(41 927)
Actuarial gains/ (losses) recognised under retained earnings (Note 20)	25 174	80 139
Retirement pensions paid by the pension fund	(13 339)	(5 378)
Survival pensions paid by the pension fund	(13 192)	(13 022)
Net income of the Fund	265 242	(125 192)
Commissions	1	-
Liabilities at the end of the period	**3 262 279**	**2 960 300**

The actuarial gains and losses in 2019 and 2018 were as follows:

	31-Dec-19	31-Dec-18
Actuarial gains/ (losses)		
Relating to differences between assumptions and actual values	25 174	80 139
Total	**25 174**	**80 139**

As at 31 December 2019 and 2018, the items comprising the value of the pension fund assets are as follows:

	31-Dec-19	31-Dec-18
Liquidity	4.60%	7.02%
Bonds	64.62%	63.12%
Shares	26.12%	24.27%
Real estate and hedge funds	4.66%	5.59%
Total	**100.00%**	**100.00%**

31. Related parties

Under IAS 24, BAIE's related parties are companies controlled by the BAI Group, directors of BAI Group companies, the associated company Founton Ltd (BAIE's financial holding sold during 2019) and other entities with a significant influence over BAIE, namely companies of the Sonangol Group, BAI's reference shareholder, BAIE's parent company.

As at 31 December 2019, the Bank's balance sheet and off-balance sheet items include the following balances with related parties:

	Associates	Corporate bodies of BAI Group	Companies from BAI Group	Other related parties	Total
Assets					
Other loans and advances to credit institutions (Note 8)	-	-	18 793 939	-	18 793 939
Financial assets mandatorily measured at fair value through profit or loss (Note 5)	-	-	276 439	84 097	360 536
Loans and advances to customers (Note 9)	-	381 700	2 755 000	16 809 935	19 946 635
Investments in subsidiaries and associates (Note 13)	-	-	-	-	-
Liabilities					
Deposits from credit institutions (Note 16)	-	-	512 102 100	-	512 102 100
Deposits from customers (Note 17)	-	7 293 017	3 848 629	38 597 037	49 738 683
Off-balance sheet items (Note 29)					
Guarantees and commitments	-	-	353 304	-	353 304
Open documentary credits	-	-	100 322 062	-	100 322 062
Guarantees received	-	-	47 070 109	11 112 946	58 183 055
Irrevocable credit facilities					
Granted	-	42 500	-	70 000	112 500
Provided	-	31 155 421	-	-	31 155 421
Total	**-**	**38 872 638**	**685 521 582**	**66 674 015**	**791 068 235**

	Associates	Corporate bodies of BAI Group	Companies from BAI Group	Other related parties	Total
Income					
Interest and similar income (Note 21)	1 624	6 678	429 561	911 908	1 349 771
Fees and commission income (Note 22)	10	2 250	4 908 286	7 742	4 918 288
Expenses					
Interest and similar expense (Note 21)	-	(50 107)	(10 879 713)	(195 394)	(11 125 215)
Net gains/ (losses) arising from financial assets mandatorily measured at fair value through profit or loss (Note 24)	-	-	(11 100)	-	(11 100)
Fees and commission income (Note 22)	-	(3)	-	(1 123)	(1 126)
General administrative expenses (Note 27)	-	-	-	(68 672)	(68 672)
Loans impairment net of reversals and recoveries (Note 18)	-	(8 669)	(262 970)	(215 843)	(487 482)
Total	**1 634**	**(49 851)**	**(5 815 936)**	**438 618**	**(5 425 536)**

As at 31 December 2018, the Bank's balance sheet and off-balance sheet items include the following balances with related parties:

	Associates	Corporate bodies of BAI Group	Companies from BAI Group	Other related parties	Total
Assets					
Other loans and advances to credit institutions (Note 8)	-	-	30 565 570	-	30 565 570
Financial assets mandatorily measured at fair value through profit or loss (Note 5)	-	-	160 190	128 236	288 426
Loans and advances to customers (Note 9)	90 629	474 500	-	13 100 436	13 665 565
Investments in subsidiaries and associates (Note 13)	948 469	-	-	-	948 469
Liabilities					
Deposits from credit institutions (Note 16)	-	-	785 660 321	-	785 660 321
Deposits from customers (Note 17)	123	5 861 828	4 881 743	29 735 144	40 478 838
Off-balance sheet items (Note 29)					
Guarantees and commitments	-	-	353 304	-	353 304
Open documentary credits	-	-	239 137 339	-	239 137 339
Guarantees received	-	-	218 564 984	20 557 350	239 122 334
Irrevocable credit facilities					
Granted	-	42 500	-	70 000	112 500
Provided	-	30 567 686	-	-	30 567 686
Total	**1 040 592**	**36 944 014**	**1 279 323 451**	**63 591 166**	**1 380 899 223**

Income					
Interest and similar income (Note 21)	2 638	1 834	507 334	134 308	646 114
Fees and commission income (Note 22)	319	1 923	5 573 848	305	5 576 395
Expenses					
Interest and similar expense (Note 21)	-	(17 335)	(8 320 959)	(456)	(8 338 750)
Net gains/ (losses) arising from financial assets mandatorily measured at fair value through profit or loss (Note 24)	-	-	7 064	-	7 064
General administrative expenses (Note 27)	-	-	-	(39 943)	(39 943)
Loans impairment net of reversals and recoveries (Note 18)	149	(865)	(33 453)	(77 989)	(112 158)
Total	**3 106**	**(14 442)**	**(2 226 166)**	**16 225**	**(2 261 278)**

As mentioned in Note 2.3. and in the Income Statement, Net gains/ (losses) arising from foreign exchange differences concern essentially results arising from foreign exchange transactions with BAI Group entities.

Balances and transactions with other related parties refer essentially to companies in the Sonangol group, BAI’s key shareholder, BAIE’s parent company.

32. Financial instruments: Disclosures (IFRS 7)

In addition to other disclosures already made in this context throughout the previous notes, below we present additional information required under IFRS 7 and, concerning credit risk, the mandatory disclosures under IFRS 9 and Circular Letter no. 2018/00000062, which replaces the CL no. 2/14/DSP, of 26 February.

Own funds (regulatory capital)

The legislation incorporating the Capital Accord (Basel III) entered into force on 1 January 2014 through the legislative package established by Regulation (EU) No. 575/2013 (CRR) of the European Parliament and the Council and Directive 2013/36/EU of the European Parliament and the Council (CRD IV), both approved on 26 June, and the latter still required to be transposed into national legislation by Decree-Law No. 157/2014 of 24 October. Additionally, Regulation (EU) No. 2019/876 of the European Parliament and the Council introduced amendments to the Capital Requirements Regulation (CRR) during 2019.

The risk management system adopted by BAIE is described in the Management Report, a document that is issued together with these financial statements.

The Bank of Portugal issued guidelines on the transition requirements regarding the implementation of IFRS 9. These guidelines allowed a choice between two approaches for recognising the impact on regulatory capital of the adoption of the standard:
i) Transition period of the total impact over a period of 5 years, based on the following percentages for some components: 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021 and 75% in 2022;
ii) Recognition of the full impact on the date of adoption.

The Bank decided to adopt the second approach, therefore, the impact of the adoption of IFRS 9 on the Bank's regulatory capital was fully recognised at the date of adoption of IFRS 9 (1 January 2018).

Under Notice no. 10/2017 and of the CRR, the Bank's own funds and capital requirements are presented as follows:

	31-Dec-19	31-Dec-18
Total own funds (1+2+3+4)	**84 909 508**	**78 132 249**
1. Base Own funds (Tier 1)	**84 909 508**	**78 132 249**
Base Own funds Core (Common Equity Tier 1 - CET 1)	**84 909 508**	**78 132 249**
Paid-up share capital (Note 20)	40 000 000	40 000 000
Legal reserve (Note 20)	8 380 461	7 198 948
Deferred tax reserve - Transitional regime until 2023, 50% inclusion as of 31/12/2019 and 40% as of 31/12/2018	-	-
Unrealised losses on financial assets at FVOCI (100% at 31/12/2019 and 31/12/2018)	(11 133 518)	(7 414 754)
Unrealised gains on financial assets at FVOCI (100% at 31/12/2019 and 31/12/2018)	11 263 733	7 318 666
Adjustment for credit risk – Securities at FVOCI (IFRS 9)	81 187	24 913
Adjustments of Base Own funds Core (CET 1) due to prudential filters	(137 379)	(272 567)
Deferred tax assets depending on future profitability – Transitional regime until 2023, 50% inclusion on 1 Jan 2019 and 40% on 1 Jan 2018	(346 390)	(298 559)
Retained earnings (Note 20)	35 310 849	30 584 794
Net intangible assets (Note 12)	(173 465)	(358 552)
Net profit for the first semester audited (Note 20) (a)	2 195 828	1 855 985
Actuarial losses with liabilities related to pensions (Notes 20 and 30)	(531 798)	(506 625)
2. Complementary Own funds (Tier 2)	-	-
Provisions for general credit risks (Note 18)	-	-
3. Risks covered by own funds	-	-
4. Deduction from total own funds	-	-
Net value of real estate acquired in loan repayment over 2 years ago.	-	-

(a) Profit for the period for 2019 will only be eligible for own funds after the date of issue of the respective limited review report by the Statutory Auditors of the Bank.

	31-Dec-19	31-Dec-18
Total own funds	84 909 508	78 132 249
Requirements for credit risk (on-balance and off-balance sheet) and operational risk	332 529 764	433 745 240
Total own funds ratio	25.5%	18.0%
Base own funds ratio (Tier 1)	25.5%	18.0%
Common equity Tier 1 ratio (CET 1)	25.5%	18.0%

During 2019 and 2018, the Bank complied with all capital requirements defined by the banking supervision entity, Bank of Portugal, in accordance with applicable laws and regulations.

Market risk

Market risk arises from changes in the price of instruments resulting from changes in interest rates, exchange rates, stock prices or commodity prices. In the Bank's current balance sheet management strategy, the asset that is most vulnerable to market changes is the credit portfolio and other securities (Notes 7 and 10) which are classified either as financial assets at fair value through other comprehensive income or as other financial assets measured at amortised cost. The risk analysis of these financial instruments is carried out from a credit risk perspective rather than a market risk perspective, as these assets originate from an investment perspective not with an objective of generation of capital gains on sale. In addition, there is a portfolio of equity securities that are insignificant compared with the total assets of the Bank. Consequently, its monitoring does not require the development of a specific risk management model.

However, as a result of legislative amendments incorporating the Basel III Capital Accord (Regulation (EU) no. 575/2013 (CRR) of the European Parliament and of the Council of 26 June, complemented by the Commission's Delegated Regulation (EU) 2015/61 of 10 October 2014), after 1 October 2015, it became mandatory the constitution of a high quality liquid assets (HQLA) portfolio to meet the short-term liquidity coverage ratio (LCR), that is, to cover net cash requirements for a 30-day period, and the HQLA portfolio cannot be less than the amount corresponding to 25% of the total expected cash outflows for that period. With the introduction of this prudential liquidity requirement, the Bank has invested in eligible assets for this purpose, thus extending the securities portfolio classified as Financial Assets at Fair Value through Other Comprehensive Income (FVOCI).

The Bank's internal regulations define limits by amount, maturity and pre-defined issuers, approved by the Credit Committee (SC), which help to manage the Bank's own portfolio and ensure that market risk is maintained within the risk appetite set by the Board of Directors. These limits are reviewed every six months for investment in commercial paper issues and annually for investment in securities for the HQLA portfolio, in the CC. In addition, whenever there is an intention to make a one-off investment in other issuers, or for periods and amounts not previously defined, they are analysed and approved in the CC.

In order to lower the market risk associated with this type of asset - against obtaining higher short-term profitability, the investment policy focused on investment-grade sovereign bonds with residual term and modified duration relatively short, being the daily maximum Value-at-Risk (VaR) of the portfolio limited to a small percentage of the Bank's own funds.

