Banco BAI Europa, S.A.

Financial Statements

2020

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

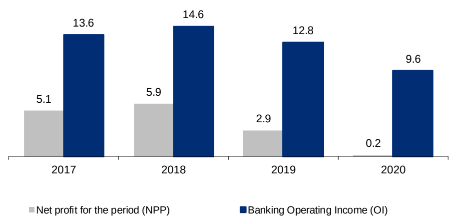
Banco BAI Europa, S.A.

Management Report
2020

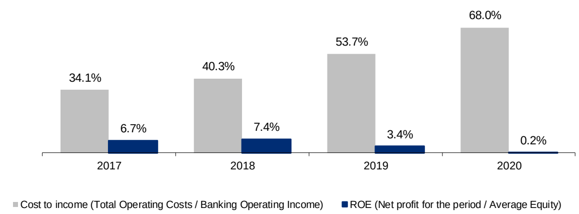
(This document was not written under the New Portuguese Spelling Agreement)

Main indicators

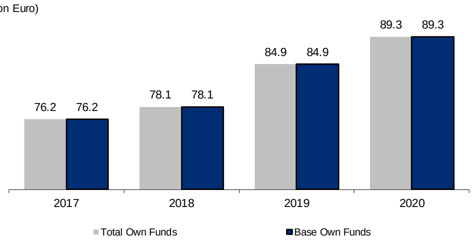
Net Profit
(million Euro)



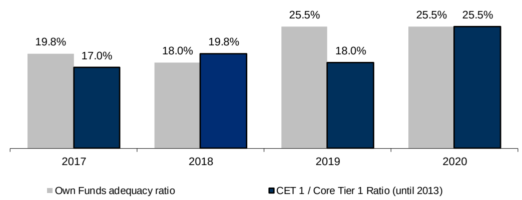
Effectiveness and Profitability



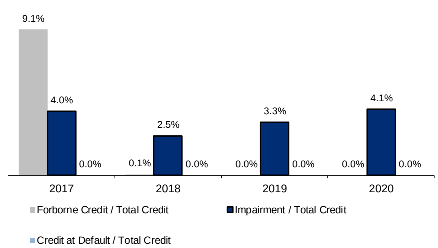
Own Funds
(million Euro)



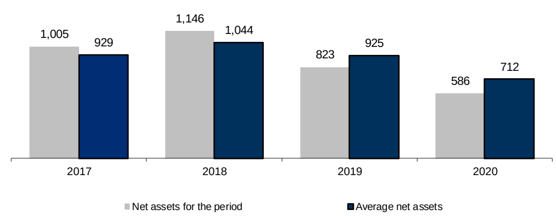
Solvency



Credit Quality



Total Assets
(million Euro)



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

Overall Assessment

At the beginning of 2020, there was consensus on the expectation of going concern for the period of 10 consecutive years of growth and optimism. However, on 11 March 2020, the World Health Organization declared the existence of a worldwide pandemic associated with the rapid growth and proliferation of the number of COVID-19 cases.

In order to contain the spread of the pandemic, extraordinary measures of containment and mitigation were imposed by authorities around the world, such as the suspension of some activities, the insertion of restrictions on the mobility of the population, the call for social distance, closing of borders, or even extensive periods of general confinement. This whole context has severely affected global economic activity and international financial markets.

It should be noted that in the January update of the World Economic Outlook, the International Monetary Fund (IMF) estimated that the global economy contracted 3.5% in 2020, a contraction that was more profound than that seen during the last financial crisis (-0.08%).

Developed economies were the most affected, with the IMF estimating a 4.9% contraction in GDP for this bloc. Regarding emerging and developing countries, the Institution estimates a more modest contraction (-2.4%), influenced by the better environment of the Chinese economy, which was one of the first to show signs of recovery in 2020, even showing positive growth in the year.

For the next 2 years, the IMF expects growth of approximately 5.5% in 2021 and 4.2% in 2022. If the expansion foreseen for 2021 is to take place, this will be the highest in the last 14 years. This optimism is fuelled by the start of the vaccination process that occurred in many countries in late 2020, by the maintenance of accommodative monetary conditions at the global level and by the additional budgetary effort maintained in some of the major economies, in particular Japan and the USA.

Among the risks pointed out for the growth of the world economy is the increase in the number of new infections, which includes the appearance of new virus variants, possible logistical problems with the distribution of the vaccine or the lack of state support for companies and workers.

The nature of the crisis associated with COVID-19 forced the coordinated implementation of monetary and fiscal policy measures by a wide range of authorities, which were crucial in supporting the economy and mitigating impacts on families and businesses.

The European Commission has adopted a specific support framework for member states, establishing a temporary regime where the rules on state aid to companies are relaxed and the limits contained in the Stability and Growth Pact have been suspended. In addition, in December 2020, a pact for the recovery of the European economy was approved, combining the multi-annual budget 2021-2027, which amounts to Euro 1,074 billion, with the Recovery Fund (Next Generation EU) in the amount of Euro 750 billions. Thus, the EU's global recovery package amounts to Euro 2.364 billion, which includes Euro 540 billion funds already created to support workers, companies, and Member States.

The European Central Bank (ECB) kept official interest rates at minimum levels and adopted a set of stimulus measures aimed at providing liquidity to the financial system and absorbing large volumes of debt to the public and private sector:

(i) Announced the holding, on a temporary basis, of a series of additional liquidity-providing operations (LTRO-A) to provide immediate liquidity support to the financial system;

(ii) Changed the conditions of targeted longer-term refinancing operations (TLTRO III) throughout 2020, so that banks would increase the recurrence to this line and comply with the granting of credit to the real economy;

(iii) Introduced an additional series of seven pandemic-related long-term refinancing operations (PELTRO);

(iv) Flexibility of the risk control criteria and measures applied to collateral in all its liquidity-providing options;

(v) Increase the net acquisition of assets by Euro 120 billion to the existing asset purchase program (APP);

(vi) Introduction of a pandemic asset purchase program (PEPP), initially defining a package of up to Euro 750 billion and increase twice over the year to Euro 1.850 billion, lasting up to March 2022 and with a commitment to reinvest the amounts due until the end of 2023. This program will include all categories of eligible assets in the APP;

(vii) Extension of the universe of assets in the private sector, which now includes the acquisition of short-term securities, i.e. commercial paper, which is one of the important sources of financing for European companies.

In the USA, the fiscal stimulus was of a unique dimension, with a set of tax packages approved during the year that amount to approximately USD 4 billion. At the level of US monetary policy, the Federal Reserve (Fed) cut the basic interest rate twice a year, which has not happened since the last global financial crisis, placing it in the range between 0% and 0.25%, and announced a set of other measures:

(i) deployment of several monetary stimulus, with emphasis on a program for the purchase of assets with no limit on value or time, which includes a wide range of assets, including from the most vulnerable market segments;

(ii) coordinated action with numerous central banks in other countries, in order to increasing the liquidity provision through swap lines and securities repurchase agreements (FIMA repo facility);

(iii) flexibility of its definition of inflation target to give preference to the performance of the labour market. According to the new approach, the target of 2% can be achieved on average over time, compensating for periods where inflation is below 2% with higher inflation in other periods.

(iv) Aid to programs with Treasury guarantee under the Coronavirus Aid, Relief and Economy Security Act (CARES);

Despite the particularly challenging context, in 2020 Banco BAI Europa ("Bank" or "BAIE") maintained high standards of rigour in the management of its business risks, with particular focus to credit risk, while investing significantly on the basis of a robust architecture that in 2021 it will enable it to accelerate its digital transformation, in line with BAI Group's strategy, exploring valuable synergies in this area.

In addition to the digital transformation process, investments in information security were intensified, both in human and technological resources.

Regarding risk management, we should point out the implementation of the risk management system review project that covered the Bank's (i) internal governance model and (ii) the norms and associated procedures in line with best practices and with the Public Consultation document of Banco de Portugal No. 1/2020 that would give rise to the current Notice No. 3/2020.

Regarding the management of liquidity requirements, it is worth noting the compliance, as of the last quarter of 2020, of the Net Stable Funding Ratio (NSFR) requirement, in anticipation of the date legally established as mandatory, 28 June 2021. Compliance with regulatory liquidity requirements, the NSFR and the Liquidity Coverage Ratio (LCR), combined with the deepening of ultra-accommodative monetary policies, have significantly pressured the Bank's financial margin, a situation that is being reflected with greater intensity from the last quarter of 2020.

Also largely as a result of the adoption by the Fed of an accommodative monetary policy, at the end of 2020, there was a year-on-year reduction in total assets of 29%, affected by the contraction in investments and cash and deposits at central banks, as most of the value associated with these items is denominated in US dollars.

The sharp decrease in net income for 2020 (-94%) is due to the macroeconomic context mentioned and which is reflected, essentially, in the significant reduction in banking income (-25%), in practically all of its items, and in the significant reinforcement impairment losses and provisions.

Future Perspectives

In 2020, economic activity in Portugal and the rest of the world was profoundly affected by the spread of the virus, by containment measures and by the impact on the behaviour of economic agents. Economic losses were differentiated between countries and sectors of activity. The policy response - monetary, budgetary and prudential - is unprecedented in magnitude, speed and coordination and was decisive in mitigating the damage caused by the crisis.

In Angola - another relevant market for Banco BAI Europa ("Bank" or "BAIE") - despite its economy having been hit hard by a multifaceted shock resulting from the pandemic COVID-19 and the decline in oil prices, the authorities have taken timely measures to face the challenges arising from the shock and remain strongly committed to the economic program agreed with the IMF under the Extended Fund Facility, whose implementation remains assessed by this institution as largely satisfactory.

The economic outlook remains surrounded by high uncertainty, being highly dependent on the evolution of the disease and the speed of large-scale vaccination. Although economic activity is expected to resume in 2021, its pace will be conditioned by the impact of the crisis on productive capacity and the necessary reallocation of resources between companies and between sectors. The increase in public and private sector debt and credit risk poses important challenges for the Portuguese economy in the coming years. The performance of national and supranational policies, especially at the level of the European Union, will continue to play a fundamental role in the recovery and resilience of the Portuguese economy, and should promote the resumption of investment and the correct allocation of resources.

In this context and as expected in 2019, in order to reinforce the level of profitability and business sustainability and in order to streamline its strategy, in the second half of 2020, the Bank performed a comprehensive exercise to assess and develop its Strategic and Business Plan (SBP) for 2021-2025.

From the reflections and other work performed, without compromising its risk profile, commitments to invest in five strategic axes emerged:

- Consolidation of market positioning - with the strengthening of the Bank's positioning, considering the strategy of attracting customers from the several segments and expanding and restructuring the current offer.
- Commercial and marketing dynamism - it is imperative to streamline and intensify commercial strength, as well as the versatility of solutions to customers.
- Reinforcement of the digital strategy and customer experience - the pandemic phenomenon is accelerating the change in formats and dynamics of interacting in society in the several levels 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 in this regard.

- Promotion of efficiency-oriented management – namely the efficient management of resources, optimization of processes and the reformulation of the management planning and control model.
- Focus on Human Capital and Social Impact - as the Bank's Team is a key player in the successful implementation of its strategy, the recent reality demonstrates that the process of transformation of the organizational culture initiated in 2018 was an essential decision to allow to face with confidence the several challenges and ambitions of the business, so that in the strategic definition the development of Human Capital occupies a single axis, with the acceleration of the process of cultural transformation and alignment with ESG objectives.

Despite globally contemplating the continuity of the strategic orientation, the PEN approved by the Board of Directors, on 11 March 2021, and at the General Meeting on 5 April 2021, includes: Strategic enabler to strengthen the relationship with the BAI Group for greater success in its implementation; greater ambition in terms of activity and its business; an increase in the capacity of employees team and their skills; and changes to the business model, among others, the redesign of the organizational structure, with a greater emphasis on the organization of the business areas.

Acknowledgements

In an extremely challenging year, 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 proposed strategy.

It was in an adverse context that the Bank quickly implemented the teleworking regime with almost all of its employees, effectively ensuring operation, coupled with a substantial reinforcement of its IT and communications infrastructure, as well as information security.

It is also noted and appreciated the trust that the Customers have placed in the Bank, which 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 thank the support and special collaboration of the Parent Company in Angola, which has greatly contributed to the success of our business and with 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.

2020 Macroeconomic Framework

I. Financial Markets

Financial markets faced a very unusual year. On the one hand, the uncertainty seen at the beginning of the pandemic led to a severe shock in the markets between February and March, where there was a generalized sell off movement. This selling pressure occurred even in the assets considered as a refuge, such as precious metals, which implied a strong global appreciation of the US dollar in this specific period. On the other hand, with the announcement of the fiscal and monetary stimulus programmes and with the beginning of the countries' deflationary processes, 2020 was also a year of robust recovery in the financial markets and strong pressure for the depreciation of the US dollar, which ended the year with an effective depreciation of 6%.