Market risk is managed on a daily basis by the Trading Room with analysis of information on the VaR of the Bank's securities portfolio, monitored daily by the Risk Management Department (FGR) and monthly by the Monitoring and Risk Management Committee (CAGR).

Liquidity risk

On a daily basis, analysis of information on the residual maturity of the financial assets and liabilities per currency is prepared, calculating for each time range, the difference between cash inflows and cash outflows and their respective liquidity gap for each accumulated and time period. This information makes it possible to identify in a timely manner some of the liquidity gaps and to plan its dynamic coverage, and also to determine the financial resources available to be applied. In terms of balance sheet asset and liability management strategy, the Bank currently maintains a significant portfolio of liquid assets or very-short term liquid assets, given the nature and duration of the liabilities, which allows for liquidity management in the critical period of 1 to 30 days. The Bank's liquidity risk management policy determines cash position limits based on the volume of the Bank's total resources for several time periods and compliance with the LCR liquidity regulatory requirement.

Liquidity risk is managed on a daily basis by the Trading Room based analyses produced daily of liquidity gaps for different time horizons, the Bank's LCR and NSFR (Net Stable Funding Ratio), and monitored daily by the FGR. On a monthly basis, the FGR presents the results of its daily monitoring at the CAGR.

Although the NSFR is only mandatory from June 2021 onwards, BAIE is currently developing initiatives to increase its long-term resources to ensure compliance with this ratio on a permanent basis.

As at 31 December 2019, the contractual residual terms of the financial instruments are as follows:

	Within 3 months	3 months to 1 year	1 to 5 years	Above 5 years or undetermined	Total
Assets					
Cash and deposits at central banks	151 978 991	-	-	-	151 978 991
Loans and advances to credit institutions repayable on demand	24 568 769	-	-	-	24 568 769
Financial assets mandatorily measured at fair value through profit or loss	-	-	170 166	490 136	660 302
Other financial assets at fair value through profit or loss	-	-	-	336 977	336 977
Financial assets at fair value through other comprehensive income	85 100 217	22 870 327	18 379 699	10 900 533	137 250 776
Loans and advances to credit institutions repayable on demand	350 651 818	600 000	39 187 989	-	390 439 807
Loans and advances to customers	5 571 682	24 010 923	47 030 722	2 549 972	79 163 299
Other financial assets at amortised cost	31 516 882	-	-	-	31 516 882
	649 388 359	**47 481 250**	**104 768 576**	**14 277 618**	**815 915 803**
Liabilities					
Other financial liabilities at fair value through profit or loss	-	-	-	(336 977)	(336 977)
Deposits from central banks	-	-	-	-	-
Deposits from other credit institutions	(556 718 259)	-	-	-	(556 718 259)
Deposits from customers	(124 117 344)	(32 991 389)	(13 169 151)	-	(170 277 884)
Lease liabilities – IFRS 16 (Note 19)	(6 210)	(28 811)	(235 427)	(2 070 980)	(2 341 428)
	(680 841 813)	**(33 020 200)**	**(13 404 578)**	**(2 407 957)**	**(729 674 548)**
Derivatives and foreign exchange operations pending settlement (net flow)	15 546	-	-	-	15 546
Difference / Gap	**(31 437 908)**	**14 461 050**	**91 363 998**	**11 869 661**	**86 256 801**
Difference / Accumulated Gap	**(31 437 908)**	**(16 976 858)**	**74 387 140**	**86 256 801**	

As at 31 December 2018, the contractual residual terms of the financial instruments are as follows:

	Below 3 months	3 months to 1 year	1 to 5 years	Above 5 years or undetermined	Total
Assets					
Cash and deposits at central banks	33 310 786	-	-	-	33 310 786
Loans and advances to credit institutions repayable on demand	90 741 545	-	-	-	90 741 545
Financial assets mandatorily measured at fair value through profit or loss	-	757 186	160 190	649 244	1 566 620
Other financial assets at fair value through profit or loss	-	-	-	224 373	224 373
Financial assets at fair value through other comprehensive income	148 057 451	63 817 483	52 495 207	7 214 001	271 584 142
Loans and advances to credit institutions repayable on demand	620 287 587	7 308 497	8 733 627	-	636 329 711
Loans and advances to customers	10 826 554	2 425 761	51 406 295	9 765 495	74 424 105
Other financial assets at amortised cost	31 337 285	1 901 594	-	-	33 238 879
Investments in subsidiaries and associates	-	-	-	948 469	948 469
	934 561 208	**76 210 521**	**112 795 319**	**18 801 582**	**1 142 368 630**
Liabilities					
Other financial liabilities at fair value through profit or loss	-	-	-	(224 373)	(224 373)
Deposits from central banks	(3)	-	-	-	(3)
Deposits from other credit institutions	(746 909 028)	(165 966 707)	-	-	(912 875 735)
Deposits from customers	(103 240 778)	(27 587 387)	-	(5 987 467)	(136 815 632)
	(850 149 809)	**(193 554 094)**	**-**	**(6 211 840)**	**(1 049 915 743)**
Derivatives and foreign exchange operations pending settlement (net flow)	3 102	-	-	-	3 102
Difference / Gap	**84 414 501**	**(117 343 573)**	**112 795 319**	**12 589 742**	**92 455 989**
Difference / Accumulated Gap	**84 414 501**	**(32 929 072)**	**79 866 247**	**92 455 989**	

Currency risk

Within the current currency risk management policy, exchange position limits are established and therefore the various currency exchange positions in the Bank's balance sheet and its currency performance in the market are monitored on a daily basis. Considering the exposure limits established, liquidity needs per currency, and the performance of the various currencies in the market, foreign exchange positions are hedged economically, either through trading in the spot currency market or through the use of derivative financial instruments.

Exchange rate risk is managed by the Trading Room and monitored by the FGR, both on a daily basis. On a monthly basis, the FGR presents the results of this monitoring at the CAGR.

As at 31 December 2019, the breakdown by currency of financial instruments is as follows:

	Euro	USD	Other	Total
Assets				
Cash and deposits at central banks	151 939 343	39 245	403	151 978 991
Loans and advances to credit institutions repayable on demand	10 619 799	10 599 694	3 349 276	24 568 769
Financial assets mandatorily measured at fair value through profit or loss	84 097	299 766	276 439	660 302
Other financial assets at fair value through profit or loss	-	336 977	-	336 977
Financial assets at fair value through other comprehensive income	16 811 602	120 439 174	-	137 250 776
Loans and advances to credit institutions repayable on demand	11 752 337	378 687 470	1	390 439 808
Loans and advances to customers	48 935 745	30 227 555	-	79 163 300
Other financial assets at amortised cost	31 516 882	-	-	31 516 882
	271 659 805	**540 629 881**	**3 626 119**	**815 915 805**
Liabilities				
Other financial liabilities at fair value through profit or loss	-	(336 977)	-	(336 977)
Deposits from other credit institutions	(77 713 871)	(475 895 290)	(3 109 098)	(556 718 259)
Deposits from customers	(113 636 154)	(56 394 711)	(247 019)	(170 277 884)
Passivos de locação – IFRS 16 (Nota 19)	(2 341 428)	-	-	(2 341 428)
Revaluation reserve at fair value	(112 096)	(70 006)	-	(182 102)
	(193 803 549)	**(532 696 984)**	**(3 356 117)**	**(729 856 650)**
Spot foreign exchange transactions pending settlement (net amount)	7 900 000	(7 884 454)	-	15 546
	7 900 000	**(7 884 454)**	**-**	**15 546**
Difference /Gap (Open foreign exchange position)	**N/A**	**48 443**	**270 002**	**318 445**

As at 31 December 2018, the breakdown by currency of financial instruments is as follows:

	Euro	USD	Other	Total
Assets				
Cash and deposits at central banks	33 212 742	62 843	35 201	33 310 786
Loans and advances to credit institutions repayable on demand	48 670 562	40 263 619	1 807 364	90 741 545
Financial assets mandatorily measured at fair value through profit or loss	883 156	521,008	162 456	1 566 620
Other financial assets at fair value through profit or loss	-	224 373	-	224 373
Financial assets at fair value through other comprehensive income	17 058 116	254 526 026	-	271 584 142
Loans and advances to credit institutions repayable on demand	16 617 340	619 712 371	-	636 329 711
Loans and advances to customers	43 658 366	30 765 739	-	74 424 105
Other financial assets at amortised cost	33 238 879	-	-	33 238 879
Investments in subsidiaries and associates	948 469	-	-	948 469
	194 287 630	**946 075 979**	**2 005 021**	**1 142 368 630**
Liabilities				
Deposits from central banks	(3)	-	-	(3)
Other financial liabilities at fair value through profit or loss	-	(224 373)	-	(224 373)
Deposits from other credit institutions	(29 545 769)	(881 832 329)	(1 497 637)	(912 875 735)
Deposits from customers	(77 460 829)	(59 106 529)	(248 274)	(136 815 632)
Revaluation reserve at fair value	(34 131)	83 679	-	49 548
	(107 040 732)	**(941 079 553)**	**(1 745 911)**	**(1 049 866 195)**
Spot foreign exchange transactions pending settlement (net amount)	4 276 000	(4 272 898)	-	3 102
	4 276 000	**(4 272 898)**	**-**	**3 102**
Difference/ Gap (Open foreign exchange position)	**N/A**	**723 527**	**259 111**	**982 638**

Interest rate risk

Interest rate risk occurs whenever there is a mismatch between assets and liabilities or financial instruments recorded off-balance sheet sensitive to changes in interest rate levels. For the purpose of monitoring, in addition to using the prudential approach defined by the Bank of Portugal in its Instruction no. 34/2018, of 26 December, the Bank developed a model of analysis (internal approach) that measures on a monthly basis interest rate risk by applying the discount factors to daily net cash flows (gap / position), that is, to its specific residual repricing period, for all financial instruments considered by BAIE as sensitive to interest rate effect.

In terms of the approach suggested by the Bank of Portugal, for each materially significant currency (in the case of BAI Europa, Euro and US dollars) the gaps of the various interest rate positions and their respective discount factor of parallel shocks are calculated (+/- 200 basis points) in the interest rate curve, in the net interest income and in the Bank's own funds. Cash flows in Euro and US dollars are discounted based on Bloomberg's risk-free yield curves with an impact of +/- 200 basis points on the rates over those periods. However, with respect to the BAIE internal model, parallel shock is only applied in yield curves of +200 basis points, since this is the shock that the BAIE considers most plausible in the current context of interest rates.

When applying its internal model for measuring interest rate risk, BAIE does not take off-balance-sheet items into account, since 68% of the off-balance-sheet liabilities relate to confirmed documentary credits and 77% of the off-balance-sheet assets relate to guarantees received (of which 25% were provided to cover documentary credits). In view of the above, and given the nature of its off-balance sheet items, the Bank considers that these instruments are not subject to interest rate risk.

In its internal model for measuring interest rate risk, BAIE also does not consider the elements that are included in the balance sheet items Other Assets and Other Liabilities because it considers that those are not transactions subject to interest rate risk.

The risk management policy defined by the Bank regarding the definition of exposure limits does not allow for the existence of significant amounts of medium and long-term fixed rate operations.

The interest rate risk is monitored by the FGR, which on a monthly basis presents the results at the CAGR.