In the money market, Euribor rates stemmed from a downward trend that was thwarted by the beginning of the pandemic crisis. Then there was a sharp rise in rates, registering the maximum values of the year in the last week of April. After the introduction of the policies announced by the ECB and with the end of confinement in Europe, Euribor resumed the downward trend that it had before the pandemic, reaching minimum values in the last month of the year, with Euribor at 3 and 12 months standing at -0.546% and -0.507%, respectively.

Public debt market had a similar behaviour to money market. Yields of the 10-year OTs in Portugal increased significantly to 1.403% at the time of the shock. From May to the end of the year, yields of these securities followed a downward trend, even reaching, for the first time, a negative level in December. Alongside Portugal, Italy and Spain's debt also reached minimum amounts at the end of the year. In the USA, 10-year treasury bond yields ended the year with a decrease of 99 p.p. setting at 0.92%.

In equity markets, the beginning of the pandemic resulted in a strong risk aversion, with the stock market indexes facing abrupt declines. It should be noted that the VIX volatility index was at higher levels than in the 2008 crisis and that the S&P came to lose more than 30% in about a month.

The shares of the sectors most sensitive to restrictive measures imposed by governments, such as leisure, transport, or oil companies, were the most affected. However, the environment of strong fiscal and monetary stimulus, the prospects for economic recovery and the news related to the development of vaccines implied a bull market until the end of the year. It should be noted the demand for technology, in particular companies that could benefit from a conjuncture of social distance, restrictions on mobility and teleworking regime, which implied a Nasdaq appreciation above 40% in the year and renewing historical maximum amounts for a few times.

II. Oil market

The confinement-imposed restrictions on travel and limitation in the use of fuels, with emphasis on air travel, reducing demand for oil. In addition, the closure of plants has contributed to a reduction in the use of this raw material on which the budgets of many economies depend, as is the case in Angola.

During the year, the price of a barrel of oil faced the worst shock in its history, with the WTI being traded, on 20 April, in negative territory (-37.63 USD), something that, until now, would be considered difficult to imagine. The market experienced a double shock, which started with supply, with the failure to reach an agreement between OPEC and its allies to reduce production at the 5 March meeting and spread to demand due to COVID-19 impacts. After this negative scenario, OPEC and its allies (OPEC+) reached a historic agreement to cut production by 10 million barrels (approximately 10% of the global supply at the time), which allowed the oil price recovery to begin and close the year with oil price around USD 50/barrel.

Pressuring prices, there were also other factors such as the resumption of production in Libya, after the end of internal conflicts in the country, or the increase in US oil inventories to 494 million barrels (approximately 10% compared to 2019).

III. Eurozone economy

According to Eurostat data, the economic activity of the Eurozone contracted 6.6% in 2020. This was the biggest drop in GDP since the creation of the bloc, overcoming the drop it faced in the 2009 financial crisis. The second quarter, where the bloc's economies faced general confinement, even contracted 14.7% compared to the previous year.

As for the labour market, the unemployment rate stood at 8.3% of the workforce at the end of the year, which compares with the 7.4% recorded in 2019, which at the time was the lowest figure since May 2008. The evolution of this indicator was, somewhat, controlled with lay-off programs provided by governments to support companies.

The increase in unemployment and the shock in household consumption led to a negative pressure on prices. The annual variation of the Eurozone’s Harmonised Index of Consumer Prices was fixed at -0.3% in 2020, which compares with the 1.3% price growth registered in the same period. Considering core inflation, which excluded energy prices, it stood at 0.5% at the end of the year, 0.9 p.p. below that recorded in 2019, which indicates a departure from ECB’s medium-term objective.

The increase in the number of cases at the end of the year, together with the appearance of new coronavirus variants, forced many countries to reinforce the containment measures again, or even to reintroduce a state of emergency with general confinement. This return of the containment measures mitigates the existing optimism with the beginning of the vaccination programs. Therefore, the 2021 winter forecasts prepared by the European Commission point to an economic growth of 3.8% in the Eurozone, both in 2021 and 2022. These projections are based on the assumption that strict containment measures will be maintained in the first quarter of 2021 and will subsequently be eased until the end of the year.

IV. Angolan economy

The adverse economic effects associated with COVID-19 and the oil market crisis have aggravated Angola context in all macroeconomic domains. Oil tax revenue contracted 40% in 2020, explained by the 21% drop in the average export price and 4% in the exported quantity.

Fiscal policy has been adjusted in order to respond to the loss of tax revenues resulting from the fall in the price of oil and the need to incur health costs and establish measures to provide tax relief to businesspeople and families to withstand the impacts of the crisis. In this sense, it was necessary to revise the 2020 State Budget and take some urgent measures. Even so, the macroeconomic programming for 2020 points to an execution of petroleum tax revenues 16% above the initial forecast, which would imply a reduction of the budget deficit from 4% foreseen in the review of the 2020 State Budget to 1.5% of GDP.

BNA also adopted a set of measures to support the liquidity levels of the financial system and to support companies and families: (i) reduced the interest rate on the liquidity absorption facility, with a seven-day maturity from 10% to 7%; (ii) made available two liquidity lines, one with a maximum amount of AKZ 100 billion for the acquisition of government securities held by companies and the other within the scope of the overnight liquidity facility, up to AKZ 100 billion, renewable on a quarterly and non-cumulative basis throughout 2020; (iii) announced the granting of moratoriums, for 60 days, for the fulfilment of credit obligations.

Net International Reserves fell by 26% in 2020, ending the year with a historic minimum amount of USD 8.7 billion. This evolution is explained, essentially, by the 79% contraction of deposits of the National Treasury Single Account in Foreign Currency (CUT ME), which received less inflows associated with lower oil revenues and whose funds were abundantly raised by the Executive in order to sterilize and finance its expenditure in national currency.

According to INE estimates, the Angolan economy contracted 5.1% in 2020, being the biggest drop in GDP in several decades and the fifth consecutive economic recession. Economy contraction was more profound in the second quarter, when the first ever State of Emergency was implemented in Angolan. Several sectors of economic activity have felt the effect of the restrictions imposed, in particular transport, construction, fishing and extractive sectors.

Inflation reversed the downward trend that had been showing in recent years, closing the year at 25.1%. Acceleration in price growth was influenced by the supply-side restrictions resulting from the still inefficient internal productive structure and the limitations imposed on the internal circulation of goods and people.

In the foreign exchange market, BNA introduced a set of measures to continue the process of market flexibility. Among the measures, it should be highlighted he return of the oil companies, to which other relevant players were later added in the direct exchange negotiation with the banks, and the implementation of the foreign exchange market trading platform, Bloomberg's FXGO. In addition to this set of regulations, other measures were also used to influence foreign exchange pressure by managing banks' liquidity. It should be noted that the US Dollar appreciated 35% against the Kwanza during the year.

The stock of credit granted by banks to the Central Government grew 38.2%, while for the private sector, credit decreased by 6.8%, despite the existing programs - reinforced in the period under analysis - to encourage exposure from banks to the productive sector. Thus, the credit ratio to the State compared to the private sector increased from 141% in 2019 to 210% in 2020, a scenario that supports the concern already shown by the IMF in this area.

One of the main impacts of the economic scenario faced by Angola was the downgrades of the country's debt rating, mainly justified by the significant increase in public debt, high costs for its debt service and deterioration of the country's external position. Fitch and Standard & Poor’s cut their long-term ratings twice, setting them at CCC+ and CCC, respectively. Moody’s, which had put Angola under surveillance, lowered the rating to Caa1, also a level of non-investment.

Despite this challenging environment, in the fourth review of the financing program and specialized technical advisory (Extended Fund Facility, EFF), the IMF considered the country's macroeconomic scenario to be positive and that the reform program for Angola is still ongoing. The country complied with all indicative targets, and with 5 of the 6 targets established for the respective performance criteria.

The Institution also praised two points in its EFF compliance review: (i) the resilience shown by the Angolan Government, in the face of the impacts caused by the COVID-19 pandemic, recognizing the compromised way in which mitigation policies are being implemented; (ii) the successful reformulation of the debt service profile and the adoption of the Debt Service Suspension Initiative, which will grant some respite to the State treasury and reduce the financing needs.

IMF's Outlook for the country's economy is very positive and, with the exception of oil production, is based on the stabilization of the main macroeconomic indicators, in particular: (i) the reduction in inflation, consistent with a controlled growth of M2; (ii) the improvement of fiscal balances and the consequent reduction of the public debt ratio, where the Institution's vision is that the peak of public debt has been reached in 2020 (above 130% of GDP) and that it will reduce gradually over the medium to long term (target of 60% in 2028); (iii) improving the position of international reserves; and (iv) the robust growth of the non-oil sector. However, this scenario faces some risks to materialize, such as an unexpected increase in the number of internal cases of COVID-19, a slower recovery in world demand or the occurrence of some shock in the oil market.

V. Portuguese Economy

After the enforcement of the first measures to stop the spread of the pandemic in the country, the Government implemented a set of measures to support the economy, based mainly on: availability of credit lines guaranteed by the State; implementation of a simplified lay-off regime; flexible payment of taxes and social contributions; acceleration of the payment of incentives to companies; granting of public and private credit moratoriums; and other exceptional measures to support families.

In June, the Government approved the Economic and Social Stabilization Program being one of the bases for the 2020 Supplementary Budget. This program included a reinforcement and extension of the measures already taken by the Government to combat the crisis, a reformulation of the simplified lay-off and other additional measures for the progressive return of economic activity. It should be noted the introduction of an additional solidarity on the banking sector whose revenue is channelled to the Social Security Financial Stabilization Fundin order to finance the actions supported by the Government in response to the crisis.

In terms of macroeconomic indicators, the pandemic led the Portuguese economy to face the biggest recession since there is a statistical record. According to the latest INE (*Instituto Nacional de Estatística*) estimate, national GDP contracted, in real terms, 7.6%, which compares with the 2.5% growth achieved in 2019. This recession was mainly explained by the contraction of private consumption and the unprecedented reduction in tourism exports. In nominal terms, GDP should have decreased 5.3% in the year, reaching Euro 202.7 billion.

In 2020, the average unemployment rate was 6.8%, which represents an increase of 0.3 p.p. over the previous period. Thus, the downward trend that this indicator had been recording since 2014 was interrupted. It should be noted that, even though the unemployment rate has not changed significantly, the number of jobs has contracted the most since 2013 (-99 thousand jobs compared to 2019).

Inflation, as measured by the average annual change in the consumer price index (CPI), was null, following the 0.3% growth in the CPI in 2019. Excluding the price of energy and unprocessed food, the average change rate was also null (0.5% in the previous period). As in 2019, the inflation differential compared to Eurozone average, using the harmonized price index, was null, with a deflation of -0.3%.

Regarding public accounts, after the first budgetary surplus in many decades was reached last year, the Portuguese economy must have registered a budget deficit, from the perspective of public accounting, of approximately Euro 10.32 billion1 The adverse impacts on the economy caused by the health crisis resulted in a sharp reduction in tax and contributory revenue by about 5.6%, as well as an increase in expenditure by 5.3%, motivated by the extraordinary measures to support families and companies.

---

[1] Compared to what was foreseen in the 2020 Supplementary Budget (6% GDP deficit) and 2021 State Budget (7.3% GDP deficit), it would be necessary to use the budget balance from the perspective of national accounts, which is not yet known. However, official government sources have reported that the budget deficit is expected to be below the 7.3% foreseen in the 2021 State Budget, justified by the behaviour of fiscal and contributory revenue, which, despite decreasing, performed much better than expected.

After several years in which the country was reducing public debt, the pandemic forced the State to resort more to the debt market to meet increased financing needs. According to Banco de Portugal, public debt, from the Maastricht point of view, reached a new historic high at the end of 2020, standing at Euro 270.4 billion, which means, approximately 133% of GDP. Compared to 2019, public debt had a nominal growth of Euro 20.4 billion.

Despite the increase in indebtedness, the ECB public debt purchasing program had a very positive impact, both in the price of government bonds - whose 10-year yields reached negative levels - as well as in the updates in the ratings of rating agencies. The only relevant update made by the rating agencies to the Portuguese sovereign debt occurred in April, with Fitch and Standard and Poor’s revising the debt outlook from positive to stable. The maintenance of the assessment in the following updates was justified by the expectation of a resumption in the downward trend in public debt/GDP at the end of the pandemic and by the integration of Portugal in the Eurozone.