As at 31 December 2019, the financial instruments subject to interest rate risk, by type of rate (fixed or variable) and the result of the application of the standard shock + 200 basis points (Bank of Portugal approach, Instruction no. 34/2018) by currency, is as follows:

	EUR		USD (In EUR)		Other currencies (In EUR)	Total (In EUR)
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate		
Total assets	**264,058,144**	**12,733,408**	**428,761,000**	**111,341,563**	**3,644,628**	**820,538,742**
Cash and deposits at central banks	151,939,343	-	39,245	-	403	151,978,991
Loans and advances to credit institutions repayable on demand	10,619,799	-	10,599,694	-	3,349,275	24,568,769
Other loans and advances to credit institutions	11,981,159	-	339,224,996	39,166,815	1	390,372,971
Securities portfolio*	40,441,397	7,892,075	76,971,464	43,959,133	276,439	169,540,508
Loans and advances to customers**	47,196,009	4,841,133	1,901,738	28,215,615	-	82,154,695
Other assets	1,880,435	-	23,862	-	18,511	1,922,809
Total liabilities	**(193,646,525)**	**-**	**(531,667,161)**	**-**	**(5,682,024)**	**(730,995,710)**
Deposits from other credit institutions and customers*	(191,1170,878)	-	(531,667,161)	-	(3,356,117)	(726,044,121)
Other liabilities	(2,475,647)	-	(150,035)	-	(2,325,907)	(4,951,589)
Total off-balance sheet	**(104,698,510)**	**-**	**82,359,639**	**-**	**999,787**	**(21,339,084)**
Off-balance sheet	(104,698,510)	-	82,359,639	-	999,787	(21,339,084)

* Interest receivable excluded.

** Interest receivable, impairment and deferred income excluded.

Currency	+200 bp BP Approach	+200 bp Internal Approach
EUR	(1,747,918)	98,616,742
USD *	(202,864)	(88,196,864)
Total	**(1,950,783)**	**10,419,878**

* Amounts in EUR

In accordance with Instruction no. 34/2018 of the Bank of Portugal, the analysis of interest rate risk does not include the following accounting items: Other tangible assets and right-of-use assets; Intangible assets; Current and deferred tax assets; Other financial liabilities at fair value through profit or loss; Provisions and Current and deferred tax liabilities.

As at 31 December 2019 and 2018, the result of the application of the standard shock (Bank of Portugal approach, Instruction no. 34/2018), in the economic value and the expected net interest income for one year, is as follows:

Result of the application of the standard shock by the Supervisor	31-Dec-19	31-Dec-18
Estimated economic value of the banking portfolio without interest rate changes	83 463 862	160 028 872
Change in the economic value of the banking portfolio resulting from a parallel rise in the yield curve after the supervisor's standard shock	(202 177)	(1 054 977)
Change in the economic value of the banking portfolio resulting from a parallel decline in the yield curve after the supervisor's standard shock	348 882	1 344 109
Expected net interest income at 1 year without interest rate changes	6 347 624	4 054 471
Change in expected 1-year net interest income resulting from a parallel rise in the yield curve after the supervisor's standard shock	(66 822)	(41 388)
Change in expected 1-year net interest income resulting from a parallel decline in the yield curve after the supervisor's standard shock	44 510	42 832

At 31 December 2019, the sensitivity analysis of the Bank's economic value to a parallel increase of 2.0% in interest rates is as follows:

	31-Dec-19		
	Bank of Portugal approach, Instruction no. 34/2018		Internal approach
	Prior Model (Without shock)	Post Model (Shock + 2%)	(Shock + 2%)
Overnight	27 380 799	27 375 466	17 949 788
Greater than overnight and until 1 month	15 835 587	15 509 434	(12 580 927)
Greater than 1 month and up to 3 months	(9 619 544)	(9 175 135)	(33 434 114)
Greater than 3 month and up to 6 months	2 276 266	1 745 929	14 654 670
Greater than 6 month and up to 9 months	(1 282 727)	(1 272 802)	(187 572)
Greater than 9 month and up to 12 months	3 820 918	3 076 579	9 082 946
Greater than 12 month and up to 1.5 years	1 574 460	1 440 707	33 981 566
Greater than 1.5 years and up to 2 years	9 028 073	8 776 624	13 134 827
Greater than 2 years and up to 3 years	9 899 355	9 766 458	18 774 966
Greater than 3 years and up to 4 years	377 420	346 469	12 040 942
Greater than 4 years and up to 5 years	1 910 007	1 716 332	8 273 818
Greater than 5 years and up to 6 years	(3 407 735)	(3 355 515)	4 803 387
Greater than 6 years and up to 7 years	(13 200 136)	(13 074 535)	164 712
Greater than 7 years and up to 8 years	186 097	159 705	442 993
Greater than 8 years and up to 9 years	472 452	398 064	969 287
Greater than 9 years and up to 10 years	1 064 805	772 229	2 543 368
Greater than 10 years and up to 15 years	6 002 835	6 177 879	2 209 377
Greater than 15 years and up to 20 years	31 144 927	31 129 192	1 059 703
Greater than 20 years	-	-	-
Net position	**83 463 862**	**81 513 079**	**93 883 740**

At 31 December 2018, the sensitivity analysis of the Bank's economic value to a parallel increase of 2.0% in interest rates is as follows:

	31-Dec-18		
	Bank of Portugal approach, Instruction no. 34/2018		Internal approach
	Prior Model (Without shock)	Post Model (Shock + 2%)	(Shock + 2%)
Remaining elements	(7 403 507)	-	-
Overnight	-	(7 413 846)	-
Greater than overnight and until 1 month	129 243 488	129 254 785	110 689 209
Greater than 1 month and up to 3 months	108 823 541	107 929 409	38 220 237
Greater than 3 month and up to 6 months	(90 978 072)	(88 391 078)	(118 364 026)
Greater than 6 month and up to 9 months	(3 977 901)	(3 973 043)	(1 381 972)
Greater than 9 month and up to 12 months	433 283	435 395	8 258 473
Greater than 12 month and up to 1.5 years	12 095 271	11 400 608	54 717 949
Greater than 1.5 years and up to 2 years	(643 135)	(604 609)	21 841 128
Greater than 2 years and up to 3 years	1 791 125	1 640 585	25 221 052
Greater than 3 years and up to 4 years	2 717 500	2 322 350	10 455 033
Greater than 4 years and up to 5 years	935 669	775 796	7 710 425
Greater than 5 years and up to 6 years	1 045 623	872 220	1 126 304
Greater than 6 years and up to 7 years	649 895	564 232	1 263 949
Greater than 7 years and up to 8 years	830 929	700 023	628 445
Greater than 8 years and up to 9 years	527 995	430 517	649 756
Greater than 9 years and up to 10 years	2 314 478	1 816 654	2 133 161
Greater than 10 years and up to 15 years	1 371 638	954 440	1 218 021
Greater than 15 years and up to 20 years	407 564	259 458	223 599
Greater than 20 years	-	-	-
Net position	**160 185 385**	**158 973 895**	**164 610 742**

On 15 February 2020, the new Instruction No. 3/2020 of Bank of Portugal, amending Instruction No. 34/2018 of Bank of Portugal, came into force, with the purpose of updating the standardised reporting of exposure to interest rate risk resulting from activities not included in the trading portfolio and the impact on the change in economic value and financial margin of a sudden and unexpected change in interest rates of 200 basis points in the yield curve. Among other aspects, through this change, updates are implemented as a result of the European Banking Authority's Guidelines on the management of interest rate risk arising from non-trading activities (previously called EBA/GL/2015/08 Guidelines and now called EBA/GL/2018/02 Guidelines), of 19 July 2018. The first reporting to Bank of Portugal is due on 31 December 2019 and should be delivered by 31 May 2020.

Encumbered and non-encumbered assets
As at 31 December 2019 and 2018, in compliance with the guidelines of the European Banking Authority (EBA/GL/2014/3) and Instruction No. 28/2014 of Bank of Portugal, dated 15 January 2015, the following table presents the information related to:

i) Bank assets which are encumbered and non-encumbered (Model A)

	31-Dec-19				31-Dec-18			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non- encumbered assets	Fair value of non-encumbered assets
Assets	4 271 236	4 271 236	823 087 344	818 493 825	9 220 859	9 220 858	1139 656 955	1136 781 372
Equity instruments (Notes 5 and 6)	-	-	720 840	720 840	-	-	1 630 803	1 630 803
Debt securities (Notes 5,7 and 10)	1 000 772	1 000 772	168 085 646	168 043 325	6 000 772	6 000 772	298 997 482	298 982 439
Other assets	3 270 464	3 270 464	653 280 858	649 729 660	3 220 086	3 220 086	839 028 670	836 168 130

ii) Collateral received (Model B)

	31-Dec-19		31-Dec-18	
	Fair value of the encumbered collateral received or debt securities issued	Fair value of the encumbered collateral received or debt securities issued and encumbered	Fair value of the encumbered collateral received or debt securities issued	Fair value of the encumbered collateral received or debt securities issued and encumbered
Collateral received	106 288 792	106 288 792	271 870 641	271 870 641
Equity instruments	25 548 427	25 548 427	20 507 991	20 507 991
Debt securities	-	-	-	-
Other assets	80 740 365	80 740 365	251 362 650	251 362 650

iii) Encumbered assets, encumbered collateral received and associated liabilities (Model C)

	31-Dec-19		31-Dec-18	
	Associated liabilities, contingent liabilities and borrowed securities	Assets, collateral received and debt securities issued that are not covered by own bonds or encumbered ABS	Associated liabilities, contingent liabilities and borrowed securities	Assets, collateral received and debt securities issued that are not covered by own bonds or encumbered ABS
Carrying amount of selected financial liabilities	-	-	-	-

iv) Information related to the importance of the encumbrance on assets (Model D)

The institution's level of encumbrance on assets, as measured by the relative weight of the assets encumbered in the Bank's total assets, is less than 1%. Collateral received from customers is not reflected in the Bank's balance sheet and is not available for encumbrance since the bank is not authorised to sell those assets or providing them again as collateral, except in the event of default by the owner of the security deposit.

Credit risk and concentration credit risk

Overall, the credit risk on the Bank's assets is represented by three large groups of credit operations, namely: i) exposure to credit institutions, mainly in the interbank money market; ii) loans represented (or not) by securities; and financial assets at fair value through other comprehensive income.

Maximum exposure to credit risk

Description	31-Dec-19			31-Dec-18		
	Gross exposure (1)	Provisions and impairment	Actual exposure (2)	Gross exposure (1)	Provisions and impairment	Actual exposure (2)
Assets						
Financial assets mandatorily at fair value through profit or loss	660 302	-	660 302	1,566,620	-	1,566,620
Other financial assets at fair value through profit or loss	336 977	-	336 977	224 373	-	224 373
Financial assets at fair value through other comprehensive income (3)	137 250 776	-	137 250 776	271 584 142	-	271 584 142
Other loans and advances to credit institutions	390 650 553	210 746	390 439 807	636 545 130	215 419	636 329 711
Loans and advances to customers	81 876 057	2 712 758	79 163 299	76 304 131	1 880 026	74 424 105
Other financial assets at amortised cost	31 559 203	42 321	31 516 882	33 253 922	15 043	33 238 879
Off-balance sheet						
Guarantees and securities	681 960	373 342	308 618	1 212 809	95 351	1 117 458
Commitments to third parties	46 837 047	15 358	46 821 689	11 169 266	18 822	11 150 444
Total	689 852 875	3 354 525	686 498 350	1031 860 393	2 224 660	1029 635 733

Notes:

(1) Gross exposure: Book value before provisions and impairment.

(2) Actual exposure: Gross exposure less provisions and impairment.

(3) In accordance with IFRS 9, the impairment calculated for these financial assets is recorded in equity (fair value reserve).

The **portfolio of loans to customers** consists almost entirely of loans and advances to companies and public entities (Note 9). The current credit risk management process for customers is based on the specific characteristics of the customer and the product, and of the credit cycle. Credit risk analysis are carried out based on the customer's updated financial information as well as on other additional information (management skills, future expectations, specific market performance and expectations, competitive capacity, cash flows, etc.). Periodically, customers are asked for updated financial information for the purpose of monitoring the quality of exposure risk.

In addition, **maximum exposure limits** are defined by:

i) Customer or by group of customers linked to each other and by emerging markets depending on the Bank's own funds (25% of own funds);
ii) Business sector and by country according to their relative weight in the Bank's total portfolio and own funds (the lower of 25% of the total loan portfolio, net of collateral deposits and the amount of own funds exceeding the minimum share capital required, Euro 17.5 million).

For exposures to **credit institutions**, counterparty limits are defined based on the financial information available to the credit institution, including the respective rating assigned by international agencies. On a regular basis, counterparty limits are reviewed through internal analysis based on up-to-date market financial information and its counterparts.

The portfolio of **financial assets at fair value through other comprehensive income** consists essentially of sovereign bonds and multilateral investment grade agencies with relatively short-term residual maturities.

In 2019, the exposure and impairment of financial assets (except the portfolio of loans and advances to customers) presents the following movements:

	Stage 1			Stage 2			Stage 3			Total		
	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment
Loans and advances to credit institutions repayable on demand												
Balance on 1 January 2019	90 743 983	90 743 983	2 438	-	-	-	-	-	-	90 743 983	90 743 983	2 438
Stage change	(192 380)	(192 380)	(744)	192 380	192 380	744	-	-	-	-	-	-
Changes in cash	(66 164 626)	(66 164 626)	-	-	-	-	-	-	-	(66 164 626)	(66 164 626)	-
Balance on 31 December 2019	**24 386 977**	**24 386 977**	**9 844**	**192 380**	**192 380**	**744**	**-**	**-**	**-**	**24 579 357**	**24 579 357**	**10 588**
Financial assets at fair value through other comprehensive income												
Balance on 1 January 2019	271 584 142	271 680 297	24 913	-	-	-	-	-	-	271 584 142	271 680 297	24 913
Changes in financial assets	(133 447 574)	(133 673 253)	56 439	-	-	-	-	-	-	(133 447 574)	(133 673 253)	56 439
Foreign exchange differences and other movements	(885 792)	(887 805)	(165)	-	-	-	-	-	-	(885 792)	(887 805)	(165)
Balance on 31 December 2019	**137 250 776**	**137 119 239**	**81 187**	**-**	**-**	**-**	**-**	**-**	**-**	**137 250 776**	**137 119 239**	**81 187**
Loans and advances to credit institutions												
Balance on 1 January 2019	636 545 130	636 545 130	215 419	-	-	-	-	-	-	636 545 130	636 545 130	215 419
Changes in financial assets	(250 222 375)	(250 222 375)	(5 605)	-	-	-	-	-	-	(250 222 375)	(250 222 375)	(5 605)
Foreign exchange differences and other movements	4 327 798	4 327 798	932	-	-	-	-	-	-	4 327 798	4 327 798	932
Balance on 31 December 2019	**390 650 553**	**390 650 553**	**210 746**	**-**	**-**	**-**	**-**	**-**	**-**	**390 550 553**	**390 550 553**	**210 746**
Other financial assets at amortised cost												
Balance on 1 January 2019	33 253 922	33 253 922	15 043	-	-	-	-	-	-	33 253 922	33 253 922	15 043
Changes in financial assets	(1 694 719)	(1 694 719)	27 278	-	-	-	-	-	-	(1 694 719)	(1 694 719)	27 278
Balance on 31 December 2019	**31 559 203**	**31 559 203**	**42 321**	**-**	**-**	**-**	**-**	**-**	**-**	**31 559 203**	**31 559 203**	**42 321**

In 2019, the exposure and impairment of the portfolio of loans to customers and provisions for off-balance sheet exposures, presents the following movements:

	Stage 1			Stage 2			Stage 3			Total		
	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment
Balance sheet on 1 January 2019	68 407 381	67 835 555	1 141 399	8296734	7 857 462	738 627	-	-	-	76 704 115	75 693 016	1 880 026
Change in exposure	9 602 684	6 933 760	156 907	(3 713 324)	(3 724 052)	675 825	-	-	-	5 889 360	3 659 708	832 732
Stage improvements	1 241 320	1 241 320	2 393	(1 241 320)	(1 241 320)	(2 393)	-	-	-	-	-	-
Stage 2	1 241 320	1 241 320	2 393	(1 241 320)	(1 241 320)	(2 393)	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-	-	-	-
Stage degradation	(1 955 348)	(1 955 348)	(171 237)	(595 019)	(595 019)	(1 109 738)	2 550 366	2 550 366	1 280 975	-	-	-
Stage 1	(1 955 348)	(1 955 348)	(171 237)	1 955 348	1 955 348	171 237	-	-	-	-	-	-
Stage 2	-	-	-	(2 550 366)	(2 550 366)	(1 280 975)	2 550 366	2 550 366	1 280 975	-	-	-
Balance on 31 December 2019	**77 296 038**	**137 119 239**	**1 129 463**	**2 747 071**	**2 747 071**	**302 321**	**2 550 366**	**2 550 366**	**1 280 975**	**82 593 475**	**137 119 239**	**2 712 758**

	Stage 1			Stage 2			Stage 3			Total		
	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment
Off-balance sheet on 1 January 2019	263 368 199	6 319 476	41 823	2 301 386	468 199	6 774	85 964	13 119	65 575	265 755 549	6 800 794	114 172
Change in exposure	(115 165 582)	30 376 510	278 309	2 339 366	459 952	(3 782)	2 529 714	-	0	(110 296 503)	30 836 462	274 528
Stage improvements	4 640 752	928 150	2 992	(4 640 752)	(928 150)	(2 992)	-	-	-	-	-	-
Stage 2	4 640 752	928 150	2 992	(4 640 752)	(928 150)	(2 992)	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-	-	-	-
Stage degradation	(2 604)	(521)	(5)	2 604	521	5	-	-	-	-	-	-
Stage 1	(2 604)	(521)	(5)	2 604	521	5	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-	-	-	-	-	-
Balance on 31 December 2019	**152 840 764**	**37 623 616**	**323 120**	**2 604**	**521**	**5**	**2 615 678**	**13 119**	**65 575**	**155 459 046**	**37 637 256**	**388 700**

As at 31 December 2019 and 2018, the Bank does not present overdue loans and interest in its loans and advances to customer's portfolio.

As at 31 December 2019, in compliance with Instruction of Bank of Portugal No. 20/2019 of 15 November 2019, the following information is presented:

a) Credit quality of productive and non-productive exposures and related provisions, by days overdue:

Exposure detail by type and segment	Productive Exposures			Non-Productive Exposures									TOTAL
		in compliance or < 30 days overdue	> 30 days and < 90 days overdue		unlikely to comply, in compliance or < 30 days overdue	> 90 days and < 180 days overdue	> 180 days and < 1 year overdue	> 1 year and < 2 years overdue	> 2 years and < 5 years overdue	> 5 years and < 7 years overdue	> 7 years overdue	In default	
Loans granted	**141 370 097**	**141 370 097**	-	**2 550 366**	**2 550 366**	-	-	-	-	-	-	**1 679 199**	**143 920 463**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Government	9 855 463	9 855 463	-		-	-	-	-	-	-	-	-	9 855 463
Financial institutions	61 326 988	61 326 988	-		-	-	-	-	-	-	-	-	61 326 988
Financial companies	16 270 847	16 270 847	-	1 679 199	1 679 199	-	-	-	-	-	-	1 679 199	17 950 046
Non-financial companies	51 089 635	51 089 635	-	871 167	871 167	-	-	-	-	-	-	-	51 960 802
of which SMEs	17 432 967	17 432 967	-	-	-	-	-	-	-	-	-	-	17 432 967
Retail	2 827 165	2 827 165	-	-	-	-	-	-	-	-	-	-	2 827 165
Debt securities	**168 678 431**	**168 678 431**	-	-	-	-	-	-	-	-	-	-	**168 678 431**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Government	98 139 416	98 139 416	-	-	-	-	-	-	-	-	-	-	98 139 416
Financial institutions	-		-	-	-	-	-	-	-	-	-	-	-
Financial companies	30 974 713	30 974 713	-	-	-	-	-	-	-	-	-	-	30 974 713
Non-financial companies	39 564 302	39 564 302	-	-	-	-	-	-	-	-	-	-	39 564 302
Off-balance sheet exposures	**152 843 368**	n.a	n.a.	**2 615 678**	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	**2 615 678**	**155 459 046**
Central banks	-	n.a	n.a.	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-	-
Government	24 390 600	n.a	n.a.	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-	24 390 600
Financial institutions	108 293 342	n.a	n.a.	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-	108 293 342
Financial companies	-	n.a	n.a.	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-	-
Non-financial companies	19 668 565	n.a	n.a.	2 615 678	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2 615 678	22 284 243
Retail	490861	n.a	n.a.	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-	490 861
Total	**462 891 896**	**310 048 528**	-	**5 166 044**	**2 550 366**	-	-	-	-	-	-	**4 294 877**	**468 057 940**

As at 31 December 2019, the off-balance sheet exposure in default relates to irrevocable credit facilities from a customer whose balance sheet exposure is classified under Stage 3.

b) Productive and non-productive exposures and related provisions:

Detail of exposures and impairment by segment	Gross Credit						Impairment						Write-offs	Collateral	
	Productive Exposures			Non-Productive Exposures			Productive Exposures			Non-Productive Exposures				Productive exposures	Non-Productive exposures
		Stage 1	Stage 2		Stage 2	Stage 3		Stage 1	Stage 2		Stage 2	Stage 3			
Loans granted	**141 370 097**	**138 623 025**	**2 747 071**	**2 550 366**	-	**2 550 366**	**1 578 081**	**1 275 760**	**302 321**	**1 280 975**	-	**1 280 975**	-	**41 375 176**	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Government	9 855 463	9 855 463	-	-	-	-	516 384	516 384	-	-	-	-	-	2 970 341	-
Financial institutions	61 326 988	61 326 988	-	-	-	-	146 297	146 297	-	-	-	-	-	20 659 825	-
Financial companies	16 270 847	16 270 847	-	1 679 199	-	1 679 199	485 040	485 040	-	845 391	-	845 391	-	470	-
Non-financial companies	51 089 635	50 090 552	999 083	871 167	-	871 167	108 820	106 431	2 389	435 583	-	435 583	-	17 474 130	-
of which SMEs	17 432 967	16 433 884	999 083	-	-	-	36 542	34 154	2 389	-	-	-	-	-	-
Retail	2 827 165	1 079 176	1 747 988	-	-	-	321 540	21 608	299 932	-	-	-	-	-	-
Debt securities	**168 678 431**	**168 678 431**	-	-	-	-	**123 508**	**123 508**	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Government	98 139 416	98 139 416	-	-	-	-	21 309	21 309	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial companies	30 974 713	30 974 713	-	-	-	-	4 262	4 262	-	-	-	-	-	-	-
Non-financial companies	39 564 302	39 564 302	-	-	-	-	97 938	97 938	-	-	-	-	-	-	-
Off-balance sheet exposures	**152 843 368**	**152 840 764**	**2 604**	**2 615 678**	-	**2 615 678**	**323 125**	**323 120**	**5**	**65 575**	-	**65 575**	-	**50 490 320**	**136 906**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Government	24 390 600	24 390 600	-	-	-	-	-	-	-	-	-	-	-	23 171 070	-
Financial institutions	108 293 342	108 293 342	-	-	-	-	307 769	307 769	-	-	-	-	-	26 090 323	-
Financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial companies	19 668 565	19 665 961	2 604	2 615 678	-	2 615 678	12 893	12 893	5	65 575	-	65 575	-	824 760	136 906
Retail	490861	490 861	-	-	-	-	2 462	2 462	-	-	-	-	-	404 167	-
Total	**462 891 896**	**460 142 220**	**2 749 676**	**5 166 044**	-	**5 166 044**	**2 024 713**	**1 722 388**	**302 325**	**1 346 550**	-	**1 346 550**	-	**91 865 496**	**136 906**

In 2019, the Bank did not obtain any collateral or guarantees through taking ownership and execution proceedings.