According to Banco de Portugal's projections, which are presented in the December Economic Bulletin (the economy should start to recover in 2021 and, in 2022, economic activity will return to the level prior to the pandemic. The Bank projects real GDP growth of 3.9% in 2021, 4.5% in 2022 and 2.4% in 2023. As the projections were prepared and communicated at a time prior to the country showing a worrying resurgence in the number of cases of COVID-19, which forced the Government to reinforce the containment measures, it is likely that in the next update of the projections they may be revised downwards.

VI. Banking sector framework

Before facing the challenging economic and social environment of 2020, the progress made by the bank in several dimensions of financial stability, in particular the indicators of liquidity and solvency, were significant. With these more robust foundations, it was agreed that the banking system could be more resilient to face this crisis compared to what was at the time of the previous global financial crisis, even better able to support the financing needs of companies and families.

Even so, several measures were taken by Banco de Portugal, to safeguard financial stability and to reduce the risk of a reduction in credit to the economy. In line with the initiatives developed by the ECB and the European Banking Authority (EBA), Banco de Portugal announced a set of measures aimed at less significant banks under its direct supervision, namely:

- Possibility for banks to operate, on a temporary basis, with capital levels below the recommendation of own funds (P2G) and the combined reserve of own funds (CBR) and with liquidity levels below the liquidity coverage ratio (LCR) requirement, the reduction in prudential capital requirements should be used for the granting of credit to the economy and not for the distribution of dividends, repurchase of own shares and variable remuneration.
- Maintenance of the countercyclical reserve of own funds at zero and postponement of the period of gradual implementation of the reserve of own funds for other institutions of systemic importance.
- Issuance of guidelines on the prudential treatment of claims subject to payment default and in its reporting and information disclosure.

One of the arguments that support better capacity of banks to support economy in this crisis is the 4.1% growth in credit granted by banks to the non-financial sector in 2020. Credit granted to companies, especially micro and small companies, grew the most (+9.6%), especially as of March, and much of the credit granted benefited from guarantees provided by the Portuguese State under the support to the Covid-19 economy ,as part of the Portuguese mutual guarantee system that allowed companies to access credit in better conditions, as they reduce the risk of the bank counterparty. In the case of private customers (+1.8%), mortgage loans grew by 2.3% in 2020, while the growth in consumer credit slowed to 0.5%, essentially reflecting the reduction in consumption associated with mobility restrictions imposed and the uncertainty of the impacts of the COVID-19 pandemic.

Regarding liabilities, customer deposits with Portuguese banks grew 9.4% compared to 2019, with this growth being more pronounced as of the second quarter. Segmenting, corporate deposits grew 18%, while private deposits grew 8.1%. On the other hand, the use of financing from the Eurosystem increased significantly (+ 85.7%), reflecting the easing of monetary conditions by the ECB, in particular, the bank's use of the third series of longer-term refinancing operations (TLTRO III).

Regarding the performance and soundness indicators of the banking sector for 2020, whose information provided by Banco de Portugal reported up to the third quarter of the year, it is verified, on the one hand, the positive evolution of non-performing loans (NPL) ratios, solvency and liquidity and, on the other hand, that the indicators related to income and profitability statements were the ones that most reflected the adverse conditions of the macroeconomic environment:

- NPL ratio stood at 5.3% in September 2020, which represents an improvement of 0.9 p.p. compared to 2019. Despite the improvement, Portuguese banking is still the third with the highest NPL ratio in the Eurozone and the expectation of convergence may be slower than previously anticipated. It should also be noted that the NPL volume may be underestimated due to the several supports that have been implemented, such as loans to companies with State guarantees, public moratorium on bank credits granted to families and companies and exceptional measures in terms of revocation, extension and suspension of contracted lines.

- 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 85.2% in December 2020, well below the regulatory maximum (120%). At the same time, the LCR liquidity ratio increased to 235.9%, comfortably above the regulatory minimum of 100%.

- Solvency continued to improve, with Common Equity Tier 1 (CET1) capital rising to 14.9% in September 2020 (0.6 p.p. more than at the end of 2019). Profit retention, in the pandemic period, contributed to the increase in CET1, increasing its weight in the own funds structure. At the same time, and more relevantly, there was a reduction in risk-weighted assets from 49.6% to 45.5% of total assets, probably due to the effect of the growth in credit to state-guaranteed companies that benefit from lower consumption of capital (RWA). The leverage ratio, although showing an unfavourable evolution (-0.3 p.p. to 7.6%) in 2020, remains comfortably above 3%, which despite being only a recommended limit will be a regulatory compliance requirement as of June 2021.

- In the first nine months of the year, the sector's net results fell to Euro 588 million, which means, a reduction of 65.4% compared to the same period of 2019. Return on Assets (ROA) was 0.1%, i.e., 0.5 p.p. less than in the same period last year, while Return on Equity (ROE) decreased 4.5 p.p., to 1.7%.

- The decline in profitability was due to a significant increase in impairment losses (+65.8% compared to the previous period) and, to a lesser extent, the decline in banking product (-6.9%). Operating costs decreased by 5.2%, however they were not enough to offset the decline in banking income, so the cost-to-income ratio registered an increase from 0.3% to 58.1%.

Despite the significant loss of profitability, the sector's stability indicators did not evolve as negatively as could be anticipated at the beginning of the pandemic. At the same time, banks have also shown an important role in supporting other sectors of activity most affected by this environment. However, a more pessimistic recovery in the economy than is currently expected and the lifting of some support measures from the authorities to families and companies may provide a much more challenging scenario for the coming years. For example, the increase in NPL is one of the main risks arising from the lifting of credit default, which will be in effect until September 2021. Should this increase materialize, it is expected that the sector will continue to face a significant need to reinforce impairment losses with negative impacts on its profitability.

It should be noted that in the base scenario of Banco de Portugal's projections made in December, the probability of default by companies is expected to increase in 2021, especially in hotels and restaurants, gradually decreasing in 2022. In the severe scenario, an evolution similar to the base scenario in 2020 is expected, but with a slower reduction in the probabilities of default in 2021 and 2022.

VII. Regulatory framework for the financial system

The European and national regulatory program was substantially influenced, in 2020, by COVID-19. It was a year marked by concern for families and companies and, additionally, also by the special consideration for operational continuity, right from the start in terms of technological resources, with the growing concerns about security and privacy, up to organizational and human resources.

Motivated by the pandemic crisis, at the national level, the moratorium regime was published through Decree-Law No. 10-J/2020 of 26 March, which introduced exceptional measures to protect the credits of families, companies, private institutions of social solidarity and other entities of the local economy, and also came to provide for a special regime of personal guarantees of the State, within the scope of the pandemic.

At European level, in April 2020, EBA also published the Guidelines on public and private moratoriums applied to credit operations in the context of the COVID-19 pandemic, having been incorporated by Banco de Portugal by Circular Letter No. CC/2020/00000022. These guidelines establish the terms and conditions that the extension of payment terms inherent in credit operations, associated with public or private moratoriums created in the context of the COVID-19 pandemic, must comply with in order not to lead to a situation of non-compliance with the debtor, nor to the verification of the concept of a restructuring measure, under the terms and for the purposes of the provisions of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013 ("CRR") and of the EBA Guidelines relating, namely, to the application of the definition of default according to Article 178 of the CRR.

The year 2020 was also marked by the publication of Banco de Portugal Notice No. 3/2020 in July, by which came to regulate, in a consolidated manner, the governance and internal control systems and define the minimum standards on which the organizational culture of the entities subject to the supervision of Banco de Portugal should be based. This notice is in line with the EBA Guidelines (EBA/GL/2017/12, EBA/GL/2017/11 and EBA/GL/2015/22) and is associated with Banco de Portugal Instruction No. 18/2020, which regulates reporting duties regarding organizational conduct and culture and governance and internal control systems. From these norms, we highlight the following changes: (i) an enlargement of the range of matters dealt with regarding the previous Notice; (ii) greater accountability for the supervisory body, management body and internal control functions; (iii) a need to align all parts of the financial and non-financial risk management system, including the risk appetite framework (RAF), the risk appetite statement (RAS), the overall risk management policy, the specific risk management policies, the internal capital adequacy self-assessment process (ICAAP), the internal liquidity adequacy self-assessment process (ILAAP), the recovery plan, and the remuneration policies and practices; (iv) the introduction of rules aimed at allowing the supervisory body to have the necessary conditions to effectively perform its functions, including the obligation to evaluate the internal control functions, and (v) the obligation of the supervisory body to ensure reliability, completeness and consistency of all information produced by the institution, including information on prudential and financial reports to be made to the respective supervisory authorities.

Regarding the prevention of money laundering and the financing of terrorism, 2020 was also marked by the transposition of Directive (EU) 2018/843 of the European Parliament and of the Council, of 30 May 2018, and of the Directive (EU) 2018/1673 of the European Parliament and of the Council, of 23 October 2018, on combating money laundering through criminal law.

BAI Europa’sactivity framework

Business Model

BAIE’s main **objective** is to provide financial services in an agile and flexible way:

(i) operating as a correspondent bank for the BAI Group (Angola and Cape Verde) and other Angolan institutional clients from a developed financial market, thus facilitating its access and their clients' access to international goods and services markets.

(ii) providing a diversified range of financial services to companies (preferably resident in Portugal) that do business and/or invest in Angola;

(iii) supporting Angolan companies with businesses in Portugal and, in addition, private Angolan customers with interests in Portugal.

seeking through these different market niches to ensure the growth of the Bank's client portfolio and balance sheet, as well as attract clients to BAI in Angola, to adequately remunerate the Bank's equity.

The Bank's business **strategy** thus aims to develop activity in specific market segments, seeking to adopt the quality of services provided to its customers as a differentiating line.

It is understood that the defined strategy allows the development of a business model that takes advantage of the Bank's potential for competitive advantages, namely in the financial group to which it belongs.

The implementation of this strategic guideline should be based on the adoption of a conservative risk profile that will ensure the continuity of the Bank's business, in terms of profitability and solvency, under any circumstances. Consequently, the implementation and maintenance of the several components of the Bank's internal control system must be appropriate to the intended risk profile.

From the **customer's point of view**, the business model applied by BAIE develops in three main areas:

- **Institutional banking**
  - Correspondent of Angolan banks - settlement of trade finance and other international payments of current and capital invisible with Angola.
  - Intermediary in raising funds from Angolan institutions for use in the interbank market in Portugal and Europe, benefiting from the in-depth knowledge of this market that BAIE has (treasury management, money market and fixed income).

- **Corporate banking – credit and deposits/savings**

  Focus on the market niche of the transactions that companies resident in Portugal (or other European countries) perform with Angola, both in the trade of goods and services (trade finance) and, in addition, in the support of the domestic activity of these companies.

- **Private banking – deposits/savings**

  Focus on BAI customers residing in Angola, in the affluent segment, who for professional or family reasons need to have a bank account at a credit institution in Portugal and access to Fintech platforms for intermediating retail deposits from other credit institutions in the Euro area. In the Strategic Business Plan for 2021-2025, the mass market and affluent of Portuguese nationality was defined as a new segment, in terms of fund raising through the development of digital channel platforms.

Within these objectives, BAIE has so far chosen the following business areas as priorities:

- **Correspondent Banking Services,** for banks of the BAI Group and other Angolan banks (trade finance and international payment services).

- **Commercial banking**

  1. Providing financial services primarily to **companies residing** in Portugal and maintaining commercial or investment business with Angola, seeking to structure customized financial solutions, which, within conservative risk parameters, contribute to the promotion of these businesses and, in addition to business in the domestic market.
  2. Providing financial services to **private customers** in terms of raising financial resources:
     - 2.1. Given the fact that BAI is a leading bank in Angola and through better use of synergies with its European subsidiary, in attracting financial resources from customers resident in Angola who wish to have a bank account opened in an institution in Portugal (affluent and expatriates).
     - 2.2. Taking advantage of the ECB's current ultra-accommodative monetary policy (and more recently also by the Fed), the Bank will start attracting retail funds through access to deposit intermediation platforms of Eurozone credit institutions and the provision of competitive remuneration fees.
     - 2.3. In the segment, the mass market and affluent of Portuguese nationality, with the expansion of the customer base supported by the development of digital channel platforms and the reformulation of the offer in terms of savings and payment products.