Restructured loans operations (deferred operations) were identified in accordance with Implementing Regulation (EU) 2015/1278 from the Commission of 9 July 2015, which establishes the definition of deferred Exposures (credit restructured due to financial difficulties of the customer).

According to this Regulation, the deferral measures are concessions made to a debtor who is going through or will soon be experiencing difficulties in meeting their financial commitments ("financial difficulties”). A concession may relate to one of the following actions:

(a) changes to the terms and conditions of such contracts (in particular, the extension of repayment periods, introduction of grace periods, interest capitalisation, reduction of interest rates, forgiveness of interest or capital) considering that the debtor would be unable to meet due to his financial difficulties resulting in an insufficient debt service capacity and that would not be granted if the debtor did not go through those financial difficulties;
(b) full or partial refinancing of a problematic debt contract, which would not be granted if the debtor did not go through those financial difficulties.

A customer is considered to be in financial difficulties when there are unfulfilled financial obligations to the institution or, given the available information, if it is expected that the customer will not comply.

The Bank's restructuring procedures include extension of initial payment terms, changing and deferring payments initially estimated, and strengthening collateral. Restructuring practices and policies are based on criteria which, from the Bank's management point of view, indicate that payments are likely to continue. The risk associated with the restructuring measures applied relates mainly to the inability to comply with the new payment plans agreed, despite the restructuring carried out. Following a loan restructuring, the Bank continues to monitor the customer’s financial situation, as well as compliance with the new financial plan, in order to anticipate / avoid possible defaults.

Loans granted to customers whose terms have been renegotiated, are no longer considered overdue and are treated as new loans after increase of guarantees or full payment of interest and other overdue charges.

Not all renegotiated loans would be fully due as of the reference date, depending if the negotiation had or not taken place.

As at 31 December 2019 there are no credit operations in the portfolio whose terms and conditions have been renegotiated due to customer’s economic difficulties (31 December 2018: Euro 45,992).

As at 31 December 2019, under the terms of Instruction No. 20/2019 of Bank of Portugal of 15 November 2019, the credit quality of restructured exposures is as follows:

	Nominal value of restructured exposures				**Accumulated impairment**		**Collateral received and financial guarantees received on restructured exposures**	
	Restructured - productive	Restructured – non-productive	Of which defaulted	Of which impaired	In productive restructurings	In non-productive restructurings		Of which non-productive
Loans granted	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-
Financial companies	-	-	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-	-	-
Individuals	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-
Credit facilities granted	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

However, these transactions are not considered non-performing loans, under the terms defined by the Implementing Regulation (EU) 2015/1278 from the Commission.

Regarding the Commercial Banking and Investment Banking operations, the Credit Risk Department (DRC) is responsible for ensuring: (i) the detailed and independent assessment of the credit risk inherent to each credit transaction proposed by these areas; (ii) compliance with the business strategy defined by the Board of Directors and the prudential rules established by the banking supervision entity; (iii) ongoing monitoring of credit portfolio risk; and (iv) the follow-up of recovery processes in case of default.

The approval of credit granting is the exclusive competence of the members of the Board of Directors, the Board of Directors or the Credit Committee, depending on the amounts involved, and limits of exposure per customer are planned in the internal regulations as well as for groups of customers linked by business sector and by geography. With regard to some credit operations of specified amounts, the Credit Committee has authorised the grant decision be taken jointly by the Heads of DBC and DRC.

For the Trading Room operations, DRC ensures the regular independent assessment of the financial situation of each counterparty (institution/entity), proposing exposure limits for each of these counterparties, for approval in the Credit Committee.

DRC confirms the valuation of guarantees associated with all exposures (financial entities and non-financial entities) during the term of those operations, as well as the registration and updating of the amount of collateral in the IT system.

The amount of real guarantees reflects the fair value recorded in off-balance sheet items. For purposes of impairment analysis, the amount of the credit covered by the collateral received is limited to the amount of the liability and cannot be considered for coverage of other exposures of the customers.

DRC makes a monthly estimate of impairment losses for all exposures with credit risk. Every six months, DRC prepares a more detailed report of impairment and provisions made, as well as possible write-off proposals, which are assessed and approved by the Bank's Credit Committee. This report is analysed by External Auditors, by the Supervisory Board and by the Bank of Portugal.

The write-off is proposed for operations that are considered totally irrecoverable, based on the advice of legal advisers involved with each specific dispute.

Credit and concentration risks are monitored daily by FGR and monthly by CAGR.

Quantitative disclosures on credit risk management policy

a) Detail of exposures (excluding monthly commissions and advance interest) and impairment:

31-Dec-2019		Credit in compliance				Credit in default		Impairment			
	Total exposure	<30 days overdue (without signs)	<30 days overdue (with signs)	>30 days overdue and <90 days overdue	Of which restructured	Total in default (>90 days overdue)	Of which restructured	Total Impairment	Credit in compliance (<30 days overdue)	Credit in default (between 30-90 days	Credit in default (>90 days overdue)
Public administration (regional and loc	9 855 463	9 855 463	-	-	-	-	-	516 384	516 384	-	-
Construction and CRE	27 590 814	27 590 814	-	-	-	-	-	61037	61037	-	-
Corporate	42 320 034	41864 190	455 844	-	-	-	-	1813 797	1813 797	-	-
Others	2 827 165	2 827 165	-	-	-	-	-	321540	321540	-	-
Total	**82 593 475**	**76 704 115**	**455 844**	**-**	**-**	**-**	**-**	**2 712 758**	**2 712 758**	**-**	**-**

31-Dec-2018		Credit in compliance				Credit in default		Impairment			
	Total exposure	<30 days overdue (without signs)	<30 days overdue (with signs)	>30 days overdue and <90 days overdue	Of which restructured	Total in default (>90 days overdue)	Of which restructured	Total Impairment	Credit in compliance (<30 days overdue)	Credit in default (between 30-90 days overdue)	Credit in default (>90 days overdue)
Public administration (regional and local)	17 701 050	17 701 050	-	-	-	-	-	659 252	659 252	-	-
Construction and CRE	19 900 058	19 900 058	-	-	-	-	-	130 961	130 961	-	-
Corporate	35 755 029	35 755 029	-	-	-	-	-	966 777	966 777	-	-
Others	3 347 978	3 347 978	-	-	45 992	-	-	123 035	123 035	-	-
Total	**76 704 115**	**76 704 115**	**-**	**-**	**45 992**	**-**	**-**	**1 880 026**	**1 880 026**	**-**	**-**

b) Detail of the portfolio by level of risk:

	Exposure on 31-Dec-2019				Impairment on 31-Dec-2019			
	Assets without a significant deterioration of credit risk (Stage 1)	Assets with a significant deterioration of credit risk (Stage 2)	Assets in default (Stage 3)	Total	Assets without a significant deterioration of credit risk (Stage 1)	Assets with a significant deterioration of credit risk (Stage 2)	Assets in default (Stage 3)	Total
Construction and CRE	26 591 731	999 083	-	**27 590 814**	58 648	2 389	-	**61 037**
Corporate	39 769 668	-	2 550 366	**42 320 034**	532 822	-	1 280 975	**1 813 797**
Public administration (regional and local)	9 855 463	-	-	**9 855 463**	516 384	-	-	**516 384**
Other	1 079 176	1 747 988	-	**2 827 164**	21 608	299 932	-	**321 540**
Total	**77 296 038**	**2 747 071**	**2 550 366**	**82 593 475**	**1 129 463**	**302 321**	**1 280 975**	**2 712 759**

As at 31 December 2019, there are customers whose exposure is classified under Stage 3, although they do not present any default or restructuring, through individual credit analysis.

	Exposure on 31-Dec-2018				Impairment on 31-Dec-2018			
	Assets without a significant deterioration of credit risk (Stage 1)	Assets with a significant deterioration of credit risk (Stage 2)	Assets in default (Stage 3)	Total	Assets without a significant deterioration of credit risk (Stage 1)	Assets with a significant deterioration of credit risk (Stage 2)	Assets in default (Stage 3)	Total
Construction and CRE	19 900 058	-	-	**19 900 058**	130 961	-	-	**130 961**
Corporate	28 727 073	7 027 956	-	**35 755 029**	331 830	634 948	-	**966 778**
Public administration (regional and local)	17 701 050	-	-	**17 701 050**	659 252	-	-	**659 252**
Other	2 079 200	1 268 778	-	**3 347 978**	19 355	103 680	-	**123 035**
Total	**68 407 381**	**8 296 734**	**-**	**76 704 115**	**1 141 398**	**738 628**	**-**	**1 880 026**

c) Detail of the credit portfolio by segment and year of production:

	31-Dec-19											
	Construction and CRE			Corporate			Others			Public Administration		
Year of production	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2008	-	-	-	1	1 679 199	845 391	-	-	-	-	-	-
2012	-	-	-	-	-	-	-	-	-	1	3 162 666	14 424
2013	-	-	-	-	-	-	3	219 568	15 151	1	6 692 797	501 960
2014	-	-	-	1	8 872 283	11 746	-	-	-	-	-	-
2015	-	-	-	1	667 616	66 762	6	1 201 247	170 741	-	-	-
2016	-	-	-	2	2 194 814	4 177	1	3 548	9	-	-	-
2017	-	-	-	-	-	-	1	331 873	11 213	-	-	-
2018	3	12 717 146	21 869	3	4 811 096	150 427	1	682 777	124 224	-	-	-
2019	24	14 873 668	39 168	68	24 095 026	735 294	4	388 152	202	-	-	-
Total	**27**	**27 590 814**	**61 037**	**76**	**42 320 034**	**1 813 797**	**16**	**2 827 165**	**321 540**	**2**	**9 855 463**	**516 384**

	31-Dec-18											
	Construction and CRE			Corporate			Others			Public Administration		
Year of production	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2008	-			1	1 636 460	286 380				-	-	-
2010	1	439 713	2 894	-	-	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-	-	-	1	9 490 445	43 457
2013	-	-	-	-	-	-	3	289 570	2 696	1	8 210 605	615 795
2014	-	-	-	1	11 199 679	73 704	-	-	-	-	-	-
2015	-	-	-	1	1 528 384	152 838	8	1 707 611	107 308	-	-	-
2016	2	4 318 953	28 423	2	4 560 771	313 316	2	133 016	73	-	-	-
2017	-	-	-	1	305 780	84	1	374 714	3 488	-	-	-
2018	9	15 141 394	99 644	62	16 523 955	140 656	2	843 067	9 470	-	-	-
Total	**12**	**19 900 059**	**130 961**	**68**	**35 755 029**	**966 778**	**16**	**3 347 978**	**123 035**	**2**	**17 701 050**	**659 252**

d) Detail of the gross amount of credit exposure and impairment assessed on an individual basis:

Detail of gross amount of credit exposure by geography:

Country	31-Dec-19		31-Dec-18	
	Gross loan	Total impairment	Gross loan	Total impairment
Angola (AGO)	12 561 337	837 713	21 141 752	779 931
United Arab Emirates (ARE)	1 679 199	845 391	1 636 459	286 380
Gibraltar (GIB)	-	-	90 704	597
Portugal (PRT)	60 035 267	571 555	46 919 478	624 825
United States of America (USA)	669 203	2 060	439 712	2 894
Cayman Islands (CYM)	4 482 566	448 257	1 528 384	152 838
Spain (SP)	102 443	29	-	-
Switzerland (CHE)	-	-	2 939 375	19 344
Netherlands (NHL)	2 008 250	6 173	2 008 251	13 217
Monaco (MCO)	229 846	64	-	-
France (FRA)	825 364	1 517	-	-
Total	**82 593 475**	**2 712 758**	**76 704 115**	**1 880 026**

Detail of gross amount of credit exposure by business sector, including interest receivable:

Business sector	31-Dec-19		31-Dec-18	
	Gross loan	Total impairment	Gross loan	Total impairment
Financial activities and insurance	17 950 046	1 330 431	8 052 925	471 387
Real estate activities	13 352 891	31 083	9 893 203	65 106
Public administration (regional and local)	9 855 463	516 384	17 701 050	659 252
Accommodation, restaurants and similar	2 640 664	7 948	-	-
Trade and repair	5 650 135	12 679	13 394 508	379 357
Construction	7 170 826	18 360	3 965 379	26 096
Leather, wood and cork industries	999 083	2 389	500 284	3 292
Food, beverage and tobacco industries	670 954	413	634 357	4 175
Metal industries	-	-	499 891	7 232
Machinery and equipment	871 167	435 583	1 876 973	32 214
Other activities and Retail	2 827 165	321 540	3 347 979	123 037
Other business services	19 617 568	35 591	16 531 786	108 794
Textiles	-	-	305 780	84
Transportation and storage	987 515	358	-	-
Total	**82 593 475**	**2 712 758**	**76 704 115**	**1 880 026**

e) Detail of the restructured credit portfolio, by restructuring measure applied:

	31-Dec-19								
	Performing loans			Non-performing loans			Total		
Measure	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Term extension	-	-	-	-	-	-	-	-	-
Transfer of credit	-	-	-	-	-	-	-	-	-
Conversion into M/L term with the repayment plan	-	-	-	-	-	-	-	-	-
Definition of repayment plan	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-

	31-Dec-18								
	Performing loans			Non-performing loans			Total		
Measure	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Term extension	1	45 992	1 933	-	-	-	1	45 992	1 933
Transfer of credit	-	-	-	-	-	-	-	-	-
Conversion into M/L term with the repayment plan	-	-	-	-	-	-	-	-	-
Definition of repayment plan	-	-	-	-	-	-	-	-	-
Total	**1**	**45 992**	**1 933**	-	-	-	**1**	**45 992**	**1 933**

f) Changes in inflows and outflows in the restructured credit portfolio:

	31-Dec-19	**31-Dec-18**
Opening balance	45 992	6 297 870
Restructured loans for the period	-	475 258
Accrued interest of the restructured credit portfolio	-	141
Settlement of restructured loans (partial or total)	(6 619)	(3 676 848)
Credits reclassified from "restructured" to "normal"	(39 374)	(2 757 129)
Credits write-offs	-	-
Others	-	(293 300)
Closing balance	**-**	**45 992**

In 2019 and 2018 there was no credit restructuring.

g) Detail of the fair value of the collateral underlying the loan portfolio by segment:

	31-Dec-19							
	Construction and CRE				Corporate			
	Real Estate		Other real collateral		Real Estate		Other real collateral	
Fair value	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount
< 0,5 M€	-	-	2	6 391	-	-	1	470
>= 0,5 M€ and < 1 M€	-	-	-	-	-	-	-	-
>= 1 M€ and < 5 M€	1	3 048 000	1	1 136 296	-	-	-	-
>= 5 M€ and < 10 M€	2	14 253 517	-	-	-	-	-	-
>= 10 M€ and < 20 M€	-	-	-	-	-	-	1	11 052 946
>= 20 M€ and < 50 M€	-	-	-	-	-	-	-	-
>= 50 M€	-	-	-	-	-	-	-	-
Total	**3**	**17 301 517**	**3**	**1 142 687**	**-**	**-**	**2**	**11 053 417**

	31-Dec-18							
	Construction and CRE				Corporate			
	Real Estate		Other real collateral		Real Estate		Other real collateral	
Fair value	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount
< 0,5 M€	-	-	2	10 641	-	-	1	300 000
>= 0,5 M€ and < 1 M€	-	-	-	-	-	-	-	-
>= 1 M€ and < 5 M€	-	-	1	3 863 778	-	-	-	-
>= 5 M€ and < 10 M€	2	16 031 536	-	-	-	-	-	-
>= 10 M€ and < 20 M€	-	-	-	-	-	-	1	16 633 572
>= 20 M€ and < 50 M€	-	-	-	-	-	-	-	-
>= 50 M€	-	-	-	-	-	-	-	-
Total	**2**	**16 031 536**	**3**	**3 874 419**	**-**	**-**	**2**	**16 933 572**

In 2019, there were no significant changes in the quality of the collateral underlying the credit portfolio, resulting from a deterioration in its value or from any changes in internal standards or procedures.

h) LTV ratio (loan-to-value) by segment:

	31-Dec-19									
	Construction and CRE					Corporate				
Ratio	Number of Properties	Total exposure	Performing loans	Non-performing loans	Impairment	Number of Properties	Total exposure	Performing loans	Non-performing loans	Impairment
Without associated collateral	n.a.	16 270 818	16 270 818	-	38 143	n.a.	32 561 698	32 105 854	455 844	1 799 101
With other real collaterals	n.a.	2 761 428	2 761 428	-	8 204	n.a.	9 758 336	9 758 336	-	14 696
LTV <60%	2	2 984 318	2 984 318	-	8 510	-	-	-	-	-
LTV >= 60% and < 80%	1	5 574 250	5 574 250	-	6 179	-	-	-	-	-
LTV >= 80% and < 100%	-	-	-	-	-	-	-	-	-	-
LTV >= 100%	-	-	-	-	-	-	-	-	-	-
Total	**3**	**27 590 814**	**27 590 814**	**-**	**61 037**	**-**	**42 320 034**	**41 864 190**	**455 844**	**1 813 797**

	31-Dec-18									
	Construction and CRE					Corporate				
Ratio	Number of Properties	Total exposure	Performing loans	Non-performing loans	Impairment	Number of Properties	Total exposure	Performing loans	Non-performing loans	Impairment
Without associated collateral	n.a.	9 657 847	9 657 847	-	63 557	n.a.	24 249 569	24 249 569	-	892 990
With other real collaterals	n.a.	439 712	439 712	-	2 894	n.a.	11 505 549	11 505 549	-	73 788
LTV <60%	1	4 228 249	4 228 249	-	27 826	-	-	-	-	-
LTV >= 60% and < 80%	1	5 574 250	5 574 250	-	36 684	-	-	-	-	-
LTV >= 80% and < 100%	-	-	-	-	-	-	-	-	-	-
LTV >= 100%	-	-	-	-	-	-	-	-	-	-
Total	**2**	**19 900 058**	**19 900 058**	**-**	**130 961**	**-**	**35 755 029**	**35 755 029**	**-**	**966 778**

33. Fair value of financial assets and liabilities (IFRS 13)

The Bank does not disclose the difference between the book value and the fair value of the financial assets measured at amortised cost, because these financial instruments do not have an available active market and the respective price conditions (applied interest rates) do not differ significantly from market rates, as well as financial instruments of increased maturity are subject to variable remuneration rates and fixed rate instruments have a maturity of less than 6 months. Consequently, the Net Present Value (alternative valuation technique for calculation of fair value) corresponds, in general, to the amount presented in the balance sheet.

The information below provides a breakdown, by item, of all financial assets and liabilities measured at fair value, by type of valuation method:

	31-Dec-19			
	Level 1	Level 2	Level 3	Total
Financial assets not held for trading mandatorily measured at fair value through profit or loss (Note 5)				
Equity instruments	-	-	215 374	215 374
Debt instruments	-	276 439	-	276 439
Investment funds	-	-	168 489	168 489
Other financial assets at fair value through profit or loss				
Investment funds (Note 6)	-	-	336 977	336 977
Financial assets at fair value through other comprehensive income (Note 7)				
Debt instruments	137 250 776	-	-	137 250 776
Total	**137 250 776**	**276 439**	**720 840**	**138 248 055**
Other financial liabilities at fair value through profit or loss				
Structured financial resources received (Note 6)	-	-	(336 977)	(336 977)
Total	**-**	**-**	**(336 977)**	**(336 977)**

	31-Dec-18			
	Level 1	Level 2	Level 3	Total
Financial assets not held for trading mandatorily measured at fair value through profit or loss (Note 5)				
Equity instruments	-	-	537 057	537 057
Debt instruments	-	160 190	-	160 190
Investment funds	-	-	869 373	869 373
Other financial assets at fair value through profit or loss				
Investment funds (Note 6)	-	-	224 373	224 373
Financial assets at fair value through other comprehensive income (Note 7)				
Debt instruments	271 584 142	-	-	271 584 142
Total	**271 584 142**	**160 190**	**1 630 803**	**273 375 135**
Other financial liabilities at fair value through profit or loss				
Structured financial resources received (Note 6)	-	-	(224 373)	(224 373)
Total	**-**	**-**	**(224 373)**	**(224 373)**

As at 31 December 2019, the exposures of financial instruments accounted by the tier one valuation method are as follows:

Grade	31-Dec-19	
	Securities (level 1)	
	Exposure (accrued interest included)	Impairment
Prime	114 999 828	5 972
High grade	4 936 028	716
Upper medium grade	2 014 370	635
Lower medium grade	9 292 919	11 713
Non-Investment grade	-	-
Speculative	757 605	7 994
Highly Speculative	-	-
Substantial risks	-	-
Extremely speculative	-	-
Unrated	5 250 026	54 157
Total	**137 250 776**	**81 187**

There were no transfers between levels of classification, since the nature of the financial instruments did not significantly change.

The Bank's assets and liabilities at fair value are accounted for in accordance with the hierarchy defined in IFRS 13 - Fair Value, which is detailed in Note 2.2.

The movement of financial assets valued using methods with parameters not observable in the market (level 3) in 2019 and 2018 can be analysed as follows:

	31-Dec-19			
	Financial assets at fair value through profit or loss	Other financial assets at fair value through profit or loss	Other financial liabilities at fair value through profit or loss	Total
Opening balance	1 406 430	224 373	(224 373)	1 406 430
Acquisitions	-	-	-	-
Exits by maturity	-	-	-	-
Exits by settlements	(808 103)	-	-	(808 103)
Transfer by acquisitions	-	-	-	-
Transfer by exits	-	-	-	-
Fair value change (Note 24)	(221 716)	108 680	(108 680)	(221 716)
Exchange rate revaluation	7 252	3 924	(3 924)	7 252
Closing balance	**383 863**	**336 977**	**(336 977)**	**383 863**

		31-Dec-18			
	Available-for-sale financial assets (IAS 39)	Financial assets at fair value through profit or loss (IFRS 9)	Other financial assets at fair value through profit or loss	Other financial liabilities at fair value through profit or loss	Total
Opening balance	897 596	-	280 923	(280 923)	897 596
Acquisitions	-	-	-	-	-
Exits by maturity	-	-	-	-	-
Exits by settlements	-	-	-	-	-
Transfer by acquisitions	-	-	-	-	-
Transfer by exits	-	-	-	-	-
Impact of IFRS 9 transition	(897 596)	1 481 009	-	-	583 413
Changes in fair value	-	(74 579)	(56 550)	56 550	(74 579)
Closing balance	**-**	**1 406 430**	**224 373**	**(224 373)**	**1 406 430**

Assets classified as level 3 under the Financial assets at fair value through profit or loss category include investment units in a Private Equity fund of Euro 168,489 (31 December 2018: Euro 112,187), that were already measured at fair value in 2018.

Assets classified as level 3 under the category of Other financial assets at fair value through profit or loss relate exclusively to financial investments in a Private Equity fund of Euro 336 977 (31 December 2018: Euro 224,373), which are directly related and guaranteed by Other financial liabilities at fair value through profit or loss, which use that fund as underlying asset for the same amount, as described in Note 5.

As at 31 December 2019 and 2018, the fair value of assets and liabilities reflects the market value provided by the respective management companies, which assess the assets and liabilities of these funds using internal methodologies that incorporate several assumptions and parameters not observable in the market, we consider that it is not reasonable to carry out a sensitivity analysis of the main variables underlying the amounts calculated by these entities.

35. Recently issued accounting standards and interpretations

35.1 Voluntary policy changes

During the period there were no voluntary changes in accounting policies, compared to those considered in the preparation of the previous year financial information.