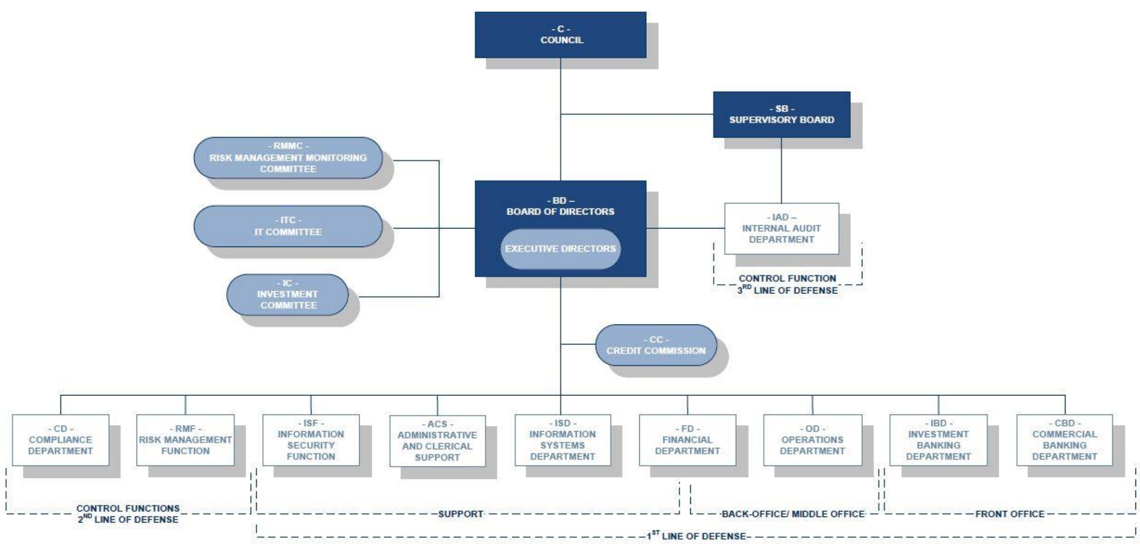
- **Investment Banking**, with the purpose of (i) investing the available financial resources, seeking to obtain the best profitability by assuming pre-defined risk levels through simple and effective risk management structures (money market and fixed income) and (ii) organizing more specialized financial solutions for **corporate clients**, in which the setting up and/or participation of more structured operations stands out, namely in the form of a banking syndicate.

Organizational structure

The organizational structure that was defined when the Bank was created has been updated in order to keep up with changes in the Bank's strategy and development, as well as the evolution of prudential requirements inherent to the activity and management of financial institutions.

The organizational structure in force at BAIE is based on several factors, including the environment in which the Bank operates, its strategy, its culture and the size, nature and complexity of its activity, the model used being based on a functional structure, in which people who perform activities within the same business, technical or knowledge area are grouped in the same department.

This structure was also designed with the aim of having the appropriate resources for the identification, assessment, monitoring, control and monitoring of the financial and non-financial risks to which the Bank is exposed in its activity.



Corporate Governance Model and Collegiate Bodies

- **General Meeting**

  The General Meeting is composed by the Bank's shareholders, with the responsibility of appoint the members of the General Meeting, the Board of Directors and the Supervisory Board and their respective chairman, approving the proposal for the appointment of the Statutory Auditor, the remuneration policy, the policy for the selection and appointment of the Statutory Auditor and the hiring of distinct non-prohibited audit services, the policy for the evaluation and selection of members of the governing bodies and employees who perform essential functions and the management report and accounts each period, including the opinion of the Supervisory Board.

- **Supervisory Board**

  The members of the Supervisory Board ensure conscientious and impartial supervision of the Bank's management, consisting of a Chairman, two effective members and an alternate member.

  The Supervisory Board meets at least on a monthly basis with the Risk Management Function, the Compliance Department, the Internal Audit Department and the Financial and Control Department, in order to monitor the risk management and the Bank's risk appetite, as well as its deployment.

  The members of the Supervisory Board are represented in the meetings of the Board of Directors and in the meetings of the Risk Management Monitoring Committee by one of its members.

- ***Board of Directors (BD)***

  The Board of Directors is made up of a non-executive director and three executive directors, one of whom has been acting as Chairman on a temporary basis until the completion of the procedures inherent to the authorization process for the members of the governing bodies to be appointed for the 2021/2024 term.

  At the General Meeting of 5 April 2021, the members of the governing bodies were appointed for the 2021/2024 term. In the first stage, the Board of Directors will have five elements: a non-executive Chairman; a non-executive member; and an Executive Committee with three members, one of whom is appointed as Chairman of the Executive Committee. The Supervisory Board will maintain the previous structure, with two members and a Chairman. Then, the respective evaluation and approval process with Banco de Portugal was initiated. In 2021, another member of the independent non-executive board will be appointed.

- ***Credit Committee (CC)***

  Credit Committee is a collegial decision-making body that is responsible for approving higher-level credit operations and that implies the assumption of risks of relevant amounts in BAIE's balance sheet. The responsibility for approving credit operations whose amount is lower than this level rests with one or more directors depending on their amount and according to the Credit Powers Delegation Standard.

- **Risk Management Monitoring Committee (CC)**

  Risk Management Monitoring Committee is responsible for ensuring the permanent monitoring of the risk management system and the adequacy and effectiveness of the measures taken to correct any deficiencies in that system. It is also responsible for monitor the Bank's exposure to financial and non-financial risks through a critical analysis of risk indicators, monitoring its evolution and the factors that justify this evolution, as well as the Bank's level of adherence to the defined risk appetite. The Risk Management Monitoring Committee is also responsible for monitoring the internal capital adequacy assessment (ICAAP), internal liquidity adequacy assessment (ILAAP) and stress tests regarding: i) the Bank's risk profile, ii) the respective internal policy, and iii) the regulatory requirements defined in this matter.

- **Information Technologies Committee (CTI)**

  This Committee is responsible for supervising the strategic information technology plan, performing the definition, approval and decision of priorities in terms of implementing technological programs and projects, in line with BAIE's business strategy, including those resulting from legal/regulatory liabilities or that support the mitigation of relevant risks, as well as monitor and define mitigation actions for information security and information technology risk events.

  Additionally, it is also responsible for ensuring the management of technological risks, in the areas of availability and going concern, security, changes, data integrity, capacity and external contracting.

- **Investment Committee (CI)**

  It is up to the Investment Committee, to analyse and recommend to the Board of Directors, investment strategies according to the future expectation in relation to the macroeconomic scenarios and the monitoring of the evolution of the financial markets, as well as to propose to the Board to approve/veto new investment options given the Bank's risk profile. The Investment Committee is also responsible for monitoring the performance and risk indicators of the several investment and deposit portfolios, presenting action proposals in the event of significant deviations from the initially stipulated objectives.

Human Resources

As of 31 December 2020, the Bank had a total of 50 employees, 6 more employees than in the previous year. The employees of the Bank are, of course, the most valuable and determinant asset for the success in implementing the business strategy.

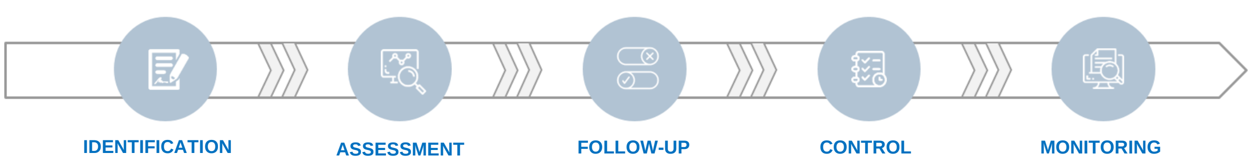
The Bank has a team of professionals, most of whom are young, very talented and with a diverse range of experiences, focused on customer service quality and compliance with applicable legal and regulatory standards.

The importance given to merit recognition 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 2020, 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. 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 comprises an integrated set of permanent processes that ensure an appropriate understanding of the nature and magnitude of the risks underlying the activity performed, thus enabling the adoption of an appropriate strategy and compliance objectives, with the Board responsible for ensuring its implementation. Therefore, the Risk Management System 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:



BAIE’s Risk Management System was defined according to the size, nature, and complexity of the Bank's activity, aiming to incorporate the strategic guidelines and the level of risk appetite defined by the Board.

The Board is responsible for ensuring the identification of risks, internal and external, that may affect the ability to implement BAIE's strategy and achieve the respective objectives, with the FGR delegating the preparation of a report that compiles the result of the assessment of risks developed by the Control Functions.

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

i. Non-financial risks:

- Strategy Risk
- Operational risk
- Information Security and Information Technologies Risk
- Compliance Risk
- Reputational Risk

ii. Financial risks:

- Credit Risk (includes Concentration Risk)
- Liquidity and Financing Risk (includes Concentration Risk)
- Interest rate risk
- Exchange Rate Risk (includes Concentration Risk)

Market risk is not considered material, as the Bank does not have a trading book investment strategy, thus not considering the market risk.

Financial analysis

A brief financial analysis of BAIE's activity in 2020 is provided below.

Income Statement

	31-Dec-20	31-Dec-19	Δ
Interest and similar income	10 238 927	21 473 405	-52.3%
Interest and similar expense	(3 489 072)	(13 146 796)	-73.5%
Net Interest Income (NII)	**6 749 855**	**8 326 609**	**-18.9%**
Financial Operations (FO)	1 279 184	1 578 868	-19.0%
Gross Profit (NII+FO)	**8 029 039**	**9 905 477**	**-18.9%**
Fee and commission income/ expense (FCIE)	3 893 204	4 912 206	-20.7%
Other Operating Income/ (expense) (OPIE)	(2 327 226)	(2 065 047)	12.7%
Operating Income (OI=NII+FCIE+OPIE)	**9 595 017**	**12 752 636**	**-24.8%**
Fixed Costs (FC)	(5 768 828)	(6 094 692)	-5.3%
EBITDA (OI-FC)	**3 826 189**	**6 657 944**	**-42.5%**
Depreciation for the period (D)	(759 124)	(748 035)	1.5%
Net provisions and impairments	(2 136 948)	(1 666 574)	28.2%
Profit/ (loss) before tax	**930 117**	**4 243 335**	**-78.1%**
Taxes	(759 655)	(1 314 465)	-42.2%
Profit/(Loss) for the period	**170 462**	**2 928 871**	**-94.2%**
Cost to income [(FC+D)/OI]	**68.0%**	**53.7%**	**26.8%**

In a year marked by a pandemic, the impact of which was very significant on economies and markets, in 2020, ***Profit/(Loss) before Taxes*** from BAIE amounted to Euro 930 thousand, which represents a significant decrease of -78% when compared with the previous year, as well as the ***Profit/(Loss) for the period*** which amounted to Euro 170 thousand, which represents a decrease of approximately -94% when compared with the previous year.

Net Interest Income amounted to Euro 6,750 thousand, which represents a decrease of -19% when compared with the previous year. To this decrease contributed both the price variable (decrease in the remuneration rates). The accommodative monetary policy of the main central banks, namely the US Federal Reserve (Fed), had a very negative impact on the Bank's financial margin. The reduction of 1 p.p. in the reference rates, for the level of 0.00% and 0.25%, forced the Bank to change the profile of the securities portfolio at the end of the first quarter of 2020, in response to the narrowing of the yields of bond issues. Regarding the passive margin, the need to comply with the net stable financing ratio (NSFR), which will become mandatory from June 2021, resulted in the capture of retail funding which, together with monetary policy of the European Central Bank (Euribor at historical low amounts), had an erosion effect on the financial margin.

Income from financial operations decreased -19% year-on-year, due to: i) a decrease in income from foreign exchange operations (- Euro 395 thousand compared to 2019), ii) an increase in the income from the financial assets at fair value through other comprehensive income (- Euro 45 thousand compared to

2019) and, on the other hand, partially offset by iii) the depreciation of assets at fair value through profit or loss (Euro 140 thousand compared to 2019).

Fee and commission income/ expense amounted to Euro 3,893 thousand, reflecting a decline of approximately -21% when compared with the previous year. The performance of this item results mainly from the decrease in fees of documentary credits (-27%). The strong activity seen in the 4th quarter of 2018 and the increase in commissions for deadline extension due to the divergence of previous documentary credits had a very positive impact in terms of income in the first half of 2019.

Other operating income worsened in 2020 compared to the net expense occurred in the previous year (+13%), explained by the effect of accounting for a profit in the amount of Euro 209 thousand, resulting from the sale of financial participation in an associated company in 2019.

Fixed costs, incurred in 2020, when compared with the same period of the previous year, show a decrease of -5%, explained by the variation occurred in the following items:

i) **General and administrative expenses** (-4%). Despite an increase of Euro 97 thousand in expenses with projects and external consultancy, the teleworking regime in 2020 resulted in a reduction in communication expenses, travel, and staff training in the amount of Euro 204 thousand.

ii) **Staff costs** (-6%), due to the very significant decrease in variable remuneration in 2020, despite an increase in the Bank's human capital structure during the year.

Regarding ***net provisions and impairments***, in 2020 the item presented an increase of +28%, essentially due to the adverse impact of the updating of risk factors triggered by the effect of the pandemic crisis on economies, with significant impairments in the exposure to sovereign risk Angola, partially offset by a reversal associated with the settlement of a loan.

Although there was a decrease in the cost structure, the decrease in banking income of approximately -25% compared to the same period was reflected in the worsening of the cost to income ratio by around 14 p.p.

Balance sheet

	31-Dec-20	31-Dec-19	Δ
Financial Assets:			
Cash and cash equivalents repayable on demand	213 002 784	176 547 760	21%
Loans and advances to credit institutions repayable on demand	112 349 030	368 311 838	-69%
Loans and advances to customers	82 230 868	79 163 299	4%
Financial assets not held for trading mandatorily measured at fair value through profit or loss	546 394	660 302	-17%
Financial assets at fair value through other comprehensive income	139 026 724	137 250 776	1%
Other financial assets at amortised cost	9 951 931	31 516 882	-68%
Other financial assets at fair value through profit or loss	294 405	336 977	-13%
Total Financial Assets	**557 402 136**	**793 787 835**	**30%**
Non-financial assets	28 970 093	28 977 226	0%
Total Assets	**586 372 229**	**822 765 061**	**-29%**
Financial Liabilities:			
Deposits from other credit institutions	312 155 208	556 718 259	-44%
Deposits from customers	174 929 100	170 277 884	3%
Subordinated loans and advances	-	-	N/A
Other financial liabilities	294 405	336 977	-13%
Total Financial Liabilities	**487 378 713**	**727 333 120**	**33%**
Other non-financial liabilities	9 654 579	9 161 457	5%
Share capital	40 000 000	40 000 000	0%
Revaluation reserves	2 549 660	182 102	1300%
Other reserves and retained earnings	46 618 817	43 159 511	8%
Profit/(Loss) for the period	170 460	2 928 871	94%
Total Liabilities and Equity	**586 372 229**	**822 765 061**	**29%**

In 2020, there was a considerable increase in BAIE's balance sheet (-29%), reflecting the continued growth of business activity with institutional clients, which began in 2019. The decrease is mainly explained by the lower demand for the interbank money market (investments and resources from credit institutions), caused by the Fed's accommodating monetary policy.

Although the variation is residual, and as previously mentioned, the portfolio of financial assets at fair value through other comprehensive income has been altered in terms of profile (previously mostly composed of sovereign issues and multilateral development banks). Due to the aforementioned decrease in the benchmark interest rate in USD, which led to a context of zero lower bound in the EUR and USD markets, BAIE management decided to initiate a program for purchasing investment grade bond issues, with a diversified asset allocation. Investment in these issues was one of the main short-term response strategies on the part of the Bank's management to the deterioration in risk premiums in the sovereign debt market since they have implicitly higher yields.

In average terms, the decrease in the balance sheet was less pronounced (-23%).

The solvency indicator remains comfortably above the regulatory minimum limit, having stood at 25.5% as in the previous year.

Proposal for the appropriation of net profits

The profit for the period in 2020 amounted to Euro 170,460 and, in accordance with the applicable legislation, the Board of Directors proposes the following appropriation:

• Transfer to Retained Earnings	153 414
• Transfer to Legal Reserves	17 046

Other Information

(i) Subsequent events

Subsequent events are disclosed in the Annex to the Management Report, namely in 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 was no business between the Bank and its Directors, except for transactions that result from the Bank's normal activity;
- 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 accordance with Article 447 of the Portuguese Commercial Companies Code (*Código das Sociedades Comerciais*), it is hereby declared that, with the exception of the executive director Omar José Mascarenhas de Morais Guerra, 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 the Portuguese Commercial Companies Code (*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 Chairman	Omar Guerra Member
Henrique Carvalho da Silva Member	Inokcelina dos Santos Member

Banco BAI Europa, S.A.

Financial Statements

2020

Banco BAI Europa, S.A.

Financial Statements
as of 31 December 2020

BANCO BAI EUROPA, S.A.
STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2020 AND 2019

(Amounts expressed in Euro)

	Notes	31-Dec-20 Amount before impairment and amortisation	31-Dec-20 Impairment and amortisation	31-Dec-20 Net amount	31-Dec-19
Assets					
Cash and deposits at central banks	3	84 537 660	-	84 537 660	151 978 991
Loans and advances to credit institutions repayable on demand	4	132 775 552	(50 784)	132 724 768	24 568 769
Financial assets not held for trading mandatorily measured at fair value through profit or loss	5	546 394	-	546 394	660 302
Other financial assets at fair value through profit or loss	6	294 405	-	294 405	336 977
Financial assets at fair value through other comprehensive income	7, 17	139 026 724	-	139 026 724	137 250 776
Financial assets at amortised cost					
Other loans and advances to credit institutions	8, 17	112 464 350	(115 320)	112 349 030	368 311 838
Loans and advances to customers	9, 17	85 774 599	(3 543 731)	82 230 868	79 163 299
Other financial assets at amortised cost	10	9 963 499	(11 568)	9 951 931	31 516 882
Other property, pland and equipment and right-of-use assets	11	4 469 915	(1 539 964)	2 929 951	3 406 174
Intangible assets	12	628 168	(602 237)	25 931	173 465
Current tax assets	13, 27	451 343	-	451 343	846 679
Deferred tax assets	13, 27	622 559	-	622 559	692 779
Other assets	14, 17	21 340 656	(627 975)	20 712 681	23 858 130
Total de Activo		**592 895 824**	**(6 491 579)**	**586 404 245**	**822 765 061**

	Notes	31-Dec-20	31-Dec-19
Liabilities			
Other financial liabilities at fair value through profit or loss	6	294 405	336 977
Deposits from central banks	15	-	-
Deposits from other credit institutions	15	312 187 232	556 718 259
Deposits from customers and other loans	16	174 929 100	170 277 884
Provisions	17	4 597 984	4 180 559
Current tax liabilities	13, 27	8	8
Deferred tax liabilities	13, 27	640 367	29 301
Other liabilities	18	4 416 220	4 951 589
Total Liabilities		**497 065 316**	**736 494 577**
Equity			
Share capital	19	40 000 000	40 000 000
Revaluation reserves	19	2 549 660	182 102
Other reserves	19	8 673 348	8 380 461
Retained earnings	19	37 945 461	34 779 050
Net profit/ (loss) for the period	19	170 460	2 928 871
(Prepaid dividends)		-	-
Total Equity		**89 338 929**	**86 270 484**
Total Liabilities + Total Equity		**586 404 245**	**822 765 061**

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 2020 AND 2019

(Amounts expressed in Euro)

	Notes	31-Dec-20	31-Dec-19
Interest and similar income - effective rate	20	10 238 925	21 473 405
Interest and similar expense	20	(3 489 072)	(13 146 796)
Net interest income	20	**6 749 853**	**8 326 609**
Fees and commissions income	21	4 924 650	5 933 774
Fees and commissions expense	21	(1 031 446)	(1 021 568)
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	22	274 792	319 299
Net gains/ (losses) arising from financial assets mandatorily measured at fair value through profit or loss	23	(92 629)	(232 816)
Net gains/ (losses) arising from foreign exchange differences	2.3	1 097 021	1 492 385
Net gains/ (losses) arising from the sale of other assets	11	(839)	-
Other operating income/ (expense)	24	(2 326 387)	(2 065 047)
Operating income		**9 595 015**	**12 752 636**
Staff costs	25	(3 102 093)	(3 315 682)
General administrative expenses	26	(2 666 735)	(2 779 010)
Depreciation for the period	11, 12	(759 124)	(748 035)
Provisions net of reversals and recoveries	17	(704 060)	(745 397)
Impairment for financial assets not measured at fair value through profit or loss			
Financial assets at fair value through other comprehensive income	17	(262 765)	(56 274)
Financial assets at amortised cost			
Impairment for loans and advances net of reversals and recoveries	17	(820 780)	(832 732)
Impairment of other financial assets net of reversals and recoveries	17	47 743	(30 755)
Impairment for non-financial assets	17	(397 086)	(1 416)
Profit before tax		**930 115**	**4 243 335**
Taxes	27	(759 655)	(1 314 465)
Current	27	(689 435)	(1 260 846)
Deferred	27	(70 220)	(53 619)
Profit after tax		**170 460**	**2 928 871**
Net profit for the period		**170 460**	**2 928 871**
Earnings per share		**0,02**	**0,37**

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 31 DECEMBER 2020 AND 2019

(Amounts expressed in Euro)

	Notes	31-Dec-20	31-Dec-19
Net profit for the period		**170 460**	**2 928 871**
Items that w ill not be reclassified into the income statement			
Retained actuarial gains and losses f rom long-terme benefits	19	530 427	(25 174)
Fair value reserve associated with equity instruments		-	-
Tax eff ect		-	-
Items that may be reclassified into the income statement			
Fair value changes f rom debt instruments at fair value though other comprehensive income	19	2 978 624	226 302
Tax eff ect	19	(611 066)	(50 926)
Profit/ (loss) not included in the incom e statement		**2 897 985**	**150 202**
Comprehensive income for the period		**3 068 445**	**3 079 073**

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 31 DECEMBER 2020 AND 2019

(Amounts expressed in Euro)

	Notes	Share capital	Retained earnings	Legal reserve	Revaluation reserves	Net profit for the period	Total Equity
Balance as at 1 January 2019		**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	19	-	-	-	231 650	-	**231 650**
Retained actuarial gains and losses from long-term benefits	19	-	(25 174)	-	-	-	**(25 174)**
Net profit for 2019		-	-	-	-	2 928 871	**2 928 871**
Balance as at 31 December 2019		**40 000 000**	**34 779 050**	**8 380 462**	**182 102**	**2 928 871**	**86 270 485**
Appropriation of 2019 profits into retained earnings and legal reserve		-	2 635 984	292 887	-	(2 928 871)	**-**
Retained actuarial gains and losses from long-term benefits	19	-	530 427	-	2 367 558	170 460	**3 068 445**
Balance as at 31 December 2020		**40 000 000**	**37 945 461**	**8 673 348**	**2 549 660**	**170 460**	**89 338 929**

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 2020 AND 2019

(Amounts expressed in Euro)

	Notes	31/12	31-D
Operating activities			
Interest, commissions and other income received	20, 21	14 978 858	28 726 327
Interest, commissions and other expense paid	20, 21	(4 944 721)	(15 584 649)
Foreign exchange and other financial operations gains and losses	2.3	1 097 021	1 492 385
Payments to employees and suppliers	25, 26	(5 477 890)	(5 794 157)
Net cash flow arising from operating activities before changes in assets and liabilities		5 653 267	8 839 906
Decreases (increases) in:			
Other financial assets at amortised cost	10	21 590 918	1 701 897
Loans and advances to credit institutions repayable on demand	8	255 804 503	245 300 914
Loans and advances to customers	9	(3 664 165)	(6 036 681)
Other assets	15	(5 620 709)	555 645
Net cash flows arising from operating assets		268 110 548	241 521 775
Increases (decreases) in:			
Deposits from other credit institutions and central banks	15	(244 071 942)	(355 708 878)
Deposits from customers	16	4 516 597	33 526 766
Other liabilities	18	855 008	(6 699 218)
Net cash flows arising from operating liabilities		(240 700 337)	(328 881 330)
Income tax payment	13, 27	(184 224)	(3 052 389)
Other taxes and contributions paid	24	(2 394 742)	(1 193 904)
Gross cash flow from operating activities		(2 578 966)	(2 578 966)
Investing activities			
Income arising from financial assets at fair value through other comprehensive income	22	274 792	319 299
Income arising from financial assets at fair value through profit or loss	23	-	-
Acquisitions of financial assets at fair value through other comprehensive income, net of disposals	7	4 056 999	134 391 960
Acquisitions of financial assets at fair value through other comprehensive income, net of disposals	6	(63 851)	673 502
Acquisition of tangible and intangible assets, net of disposals	11, 12	-	(135 024)
Dividends received		2 596	-
Net cash flows arising from investing activities		4 270 536	135 249 737
Financing activities			
Payments on lease liabilities	18	(249 242)	(382 219)
Net cash flows arising from investing activities		(249 242)	(382 219)
Net changes in cash and cash equivalents		36 505 806	52 503 579
Cash and cash equivalents at the beginning of the period	3, 4	176 547 761	124 054 769
Cash and cash equivalents at the end of the period	**3, 4**	**36 505 806**	**176 558 348**

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 2020

(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 to the Portuguese branch, Banco Angolano de Investimentos, S.A. 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, BAI 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 Banco de 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 Banco de 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 2020 and were prepared in accordance with the principle of going concern, as well as 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 01 January 2020. The accounting policies adopted are consistent with those followed in the preparation of the financial statements for the previous period.