325.2 Recently issued accounting standards and interpretations applicable to the period 2019

a) IFRS 16 – Leases:

The scope of IFRS 16 includes leases of all assets, with some exceptions. A lease is defined as a contract, or part of a contract, that transfers the right to use an asset (the underlying asset), for a period of time in exchange for consideration.

IFRS 16 requires lessees to account for all leases on the basis of a single on-balance model similarly to IAS 17's treatment of finance leases. The standard recognises two exceptions to this model: low-value leases (e.g. personal computers) and short-term leases (i.e. with a lease term of 12 months or less). Upon lease commencement date, a lessee recognises a liability related to the lease payments (i.e. the lease liability) and the asset representing the right to use the underlying asset during the lease period (i.e. the right of use or ROU).

Lessees are required to recognise separately the interest cost on the lease liability and the depreciation of the ROU. Lessees will also be required to remeasure the lease liability when certain events occur (such as a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will recognise the amount of the remeasurement of the lease liability as an adjustment to the ROU.

The lessee accounting remains substantially unchanged from the current treatment of IAS 17. The lessor continues to classify all leases using the same principles as IAS 17 and differentiating between two types of leases: operating and finance.

The lessee may choose to apply this standard using either the retrospective approach or the modified retrospective approach through the use of certain practical transitional expedients. Early adoption is permitted, but only after the entity applies IFRS 15 – Revenue from Contracts with Customers. The pattern of recognition of lease expenses will be accelerated compared to what is the case today. Accordingly, the entity's key balance sheet indicators, such as leverage ratios, financial ratios, debt covenants and earnings, such as earnings before interest, taxes and depreciation (EBIDTA), may be impacted.

At the lessee level, the cash flow statement may also be affected as principal payments associated with the lease are now disclosed in cash flows arising from financing activities. Accounting by the lessee remains substantially unchanged from the current treatment of IAS 17.

The standard requires lessees and lessors to make more extensive disclosures than required by IAS 17.

Given the accounting implications mentioned, lessees should carefully assess each time they sign a contract with a view to identifying whether it is or contains a lease. This assessment is also relevant to lessors in determining which contracts (or parts of contracts) will be subject to the new revenue standard.

The impact of this standard on BAIE's financial statements is detailed in Note 2.16. - IFRS 16 - Leases.

b) IFRIC 23 (Interpretation) - Uncertainty over Income Tax Treatment:

In June 2017, IASB issued IFRIC 23 - Uncertainty over Income Tax Treatment (the Interpretation). The Interpretation clarifies application of recognition and measurement requirements in IAS 12 - Income Tax, when there is uncertainty over income tax treatment.

The interpretation addresses the accounting for income tax when tax treatments involving uncertainty affect the application of IAS 12. The interpretation does not apply to rates or taxes that are not within the scope of IAS 12, nor does it specifically include requirements concerning interest or penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments independently;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The entity is required to determine whether each tax treatment should be considered independently or together with one or more uncertain tax treatment. The decision should be based on which approach provides better predictions of the resolution of the uncertainty.

Applying the Interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information, on a timely basis, that is necessary to apply the requirements in the Interpretation and make the required disclosures.

This standard had no impact on the Bank's Financial Statements.

c) Prepayment features with negative compensation – Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income (FVOCI), provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendment to IFRS 9 clarifies that a financial asset passes the SPPI criterion regardless of the event or circumstance that cause the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusions to the amendment clarifies that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

The amendment is intended to apply where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate. This implies that prepayments at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instrument, will normally satisfy the SPPI criterion only if other elements of the change in fair value, such as the effects of credit risk or liquidity, are small. Most likely, the costs to terminate a "plain vanilla" interest rate swap that is collateralised, so as to minimise the credit risks for the parties to the swap, will meet this requirement.

The amendment is required to be applied retrospectively. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the remainder of IFRS 9

<u>Modification or exchange of a financial liability that does not result in derecognition</u>
In the basis for conclusions to the amendment, IASB also clarifies that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability when a modification (or exchange) does not result in derecognition are consistent with those applied to the modification of a financial asset that does not result in derecognition. In other words, the gain

or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate is immediately recognised in profit or loss.

IASB made this comment in the basis for conclusions to the amendment as it considers that the existing requirements in IFRS 9 provided an adequate basis for entities to account for modifications and exchanges of financial liabilities and that no formal amendment to IFRS 9 was needed in respect of this issue

IASB states specifically that this clarification relates to the application of IFRS 9. As such, it would not appear that this clarification needs to be applied to the accounting for modification of liabilities under IAS 39 – Financial instruments: Recognition and Measurement. Any entities which have not applied this accounting under IAS 39 are therefore likely to have a change of accounting on transition. As there is no specific expedient, this change would need to be made retrospectively.

As BAIE fully applies IFRS 9 since 1 January 2018, this amendment had no impact on the Bank's Financial Statements in 2019.

d) Plan Amendment, Curtailment or Settlement – Amendments to IAS 19

This amendment clarifies the accounting treatment to be followed in the event of a change to the plan, or a curtailment or settlement of the plan.

Determining current service cost and net interest
When accounting for defined benefit plans under IAS 19, the standard generally requires entities to measure current service cost using actuarial assumptions determined at the start of the annual reporting period. Similarly, net interest is generally calculated by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period. However, when a plan amendment, curtailment or settlement occurs during the annual reporting period, the amendment to IAS 19 specify that an entity must:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after that event using:
  - The net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and
  - The discount rate used to remeasure that net defined benefit liability (asset).

Effect on asset ceiling requirements
A plan change, curtailment or settlement may reduce or eliminate the excess in the defined benefit plan which may lead to a change in the maximum asset recognition ceiling.

This amendment clarifies that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in net interest, is recognised in other comprehensive income.

This clarification provides that an entity may have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

The amendment must be applied to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Earlier application is permitted and should be disclosed.

This standard had no impact on the Bank's Financial Statements in 2019.

e) Long-term interests in associates and joint ventures – Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

IASB also clarified that, in applying IFRS 9, an entity does not consider any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 – Investments in Associates and Joint Ventures.

To illustrate how entities apply the requirements in IAS 28 and IFRS 9 with respect to long-term interests, IASB also published an illustrative example when it issued the amendments. The amendments will eliminate ambiguity in the wording of the standard.

This amendment is Effective for annual periods beginning on or after 1 January 2019. Entities must apply the amendments retrospectively, with certain exceptions. Early application is permitted and should be disclosed.

Since the investment held by Bank in the associated company Founton, Ltd (Note 13) was measured using the equity method, this change had no impact on BAIE's financial statements.

f) Annual improvements to IFRS Standards 2015-2017 cycle

This cycle of improvements affects the following standards: IAS 12, IAS 23, IAS 28, IFRS 3, IFRS 10 e IFRS 11. These changes to the standards had no impact on the Bank's Financial Statements.

35.3 New standards and interpretations already issued but not yet mandatory

At the date of approval of these financial statements, the standards and interpretations endorsed by the European Union, but whose effective application occurs in future financial years, are the following:

a) Definition of materiality - Amendments to IAS 1 and IAS 8

The aim of this amendment was to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

Obscuring information
The amendments explain that information is obscured if it is communicated in a way that has the same effects as if it were missing or contained errors. Material information may be obscured if information regarding a material item, transaction or other event is scattered throughout the financial statements, or disclosed using a language that is vague or unclear. Material information can also be obscured if dissimilar items, transactions or other events are inappropriately aggregated, or conversely, if similar items are inappropriately disaggregated.

New threshold
The amendment replaces the threshold "could influence" with "could reasonably be expected to influence" in the definition of "material", such that, in the amended definition, it is clarified that the materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions.

Primary users of the financial statements
The current definition refers to "users" but does not specify their characteristics, which can be interpreted to imply that an entity is required to consider all possible users of the financial statements when deciding what information to disclose. Consequently, IASB decided to refer to primary users in the new definition to help respond to concerns that the term "users" may be interpreted too widely.

This amendment is effective for annual periods beginning on or after 1 January 2020. This amendment has to be applied prospectively. Earlier adoption is permitted and should be disclosed. This amendment also impacts IFRS Practice Statement 2: Making Materiality Judgements, which was disclosed in the IFRS Update issued as of 31 December 2017.

The conceptual framework provides a comprehensive set of concepts for:
- Financial reporting;
- The definition of standards;
- The development of consistent accounting principles; and
- Supporting the understanding and interpretation of standards.

The revised conceptual framework includes:
- Some new concepts;
- Revised definitions and criteria for the recognition of assets and liabilities; and
- Clarifications on relevant concepts.

The conceptual framework is organised as follows
- Chapter 1 - The objective of financial reporting
- Chapter 2 - Qualitative characteristics of useful financial information
- Chapter 3 - Financial statements and the reporting entity
- Chapter 4 - The elements of the financial statements
- Chapter 5 - Recognition and derecognition
- Chapter 6 - Measurement
- Chapter 7 - Presentation and disclosure
- Chapter 8 - Concepts of capital and capital maintenance.

The revised conceptual framework for financial reporting is not a standard, and none of the concepts override those in any standard or any requirements in a standard. It applies to entities that develop accounting policies based on the Conceptual Framework and it is effective for annual periods beginning on or after 1 January 2020.

This revised framework is not expected to have any impact on the Bank's Financial Statements.

b) Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7

IASB issued in September 2019 amendments to IFRS 9, IAS 39 and IFRS 7 Financial Instruments: Disclosures, which include the first phase of the work developed to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting.

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (RFR).

Amendments to IFRS 9
The amendments include a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

Application of the reliefs is mandatory. The first three reliefs provide for:
- The assessment of whether a forecast transaction is highly probable;
- Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss;
- The assessment of the economic relationship between the hedged item and the hedging instrument.

For each of these reliefs, it is assumed that the benchmark on which the hedged cash flows are based (whether or not contractually specified) and/or, for relief three, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform.

The fourth relief provides that, for a benchmark component of interest rate risk that is affected by IBOR reform, the requirement that the risk component is separately identifiable need be met only at the inception of the hedging relationship.

Where hedging instruments may be added to or removed from an open portfolio in a continuous hedging strategy, the separately identifiable requirement need only be met when hedged items are initially designated within the hedging relationship.

To the extent that a hedging instrument is changed so that its cash flows are based on an RFR, but the hedged item is still based on IBOR (or vice versa), there is no relief from measuring and recording any ineffectiveness that arises due to differences in their changes in fair value.

The reliefs continue indefinitely in the absence of any of the events described above. When an entity designates a group of items as the hedged item, the requirements for when the reliefs cease are applied separately to each individual item within the designated group of items.

The amendments also introduce specific disclosure requirements for the hedging relationships to which these expedients apply.

Amendments to IAS 39
The amendments to IAS 39 are consistent with those for IFRS 9, but with the following differences:

- For the prospective assessment of hedge effectiveness, it is assumed that the benchmark on which the hedged cash flows are based (whether or not it is contractually specified) and/or the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform.

- For the retrospective assessment of hedge effectiveness, to allow the hedge to pass the assessment even if the actual results of the hedge are temporarily outside the 80%-125% range, during the period of uncertainty arising from IBOR reform.

- For a hedge of a benchmark portion (rather than a risk component under IFRS 9) of interest rate risk that is affected by IBOR reform, the requirement that the portion is separately identifiable need be met only at the inception of the hedge.

The requirements must be applied retrospectively. However, any hedging relationships that have previously ceased to be designated cannot be reinstated upon application, nor can any new hedging relationships be designated under retrospectivity. Early adoption is permitted and should be disclosed.

Considering that the Bank does not apply hedge accounting, these changes will have no impact on BAIE's financial statements.