These financial statements were approved by the Board of Directors of the Bank on xx April 2021 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 for that purpose estimates over recoverable cash flows including the ones originated by possible recoveries and collaterals completion (Note 2.4.1.3). This process includes factors such as probability of default, credit ratings, the value of the collaterals associated to each operation, recovery rates and the cash flow estimates, either from future cash flows or 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 (Note 14). 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 32). 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 using actuarial boards, pensions and wages growing assumptions and pension future income assumptions (Note 29). These assumptions are based in BAIE expectations at the balance sheet date for the period during 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 judgement 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 the stock exchange market;
iii) Open-end securities funds listed on the 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, among others, 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 using 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, among others, 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 consequent 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 reverted 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 (Note 17).

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 on the basis of the multi-currency system, in other words, 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 published 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 published 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 published 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 monthly 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 2020, 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; or
iii) Financial assets at fair value through profit or loss.

The classification is made considering the following aspects:

i) The Bank's business model for financial asset management; and
ii) 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 include 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 by 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 have impact in expected losses.

<u>Collective analysis</u>

Instruments that are subject to impairment calculations are divided in three stages considering its credit risk level, as follows:

- Stage 1: no significant increase in credit risk since its 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 its 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.

<u>ECL Calculation</u>

ECL correspond to unbiased 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.

<u>Definition of default</u>

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.

<u>Significant increase in credit risk</u>

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 as relevant information all the information available and without costs and/or excessive effort, including either quantitative and qualitative information or an analysis based in BAI Europa´s history, expert judgement and forward looking.

Thus, and 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 reports; 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 to confirm that:

- The criteria allow to identify significant increases in credit risk before the exposure enters in default;
- The criteria are not in line with the moment where 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 in order to reflect the 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 counterparty'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 per Stage:

- Stage 1 and 3: corresponds to the sum of outstanding loans, overdue loans, accrued interest and any off-balance sheet loans (to which, as mentioned above, and 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 Europaand credit insurance guaranteed by the Portuguese Government). Given the need to calculate the expected loss for the lifetime of the contract, future amortisations are 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, namely 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 more 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, instead of the one used in 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 at the initial recognition, which can be originated according to one of the following criteria: (i) New financial assets originated after changes in the contractual conditions that result in the derecognition of the original asset and in the recognition of a new asset; (ii) New customer contracts in default.

The calculation of the ECL for assets classified as POCI is based in 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 in 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 2020 and 2019, 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 held 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.

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. 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).

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.

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. Thus, it is considered as evidence of deterioration of the quality of a financial asset, 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.

2.4.3 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.

2.4.4 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 accounted 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 2020 and 2019, 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 irrevocably selection (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 fulfilled:

- The financial assets and liabilities are managed, evaluated and reported internally at its fair value;
- The designation 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 fulfilled 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 other financial institutions (Note 15) and from customers (Note 16).

These financial liabilities are initially recognised at fair value, accrued of possible commissions included in the effective interest rate and also accrued of 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 its fair value is positive and liabilities when its 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 its theoretical value (notional value).

As at 31 December 2020 and 2019, BAIE does not own any derivative financial instrument.

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.

There were no reclassifications of Financial Assets in 2019 and 2020.

2.5 Guarantees provided and irrevocable commitments

Liabilities with Guarantees provided and irrevocable commitments are recorded in off-balance sheet accounts by its value at risk. Interest, commissions, and other income are recorded in the income statement over the useful life of the operations (Note 28).

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 through the straight-line method, according to the useful life expected by the Bank, as shown below:

	Number of years
Rented buildings	10
Equipment	3 to 5
Other property, plant and equipment	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 2.15 IFRS 16 - Leases.

Impairment losses on property, plant and equipment are recognized in profit or loss for the period, with no objective signs of impairment identified in 2020.

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 activity (Note 12).

Intangible assets are booked at acquisition cost less accumulated amortisation and impairment losses. Depreciations are 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.

Any impairment losses are recognized in profit or loss for the period, with no objective signs of impairment identified in 2020.

2.8 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 to reserves in which case it is 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 are reportable during a period of 12 years and tax losses generated in 2017 and following during a period of 5 years after its occurrence, being available for deduction with a limit of 70% of the tax profits generated during the referred 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.

2.9 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:

2.9.1 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 acknowledges the responsibility to pay to its employees covered by the Vertical Collective Labour Agreement for the Portuguese Banking Sector (VCLA) or to its families, 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 his/her salaries. To this extent, 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 employees in active age as at 4 January 2011 began to be covered, as from that date, by the Social Security General Regime (SSGR) only for old age retirement benefit and in cases of maternity, paternity and adoption, whose charges the Bank no longer bears. Considering the complementarity character predicted in the VCLA rules, the bank continues to guarantee the difference between the amounts paid under the Social Security General Regime and those estimated under the referred Agreement.

BAIE determines, on an annual basis, the total amount of these responsibilities, through calculations performed by independent actuaries, using the “Unit Credit Projected” method and actuarial assumptions considered appropriate (Note 29). 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 the pensions and salaries growth expectations 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, without 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 and the bank, since the beginning of that year started to support an additional charge corresponding to a fee (*Taxa Social Única* – TSU) of 23.75% over the generality of retributions paid to its 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 the ones related to the passage of employees to early retirement, are recognised as expenses in the income statement in the period to which they occur.

In addition, Notice 12/2001 from Banco de Portugal obliges a full financing of pension liabilities in payment and a level of financing of 95% of past services 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.

2.9.2 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 “Project Unit Credit” method. The actuarial assumptions used (demographic and financial) consider expectations, at the balance sheet date, for the salary’s growth and a mortality table suitable to the bank´s population. 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 the ones used in the retirement pension’s liability calculation.

For accounting purposes, the Bank registers the amount of the liabilities calculated as an expense (Note 18) 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.

2.9.3 Short-term benefits

Short-term benefits (retribution and charges with retributions) are recorded by the undiscounted amount under Staff costs (Note 25) in the period to which they relate in accordance with the accrual principle.

2.10 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, we are in the presence of 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 from being recognised when they are used for settling the liabilities for which they were initially set up or reversed in cases where those liabilities are no longer observed (Note 17)

There are no Contingent Liabilities disclosed in 2020.

2.11 Assets received as payment in exchange for credits recovery

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

Subsequently, these assets are recorded by the lower between its 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 credits recovery.

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

No assets of this nature were accounted for in 2020.

2.12 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:

- When obtained as services are rendered, they are recognised in the income statement in the period to which they relate;
- When they result from services rendered, they are recognised in the income statement when the service is completed; and
- 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 (Note 23).

2.13 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.

2.14 IFRS 16 - Leases

IFRS 16 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 2020 and 2019.

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 remeasurement of lease liabilities.

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

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 judgement 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.

2.16 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:

- Those that provide evidence of conditions existing at the balance sheet date (adjusting events after the balance sheet date); and

- 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 35).

3. Cash and deposits at central banks

This balance is analysed as follows:

	31-Dec-20	31-Dec-19
Cash	148 869	97 539
Deposits repayable on demand at Banco de Portugal	84 388 791	151 881 452
	84 537 660	**151 978 991**

The balance Deposits repayable on demand at Banco de Portugal corresponds to mandatory deposits intended to satisfy the Minimum Reserve System of the European System of Central Banks (SBCE), which at 31 December 2020 amount to Euro 4,707,200 (31 December 2019: Euro 7,487,100).

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 2020, 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-20	31-Dec-19
Loans and advances to credit institutions in Portugal		
Deposits repayable on demand	125 079 504	8 151 905
Loans and advances to foreign credit institutions		
Deposits repayable on demand	3 468 428	16 427 452
Cheques to be settled	4 227 620	-
Impairment losses (Notes 17 and 31)	(50 784)	(10 588)
	132 724 768	**24 568 769**

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

This balance is analysed as follows:

	31-Dec-20	31-Dec-19
Equity instruments		
Issued by national private entities	74 860	84 097
Issued by foreign private entities	43 042	131 277
Debt instruments		
Issued by foreign private entities	281 290	276 439
Others – investment funds		
Issued by foreign private entities	147 202	168 489
	546 394	**660 302**

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 in the amount of Euro 2,596 has been recorded under Net gains/ (losses) arising from financial assets mandatorily measured at fair value through profit or loss (Note 23).

The item Others - investment funds – Issued by foreign private issuers relates to investment in a private equity investment fund (Note 32).

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

This balance is analysed as follows:

	31-Dec-20		31-Dec-19	
	Assets	Liabilities	Assets	Liabilities
Other financial assets at fair value through profit or loss				
Investment funds				
Non-resident	294 405	-	336 977	-
Other financial liabilities at fair value through profit or loss				
Structured financial resources	-	(294 405)	-	(336 977)
	294 405	**(294 405)**	**336 977**	**(336 977)**

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

The gain and loss in 2020 related to financial assets and liabilities at fair value through profit or loss, resulting from fair value variations occurred in the Fund, amounted to Euro 174,602 and Euro -174,602, 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-20	31-Dec-19
Financial assets at fair value through other comprehensive income		
Debt instruments		
Issued by national public entities	8 815 300	6 694 369
Issued by national private entities	28 329 512	5 316 561
Issued by foreign public entities	22 448 171	91 391 588
Issued by foreign private entities	78 743 554	33 592 879
Interest receivable	708 042	255 379
Acquisition fee deferral	(17 855)	-
	139 026 724	**137 250 776**

As at 31 December 2020, part of debt instruments, in the amount of Euro 1,031,003, namely 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 28 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 28 and 31). As at 31 December 2020 and 2019, 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 realising gains/losses on transactions are recorded under Income from financial assets at fair value through other comprehensive income (Note 22). In 2020 and 2019, the Bank did not receive dividends from assets at fair value through other comprehensive income.

As at 31 December 2020 and 2019, 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 19).

As at 31 December 2020, the item “Acquisition fee deferral” refers to the payment of a fee on the acquisition of an obligation, which is deferred over the useful life of the financial instrument.

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

This balance is analysed as follows:

	31-Dec-20	31-Dec-19
Loans and advances to credit institutions in Portugal		
Deposits	32 597 180	96 136 728
Subordinated loans and advances	3 665 089	3 270 465
Interest receivable	11 728	165 263
Loans and advances to foreign credit institutions		
Very-short loans and advances	11 816 478	8 901 549
Deposits	28 522 533	220 758 412
Loans and advances	35 856 898	39 166 815
Interest receivable	65 377	330 873
Deferred commissions	(70 933)	(218 554)
Total gross amount	**112 464 350**	**368 511 551**
Impairment (Notes 17 and 31)	(115 320)	(199 712)
Total net of impairment	**112 349 030**	**368 300 805**

The amount corresponding to Subordinated loans and advances is a set of collateral deposits (Note 28), 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.

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

Changes in impairment during 2020 and 2019 are disclosed in Note 17.

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

This balance is analysed as follows:

	31-Dec-20	31-Dec-19
Loans not represented by securities		
Domestic loans		
Loans and advances	60 534 756	58 795 377
Current account loans	1 746 898	875 659
Foreign loans		
Loans and advances	21 599 885	22 261 120
Current account loans	293 375	222 539
Loans and overdue interest	1 643 946	-
Interest receivable	556 789	438 781
Prepaid interest	(2 246)	-
Commissions associated with amortised cost	(598 804)	(717 419)
Total gross amount	**85 774 599**	**81 876 057**
Impairment for loans and advances to customers (Notes 18 and 32)	(3 543 731)	(2 712 758)
Total net of impairment	**82 230 868**	**79 163 299**

Changes in impairment for loans and advances to customers during 2020 and 2019 are disclosed in Note 17.

In the evolution of Loans and advances to customers, the weight of financing granted under the COVID-19 lines, which benefit from a State guarantee, amounts to Euro 150,056. The amount of loans to customers in arrears is presented in the sub-chapter “Impact of the COVID-19 pandemic” of Note 31.

As at 31 December 2020 and 2019, this balance has the following structure by business sector:

	31-Dec-20		31-Dec-19	
Financial activities and insurance	14 560 962	17.0%	17 912 424	21.8%
Construction	9 865 507	11.5%	13 866 703	16.9%
Other business services	12 381 416	14.4%	13 764 869	16.8%
Real estate activities	19 535 593	22.8%	13 184 482	16.0%
Public administration (regional and local)	4 583 978	5.3%	9 802 836	11.9%
Trade and repair	12 260 826	14.3%	5 646 268	6.9%
Other activities and retail	2 719 094	3.2%	3 685 897	4.5%
Accommodation, restaurants and similar	1 874 109	2.2%	1 966 667	2.4%
Transportation and storage	1 829 044	2.1%	1 654 079	2.0%
Food, beverage and tobacco industries	6 208 333	7.1%	670 470	0.7%
	85 818 860	**100.0%**	**82 154 695**	**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' activities and management consulting activities.

10. Other financial assets at amortised cost

Other financial assets at amortised cost are analysed as follows:

	31-Dec-20	31-Dec-19
Securities issued by residents		
Debt instruments		
Issued by other national public entities	2 057 000	7 299 999
Other residents	7 899 914	24 247 832
Interest receivable	13 512	9 578
Prepaid interest	48	1 794
Deferred charges expenses	(6 974)	-
Total gross amount	**9 963 499**	**31 559 203**
Impairment (Notes 17 and 31)	(11 568)	(42 321)
Total net of impairment	**9 951 931**	**31 516 882**

As at 31 December 2020 and 2019, this caption includes the amount of Euro 2,057,000 relating to investments in commercial paper issues to which the Bank subscribed in the primary market.

As at 31 December 2020, "Debt instruments - From other national public issuers" refers to a bond issue of Portuguese public debt.

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

The changes in these balances during 2020 were as follows:

	31-Dec-19						31-Dec-20		
	Gross amount	Accumulated depreciation and impairment	Net amount	Acquisitions	Depreciation for the period	Write-offs	Gross amount	Accumulated depreciation and impairment	Net amount
Properties in use									
Leasehold improvements	826 835	(123 722)	703 113	20 598	(84 164)	-	847 433	(207 886)	639 547
Equipment				-					
Furniture and material	173 910	(38 082)	135 828	14 234	(21 740)	-	188 144	(59 822)	128 322
Machinery and tools	4 395	(2 283)	2 112	-	(616)	-	4 395	(2 899)	1 496
IT equipment	649 828	(438 043)	211 785	25 301	(125 317)	(6 988)	668 141	(557 209)	110 932
Interior installations	19 860	(11 407)	8 453	-	(990)	-	19 860	(12 397)	7 463
Security equipment	10 588	(4 403)	6 185	-	(3 018)	-	10 588	(7 421)	3 167
Other equipment	11 693	(698)	10 995	-	-	-	11 693	(698)	10 995
Right-of-use assets									
Real Estate	2 359 779	(272 798)	2 086 981	10 679	(276 542)		2 370 458	(549 340)	1 821 118
Vehicles	319 042	(78 320)	240 722	65 392	(99 203)	(35 231)	349 203	(142 292)	206 911
Property, plant and equipment under construction	-	-	-	-	-	-	-	-	-
	4 375 930	**(969 756)**	**3 406 174**	**136 205**	**(611 590)**	**(42 219)**	**4 469 915**	**(1 539 964)**	**2 929 951**

Right-of-use assets corresponds essentially to leased properties, namely the Bank's headquarters in Lisbon and a representative office in Porto and a residual number of vehicles. These assets are amortized according to the lease term of each contract, as described in the accounting policy of Note 2.15.

The acquisition of Right-of-use assets – real estate, in the amount of Euro 10,679, refers to the remeasurement of the lease liability due to a change in future lease payments resulting from the legal updating of the lease value.

The changes in these balances during 2019 were as follows:

	31-Dec-18					31-Dec-19		
	Gross amount	Accumulated depreciation and impairment	Net amount	Acquisitions	Depreciation for the period	Gross amount	Accumulated depreciation and impairment	Net amount
Properties in 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	-	-	-	22 342	(272 798)	2 359 779	(272 798)	2 086 981
Vehicles	-	-	-	250 459	(78 320)	319 042	(78 320)	240 722
Property, plant and equipment under construction	-	-	-	-	-	-	-	-
	1 562 084	**(406 806)**	**1 155 278**	**407 825**	**(562 948)**	**4 375 929**	**(969 755)**	**3 406 174**

12. Intangible assets

The changes in these balances during 2020 were as follows:

	31-Dec-19					31-Dec-20		
	Gross amount	Accumulated depreciation and impairment	Net amount	Acquisitions	Depreciation for the period	Gross amount	Accumulated depreciation and impairment	Net amount
Automated data-processing system (software)	628 168	(454 703)	173 465	-	(147 534)	628 168	(602 237)	25 931
	628 168	**(454 703)**	**173 465**	**-**	**(147 534)**	**628 168**	**(602 237)**	**25 931**

The changes in these balances during 2019 were as follows:

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

13. Taxes

This balance is analysed as follows:

	31-Dec-20	31-Dec-19
Current tax assets		
Income tax receivable (IRC)	451 343	846 679
Deferred tax assets		
Arising from temporary differences		
In liabilities	622 559	692 779
	1 073 902	**1 539 458**
Current tax liabilities		
Income tax payable	(8)	(8)
Deferred tax liabilities		
Arising from temporary differences		
In assets	(640 367)	(29 301)
	(640 375)	**(29 309)**

During 2020, the changes in deferred taxes were as follows:

	31-Dec-19 Opening balance	Reserves	Income Statement (Note 28)	31-Dec-20 Closing balance
Deferred tax assets				
Financial assets mandatorily measured at fair value through profit or loss (Note 19)	94 594	-	22 499	117 093
Impairments (Note 17)	482 665	-	(22 077)	460 588
Provisions for other risks (Note 17)	63 686	-	(63 686)	-
End-of-career bonus (VCLA)	8 021	-	(1 107)	6 914
Pension funds and post-employment benefits	43 812	-	(5 849)	37 964
	692 779	**-**	**(70 220)**	**622 559**
Deferred tax liabilities				
Financial assets at fair value through other comprehensive income (Note 19)	(29 301)	(611 066)	-	(640 367)
	(29 301)	**(611 066)**	**-**	**(640 367)**
	663 478	**(611 066)**	**(70 220)**	**(17 808)**

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 19)	21 625	(21 625)	-	-
Financial assets mandatorily measured at fair value through profit or loss (Note 19)	37 692	-	56 902	94 594
Impairments (Note 17)	637 483	-	(154 818)	482 665
Provisions for other risks (Note 17)	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 19)	-	(29 301)	-	(29 301)
	-	**(29 301)**	**-**	**(29 301)**
	768 023	**(50 926)**	**(53 619)**	**663 478**

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

	31-Dec-20	31-Dec-19
Deferred tax assets		
For more than 12 months	622 559	629 778
Deferred tax liabilities		
For more than 12 months	(640 367)	(29 301)
	(17 808)	**663 477**

14. Other assets

This balance is analysed as follows:

	31-Dec-20	31-Dec-19
Discount of credit letters	17 284 219	22 139 002
Debtors and other investments		
Other investments		
FGCT Contributions	9 378	5 699
Government sector		
Value added taxes (VAT) receivable	659 772	326 471
Others (a)	425 000	425 000
Other sundry debtors	795 111	857 241
Other income receivable		
Documentary credits	56 673	44 891
Insurance	39 042	38 108
Other administrative costs	313 860	225 399
Pension liabilities and other benefits (Notes 2.10.1 and 29)		
Retirement pensions		
Past service liabilities	(2 843 497)	-
Pension fund assets	3 352 332	-
Post-employment benefits	(161 033)	-
Interbank transactions	1 409 799	-
Total gross amount	**21 340 656**	**24 061 811**
Impairment (Note 17)	(627 975)	(203 682)
Total net of impairment	**20 712 681**	**23 858 129**

(a) The balance 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 to a customer as a payment for a credit transaction following a tax execution proceeding regarding the settlement of Municipal Property Tax (IMI) relating to that 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 in the amount of Euro 425,000, mainly respects to an estimate of eventual loss in the collection of this asset.

(b) The balance "Other sundry debtors" includes the amount of Euro 857,118, which refers to an amount receivable, through an advance payment made within an ongoing legal process. Impairment in the amount of Euro 159,639, mainly respects to an estimate of eventual loss in the collection of this asset.

In 2019, the balance referring to discounts on letters of credit in the amount of Euro 22,139,002 was presented in Other loans and advances to credit institutions repayable on demand (Note 8), having been reclassified to Other assets in 2020. This restatement has no material impacts at equity and prudential level.

As at 31 December 2020, the amount corresponding to the equity value of the pension fund is higher than the liability that the Bank assumes for past services in Euro 347,802. As at 31 December 2019, this equity value is less than the liability assumed for past services in Euro 157,974, which is recognized in the balance sheet under Other liabilities (Notes 2.10.1 and 17).

15. Deposits from central banks and other credit institutions

This balance is analysed as follows:

	31-Dec-20	31-Dec-19
Deposits from national credit institutions		
Repayable on demand	-	22 579
Deposits from foreign credit institutions		
Repayable on demand	35 338 122	81 878 513
Very short term	38 301 687	4 450 774
Term deposits	238 487 976	469 815 837
Interest payable	59 447	550 556
	312 187 232	**556 718 259**

The amount of Euro 41,849,683 (31 December 2019: Euro 62,215,116) 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 28).

16. Deposits from customers

This balance is analysed as follows:

	31-Dec-20	31-Dec-19
Deposits repayable on demand		
Other residents	29 405 441	44 145 586
Non-residents	50 933 555	48 968 981
Term deposits		
Other residents	20 146 815	30 675 363
Non-residents	68 089 758	46 086 488
Cheques from customers to clear	5 817 445	-
Interest payable	536 086	401 466
	174 929 100	**170 277 884**

The amount of Euro 926,994 (31 December 2019: Euro 886,754) included in the balance Deposits from customers, is collaterising liabilities with loans and advances to customers and irrevocable credit facilities (Note 28).

The caption "Cheques from customers to clear" essentially refers to the amounts of cheques outstanding as at 31 December 2020 and were settled on the following business day.

17. Provisions and impairment

The changes in these balances during 2020 were as follows:

	31-Dec-19 Opening balance	Charge for the period	Adjustments/ (Reversals)	Transfers	Recoveries/ (Charge-off)	31-Dec-20 Closing balance
Impairment						
Loans and advances to credit institutions repayable on demand (Note 4)	10 588	42 690	(2 679)	185	-	50 784
Financial assets at fair value through other comprehensive income (Note 7 and Note 19)	81 187	283 970	(21 205)	-	-	343 953
Other financial assets at amortised cost (Note 10)	42 321	11 568	(42 321)	-	-	11 568
Other loans and advances to credit institutions (Note 8)	199 712	29 307	(113 513)	-185	-	115 319
Loans and advances to customers (Note 9)	2 712 758	2 172 856	(1 352 074)	-	10 191	3 543 729
Impairment for other assets (Note 14)	203 684	531 234	106 944	-	-	627 973
	3 250 251	**3 071 625**	**(1 638 736)**	**-**	**-**	**4 693 327**
Provisions						
Bank guarantees and letters of credit	373 342	243 355	(243 734)	-	-	372 963
Off-balance sheet liabilities	15 358	62 907	(26 180)	-	-	52 085
Other	3 791 859	667 713	-	-	(286 636)	4 172 936
	4 180 559	**973 975**	**(269 914)**	**-**	**(286 636)**	**4 597 984**
	7 430 810	**6 900 709**	**(4 763 759)**	**-**	**(286 636)**	**9 291 311**

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 (Note 7 and Note 19)	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)	(11 033)	-	199 713
Loans and advances to customers (Note 9)	1 880 026	1 808 209	(975 477)	-	-	2 712 758
Impairment for other assets (Note 14)	86 235	17 357	(15 941)	11 033	105 000	203 684
	2 224 074	**2 516 253**	**(1 595 076)**	**-**	**105 000**	**3 250 251**
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	-	(18 001)	(105 000)	203 684
	3 558 163	**848 020**	**(102 623)**	**(18 001)**	**(105 000)**	**4 180 559**
	5 782 237	**3 364 273**	**(1 697 699)**	**(18 001)**	**-**	**7 430 810**

The charge for the period and reversals of impairment and provisions occurred in 2020 and 2019 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 administrative offences, administrative and judicial proceedings, and tax contingencies.

18. Other liabilities

This balance is analysed as follows:

	31-Dec-20	31-Dec-19
Creditors and other contributions		
Government sector		
Tax withholding	55 262	118 207
Social security contributions	56 891	56 137
Other contributions	375	310
Third parties collections	1 159	1 533
Other health services contributions (SAMS)	11 332	11 377
Sundry creditors (a)	857 271	77 538
Expenses payable		
Staff costs		
Holiday allowance and other allowances (b)	190 073	188 445
Charges with deferred variable remuneration (c)	200 110	449 587
Other expenses payable	309 312	244 196
Rents payable (d)	2 060 785	2 341 428
Revenue with deferred income		
From guarantees provided (Note 28)	5 285	4 643
From documentary credits (Note 28)	292 300	209 079
Pension liabilities and other benefits (Note 29)		
Pension fund liabilities (e)	-	3 262 279
Pension fund assets (e)	-	(3 283 643)
Post-employment benefits (e)	-	179 338
Long-term benefits – end-of-career bonus	30 729	35 649
Operations pending settlement (f)	345 336	1 095 561
	4 416 220	**4 991 664**

a) As at 31 December 2020 and 2019, the amount disclosed under Sundry creditors concerns essentially to amounts payable to suppliers, without seniority. The most material amounts are related to external consultants, having been settled on the first working day of 2021.

a) In accordance with the Portuguese legislation in force, 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) The balance 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 25).

d) As at 31 December 2020, Rents payable refers to the amount of lease liabilities recognised under IFRS 16 and as described in accounting policy of Note 2.15. Lease liabilities, presented by residual term, are as follows:

	Real Estate	Vehicles	Total
Maturity of lease liabilities			
Below 1 year	-	13 498	13 498
1 to 5 years	-	205 291	205 291
Above 5 years	1 841 996	-	1 841 996
Total Lease liabilities in the balance sheet as at 31 December 2020	1 841 996	218 789	2 060 785

During 2020, the changes in deferred taxes were as follows:

31-Dec-19	**2 341 428**
Additions	65 392
Exits	(9 654)
Accrued interest	63 969
Payments	(411 029)
Remeasurement adjustments (Note 11)	10 679
31 December 2020	**2 060 785**

f) As at 31 December 2020, the amount of operations pending settlement relates essentially to balances in the interbank clearing system, which are settled on the first following working day.