35.3 Standards and interpretations already issued but not yet endorsed by the European Union

The following standards, interpretations, amendments and revisions, with mandatory application in future economic years, were not adopted by the European Union until the date of approval of these financial statements:

a) Definition of a Business – Amendments to IFRS 3

This amendment clarifies the minimum requirements for a business, removes the assessment of whether market participants are capable of replacing missing elements, adds guidance to help entities assess whether an acquired process is substantive, narrows the definitions of business and outputs, and introduces an optional fair value test of the business.

Minimum requirements to be a business

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have “the ability to contribute to the creation of outputs” rather than “the ability to create outputs”.

Market participants’ ability to replace missing elements

Prior to the amendments, IFRS 3 stated that a business need not include all of the inputs or processes that the seller used in operating that business, “if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes”. The reference to such integration is now deleted from IFRS 3 and the assessment must be based on what has been acquired in its current state and condition.

Assessing whether an acquired process is substantive

The amendments specify that if a set of activities and assets does not have outputs at the acquisition date, an acquired process must be considered substantive only if:

(i) It is critical to the ability to develop or convert acquired inputs into outputs; and

(ii) The inputs acquired include both an organised workforce with the necessary skills, knowledge, or experience to perform that process, and other inputs that the organised workforce could develop or convert into outputs.

In contrast, if a set of activities and assets has outputs at that date, an acquired process must be considered substantive if:

(i) It is critical to the ability to continue producing outputs and the acquired inputs include an organised workforce with the necessary skills, knowledge, or experience to perform that process; or

(ii) It significantly contributes to the ability to continue producing outputs and either is considered unique or scarce, or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

Narrowed definition of outputs

The amendments narrowed the definition of outputs to focus on goods or services provided to customers, investment income (such as dividends or interest) or other income from ordinary activities. The definition of a business in Appendix A of IFRS 3 was amended accordingly.

Optional concentration test

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Entities may elect to apply the concentration test on a transaction-by-transaction basis. The test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is not met, or if an entity elects not to apply the test, a detailed assessment must be performed applying the normal requirements in IFRS 3.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

These amendments apply prospectively. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Early adoption is permitted and should be disclosed.

This amendment will also have an impact other standards (e.g., when the parent company loses control of the subsidiary and has applied the amendments to IFRS 10 and IAS 28 in advance for the sale or delivery of assets by an investor to its associate or joint venture).

This standard is not expected to have any impact on the Bank's Financial Statements.

b) IFRS 17 – Insurance contracts (To be applied in periods beginning on or after 1 January 2021).

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

These changes will have no impact on BAIE's financial statements.

36. Subsequent events

In recent weeks the outbreak of the new Coronavirus (COVID-19) has spread rapidly worldwide, with the World Health Organisation declaring on 11 March that the virus has reached pandemic level. Considering that this has a very significant and unexpected impact on world economies and international financial markets, the Bank's management is continuously monitoring the evolution of the pandemic and the potential related effects, with a view to taking timely and necessary measures to mitigate the impact of the virus on the Bank's activity and health of its employees.

Given the climate of high uncertainty defining the expected evolution of the pandemic, both in terms of duration and severity of its effects, it is not possible to quantify, with a reasonable degree of confidence, any impact of the evolution of this event on the Bank's business and financial position, namely regarding the fair value of financial assets, the measurement of expected credit losses and capital and liquidity requirements.

In qualitative terms, we detail below the forecasts of the Board of Directors regarding the potential impacts on the Bank's business, its own funds and the risks to which it is exposed:

- Market and interest rate risks: if the pandemic has a lasting effect and the North American economy experiences an outcome equivalent to a more negative scenario , it may force the Fed to decide on additional interest rate cuts (along with other unconventional monetary policy measures), eventually placing those rates at negative values, as is the case in the Euro Zone. Considering that a large part of the Bank's securities portfolio consists of US dollar-denominated sovereign debt securities with a short residual maturity, a challenge arises from the need to reinvest in new assets, especially those that are regulatory eligible for the High Quality Liquid Assets (HQLA) portfolio. This will most likely lead to significantly lower interest rates, thereby placing additional pressure on the Bank's net interest income.

- Credit risk: the Bank is currently assessing possible client support needs that may present sudden or foreseeable short term financial difficulties, with a view to taking decisive and preventative action to mitigate this effect. And is also assessing which business sectors are exposed to greater risk in the light of the ongoing pandemic and with potential deterioration of underlying credit risk. In addition, the Bank is reviewing the measures taken and to be taken by the Portuguese Government to help the business sector mitigate the effects of the COVID-19 pandemic.

- Liquidity risk: the Board of Directors continues to assess the impacts that could arise in the future, however, and considering that a large part of the assets on the balance sheet have very short residual maturities and/or are very liquid, no additional pressures on the Bank's treasury management or problems in financing investments already made or commitments in investments already undertaken are expected.

- Operational Risk / Business Continuity: the Bank has rapidly implemented a remote working plan that covers almost the entire staff, keeping front-office service subject to prior appointment. Considering the Bank's business model, it is our understanding that this measure will have no significant impact on the Bank's business.

- Own funds: the Bank has maintained, on a regular basis, fairly comfortable capital ratios against the requirements set by the national banking authority under the Supervisory Review and Evaluation Process

(SREP), with a capital ratio of about 23% last February. Therefore, it is not expected that the Bank will need to operate with equity levels below the minimum limit set by the SREP, as it was temporarily allowed by the Bank of Portugal with the release of its Circular Letter no. 2020/17, dated 16 March.

- Other business impacts: The recent sharp reduction in oil prices in international markets associated with the collapse of negotiation efforts between OPEC and Russia in early March is not a direct effect of the new Coronavirus pandemic. However, the uncertainty surrounding the recent pandemic phenomenon is also a factor contributing for the fall in oil prices. Recent oil prices are significantly below the average value forecast in the Angolan State Budget for 2020 (55USD/bp). Considering that oil revenues represent the large share of the Angolan State's tax revenues, if the situation persists, the Angolan authorities will most likely have to rely on additional credit facilities to meet the State's financing needs for 2020, at a time when interest rates on Angola's government debt securities on the international markets (Eurobonds) have reached historical peaks.

On the other hand, as the trade finance area associated with export operations to Angola is a significant business for the Bank's overall activity, a significant decrease in turnover with a negative impact on the Bank's results is expected. The Bank is currently placing greater emphasis on the development of other business areas, namely the fixed income portfolio management.

Currently the Bank's gross and net direct exposure to sovereign risk in Angola is approximately Euro 15.2M and Euro 14.2M, respectively.

In accordance with the current accounting framework, this event (COVID-19) was considered a subsequent non-adjustable event.

37. Explanation added for translation

These financial statements are a free translation of the financial statements originally issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.

Banco BAI Europa, SA

Statutory Auditors´ Report and Supervisory Board Report

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(translation from the original Portuguese language. In case of doubt, the Portuguese version prevails)

Statutory and Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Banco BAI Europa, S.A. ("the Bank"), which comprise the Balance Sheet as at 31 December 2019 (showing a total of 822.765.061 euros and a total equity of 86.270.484 euros, including a net profit for the year of 2.928.871 euros), and, the Statement of Profit and Loss, Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of Banco BAI Europa, S.A. as at 31 December of 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on auditing (ISAs) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. We are independent of the Bank in accordance with the law and we have fulfilled other requirements in accordance with the Institute of Statutory Auditors' Code of Ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter relating to COVID-19

The recent surrounding the COVID-19 pandemic (Coronavirus) have a significant impact on the health of people and on our society as a whole, increasing uncertainty around the operational and financial performance of organizations. The impacts and uncertainties resulting from Covid-19 pandemic (Coronavirus) are disclosed in Note 36 of the notes of the financial statements and reflect the expectation of the Board of Directors of Banco BAI Europa, S.A., based on the information available at that date. Board of Directors recognize that the impacts resulting from this situation are uncertain, hence it is not possible to estimate its financial effect, namely regarding to financial assets fair value, credit expected losses and capital and liquidity requirements. Our opinion is not modified regarding this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the current year audit are the following:

1. Measurement of loans to clients

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The balance sheet account Loans to Clients includes accumulated impairment of 2.713 thousand euros ("k€"), recognizing a cost of 833 k€ in the year net profit, recorded in the Impairment for loans net of reversals and recoveries, as the amount of reversals occurred in the year amounted 975 k€ and the reinforcements amounted 1.808 k€. The gross amount of Loans to Clients amounts to 81.876 k€, which means that the accumulated impairment represents 3,31% of the loans amount. The impairment detail and the accounting policies, methodologies, concepts and assumptions used are disclosed in the financial statements notes (note 2.4.1, note 9 and note 18). The impairment losses in loans to customers represents the Bank's management best estimate of the expected loss on the clients' loan portfolio with reference to December 31, 2019. For the calculation of this estimate, the Bank's management established assumptions, used external models (ECAIs), interpreted concepts and designed a model of expected credit loss ("ECL") calculation. The use of the described models requires processing a significant amount of data that is not always available in the Bank's central systems, such as information on risk parameters. The use of alternative approaches, models or assumptions may have a material impact on the estimated impairment loss amount. Considering the subjectivity of the assumptions and complexity applied in estimating impairment loss, and its magnitude, we considered it as a key audit matter.	We have performed the identification and evaluation of the audit risk which led to the definition of the audit approach in response to the risks of material misstatement. This approach included (i) a global response with effect on the way the audit was conducted and (ii) a specific response which resulted in the design and subsequent implementation of additional procedures, including tests of controls and substantive procedures, in particular: ▸ Analytical review procedures regarding the evolution of credit impairment losses levels, when comparing them to the previous period and the expectations, which provides an understanding of the changes in the credit portfolio and underlying changes in the assumptions and methodologies on impairment losses; ▸ Sampling a portfolio of exposures individually assessed for impairment, to evaluate the assumptions used by the Bank's Management to quantify impairment. This analysis included: the validation of the information with the business models, the economic and financial position of the debtors and the appraisal of the collateral; inquiries to Bank's experts to determine the defined recovery strategy and confirm the assumptions made; ▸ With the support of internal risk specialists, we evaluated the reasonableness of the credit risk parameters used in the impairment calculation, highlighting the following procedures: i) understanding the methodology approved by the Bank's management when compared with methodology effectively applied; ii) evaluation of model changes, namely the changes in parameters aiming to reflect the expected credit loss (forward looking); iii) analysis of changes in credit risk parameters (PD, LGD and EAD) applied in 2019; (iv) on a sample basis, performed data quality substantive tests on the underlying data used to estimate credit risk parameters, and (v) inquiries to Bank experts responsible for impairment models; ▸ We have obtained an understanding and evaluated the design of the ECL model, recomputed the calculation, compared parameters used with the results of the ECL model and, compared the results with the impairment balance recorded in the financial statements;

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Responsibilities of management and the supervisory board for the financial statements

Management is responsible for:

- the preparation of financial statements that presents a true and fair view of the Group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Bank's ability to continue as going concern, and disclosing, if applicable, matters that may cast significant doubt on the Bank's ability to continue as going concern.

The supervisory body is responsible for overseeing the process of preparation of the Bank's financial reporting and related financial disclosure.

Auditor's responsibilities for the audit of financial statements

Our objective is to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users, taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period

and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and

- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be bought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the information contained in the Management Report with the financial statements.

REPORT ON OTHER LEGAL REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, n. º 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatement.

On additional items set out in article 10 of the Regulation (EU) n. º 537/2014

Pursuant to article 10 of the Regulation (EU) n. º 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as statutory auditors of Banco BAI Europa for the first time by decision of the general assembly of shareholders on May 16, 2017 for the period from 2017 to 2020;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work we have not identified any material misstatement to the financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report with the same date that we have prepared and delivered to the supervisory body of the Bank;
- We declare that we have not provided any prohibited services as described in article 77.º, n. º 8.º of the Statute of the Institute of Statutory Auditors, and we have remained independent of the Bank in conducting the audit.

Lisbon, 24 April 2020

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

Silvia Maria Teixeira da Silva - ROC nº 1636
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