19. Equity

	31-Dec-20	31-Dec-19
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)	2 846 075	130 216
Credit risk adjustment from financial assets at fair value through other comprehensive income (IFRS 9) (Note 7)	343 952	81 187
Deferred tax reserves (Note 14)		
Arising from temporary differences		
From financial assets at fair value through other comprehensive income	(640 367)	(29 301)
Revaluation reserves	**2 549 660**	**182 102**
Other reserves and retained earnings		
Legal reserve	8 673 348	8 380 461
Retained earnings		
Approved	33 597 541	30 961 557
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 Banco de 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	141 657
Retained actuarial gains and losses (Notes 2.10.1 and 30)	(1 371)	(531 798)
Correction of accounting errors (in 2012)	2 249 114	2 249 114
	46 618 809	**43 159 511**
Net profit for the period	**170 460**	**2 928 871**
	89 338 929	**86 270 484**

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 2020, 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. 298/91, of 31 December and subsequent amendments, the Bank should annually reinforce the legal reserve with, at least, 10% of annual net profits, until to the limit equal to the value of share capital or to the sum of the reserves and retained earnings, if higher.
In 2020, the change in revaluation reserves was as follows:

	31-Dec-20
Opening balance as at 31 December 2019	**182 102**
Fair value changes	2 990 651
Disposals	(274 792)
Deferred taxes recognised in reserves during the period	(611 066)
Credit risk adjustment of financial assets at fair value through other comprehensive income	262 765
Closing balance as at 31 December 2020	**2 549 660**

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	(319 299)
Deferred taxes recognised in reserves during the period	(50 926)
Credit risk adjustment of financial assets at fair value through other comprehensive income	56 274
Movements during 2019	*231 650*
Closing balance as at 31 December 2019	**182 102**

20. Net interest income

Net interest income is detailed as follows:

	31/12/2020	31-Dec-19
Interest and similar income from		
Financial assets at amortised cost		
Loans and advances to credit institutions repayable on demand	3 513 535	12 377 153
Loans and advances to customers	3 824 771	4 270 126
Of which: commissions received at amortised cost	*520 870*	*445 675*
Other financial assets at amortised cost	156 721	115 431
Financial assets at fair value through other comprehensive income	2 743 898	4 710 695
	10 238 925	**21 473 405**
Interest and similar expense from		
Financial liabilities measured at amortised cost		
Deposits from other credit institutions	(2 507 931)	(12 047 539)
Deposits from customers	(780 155)	(775 034)
Interest expense over assets (a)	(98 252)	(234 743)
Interest on leases (b)	(63 911)	(68 788)
Commissions paid at amortised cost from:		
Comissão Gestão Carteira AFJORI (c)	(34 931)	(19 490)
Loans and advances to customers	(4 432)	(1 202)
	(3 489 072)	**(13 146 796)**
Net interest income	**6 749 853**	**8 326 609**

a) Balance regarding interest from bank deposits repayable on demand with Banco de 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 mentioned in accounting policy of Note 2.15.

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

21. Fee and commission income/ expense

This balance is analysed as follows:

	31/12/2020	31-Dec-19
Fee and commission income:		
On guarantees provided	2 901 584	3 948 372
On commitments assumed with third parties	176	-
On services rendered	2 022 890	1 985 402
	4 924 650	**5 933 774**
Fee and commission expense:		
On services rendered by third parties	(938 574)	(917 566)
Other commissions paid	(92 872)	(104 002)
	(1 031 446)	**(1 021 568)**
	3 893 204	**4 912 206**

The balance "On guarantees provided" includes income from services and commissions associated with guarantees and securities provided and open documentary credits (Note 28).

As at 31 December 2020, 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.

22. 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:

	31/12/2020	31-Dec-19
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income (IFRS 19)		
Debt instruments		
Resident	39 305	26 740
Non-resident	235 488	292 559
	274 792	**319 299**

In 2020 and 2019, 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.

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

This balance is analysed as follows:

	31-Dec-20	31-Dec-19
Net gains/ (losses) arising from financial assets measured at fair value through profit or loss (Note 32)		
Equity instruments		
Resident	(9 237)	(17 216)
Non-resident	(83 089)	(282 834)
Debt instruments		
Non-resident	4 773	(11 100)
Others – investment funds		
Resident	-	23 994
Non-resident	(5 076)	54 340
	(92 629)	**(232 816)**

In 2020, the Bank obtained dividends on financial assets mandatorily measured at fair value through profit or loss in the amount of Euro 2,596.

In 2020, the value of the financial assets at mandatorily measured fair value through profit or loss, which are measured using methods not observable in the market, is -Euro 99,998 (Note 32).

24. Other operating income/ (expense)

This balance is analysed as follows:

	31-Dec-20	31-Dec-19
Other operating income		
Investments in associates	-	208 531
Recovery of bad debts	23 900	7 522
Income from services rendered	18 301	17 522
Other operating income	26 154	4 471
	68 355	**238 046**
Other operating expense		
Contributions	(58 370)	(1 419)
Contributions to the Deposit Guarantee Fund	(235)	(235)
Contributions to the Single Resolution Fund	(545 715)	(439 388)
Contributions to the Resolution Fund	(434 843)	(434 843)
Value added tax (VAT)	(299 157)	(332 177)
Extraordinary contribution over the banking sector	(1 029 163)	(1 048 964)
Other indirect taxes and fees	(23 544)	(18 782)
Other charges and operating expenses	(3 715)	(27 285)
	(2 394 742)	**(2 303 093)**
Other operating income/ (expense)	**(2 326 387)**	**(2 065 047)**

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

The caption Extraordinary contribution over 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 Banco de 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 referred 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 corresponds 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 until 30 June of each year.

25. Staff costs

This balance is analysed as follows:

	31/12/2020	31-Dec-19
Remunerations of the Management and supervisory boards	(694 500)	(705 967)
Remunerations of the employees	(1 646 342)	(1 801 557)
Mandatory social security charges	(667 093)	(703 182)
Obligations with pension plans:		
VCLA pension plans (Defined benefit) (Note 29)	(34 829)	(30 049)
Directors Pension Plan	(12 600)	(11 060)
Other staff costs	(46 729)	(63 867)
	(3 102 093)	**(3 315 682)**

The number of Bank employees is detailed as follows:

	31-Dec-20		31-Dec-19	
	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	2
Senior management	9	9	10	10
Other middle management and employees	37	39	31	34
Total	**50**	**53**	**45**	**49**

In accordance with the EBA/GL/2015/22 guidelines, we present below the Remuneration Policy for the members of the management and supervisory bodies of Banco BAI Europa applicable to 2020:

Policy definition
The Bank's remuneration policy was defined with the objective of defining rules, clear and 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 little 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, to whom the Bank as a whole designates as Management Team;
c) Employees who have directly contact with customers within 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 paragraphs 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 situations of reduction of the variable remuneration, the part of the variable remuneration subject to deferral is paid over the next 3-year period, in 3 annual instalments corresponding to 1/3 of its value.
5. Whenever the amount of the variable remuneration exceeds Euro 45 thousand, the deferred and not deferred components shall comprised, in equal proportions, of 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 an healthy and prudent management of the 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, together with the provision of information to enable shareholders to assess the overall cost of the remuneration and incentives structure and to what extent risk-taking is encouraged and controlled.

The annual decisions of the Board of Directors regarding remunerations 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 adequate 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.

On 5 April 2011 a General Meeting Shareholders was held to approve the remuneration policy of the governing bodies for 2021. The Bank's Board of Directors did not propose the payment of variable remuneration for 2020. As provided for in the Bank's policy, in 2020, 60% of the variable remuneration of the governing bodies was paid in relation to 2019, with the remainder deferred in the following three years.

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 on an annual basis based of that evaluation and the proposal presented by the Board, 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, proper equity adequacy and liquidity.

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 attributable, regarding 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 2020 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

In accordance with the provisions of Article 47 of Banco de Portugal Notice 3/2020 and Article 450 of Regulation (EU) No. 575/2013, of the European Parliament and of the Council, of 26 June, the individual remuneration of members of the corporate bodies is presented below:

	2020						2019					
	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	17 500	**189 000**	171 500	-	**171 500**	147 000	19 000	**166 000**	147 000	21 000	**168 000**
Omar José Mascarenhas de Morais Guerra **(a)** (Member)	168 000	17 066	**185 066**	168 000	-	**168 000**	140 000	18 000	**158 000**	140 000	20 000	**160 000**
Henrique Manuel Forte Carvalho da Carvalho da Silva (Member)	140 000	14 133	**154 133**	140 000	-	**140 000**	112 000	14 000	**126 000**	112 000	16 000	**128 000**
Non-Executive Directors												
José Alberto Vasconcelos Tavares Moreira (Chairman)	12 000	-	**12 000**	12 000	-	**12 000**	72 000	-	**72 000**	72 000	-	**72 000**
Inokcelina Ben` África Correia dos Santos **(b)** (Member)	42 000	-	**42 000**	42 000	-	**42 000**	72 000	-	**72 000**	72 000	-	**72 000**
Conselho Fiscal												
Henrique Marçal (Chairman)	36 000	-	**36 000**	36 000	-	**36 000**	30 000	-	**30 000**	30 000	-	**30 000**
Pedro Cabrita (Member)	30 000	-	**30 000**	30 000	-	**30 000**	24 000	-	**24 000**	24 000	-	**24 000**
João Augusto (Member)	30 000	-	**30 000**	30 000	-	**30 000**	24 000	-	**24 000**	24 000	-	**24 000**
	629 500	**48 700**	**678 200**	**629 500**	**-**	**629 500**	**621 000**	**51 000**	**672 000**	**621 000**	**57 000**	**678 000**

a) Additional remuneration was also paid in 2019 to Omar José Mascarenhas de Morais Guerra in the amount of Euro 12,600 (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 Banco de 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 29).

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 27), 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.

In accordance with Article 47 of Banco de Portugal Notice 3/2020 and Article 450 of Regulation (EU) No. 575/2013, of the European Parliament and of the Council, of 26 June, the following the aggregate remuneration of employees who perform control functions, namely, the risk management function, compliance and internal audit, is presented below:

	2020						2019					
	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 control functions	183 666	26 700	**210 386**	179 617	-	**179 617**	183 348	21 600	**204 948**	183 348	36 500	**219 848**

In accordance with Article 47 of Banco de Portugal Notice 3/2020 and Article 450 of Regulation (EU) No. 575/2013, of the European Parliament and of the Council, of 26 June, it is presented below the aggregate remuneration of employees who perform top management functions, except those responsible for control functions (indicated above), and who are indicated in BAIE's remuneration policy as having a significant impact on the Bank's risk profile.

	2020						2019					
	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 who perform top management functions, **except** those responsible for control functions but with significant impact on the Bank's risk profile	371 577	71 667	**443 244**	380 700	-	**380 700**	482 682	60 600	**543 282**	499 015	97 000	**596 015**

Deferred variable remuneration is detailed in Note 18.

26. General and administrative expenses

This balance is analysed as follows:

	31-Dec-20	31-Dec-19
Specialised services	(2 112 144)	(2 015 290)
Communication	(181 195)	(278 065)
Insurance	(101 879)	(102 393)
Training	(62 794)	(104 784)
Rental costs	(47 429)	(46 126)
Water, energy and fuel	(47 033)	(44 552)
Travel, hotel and representation costs	(41 904)	(107 365)
Maintenance and repair	(38 321)	(31 834)
Consumables	(23 766)	(23 463)
Advertising costs	(8 320)	(22 970)
Others	(1 950)	(2 168)
	(2 666 735)	**(2 779 010)**

In 2020, 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).

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 Firm, Ernst & Young Audit & Associados - SROC, SA, are detailed as follows:

	2020	2019
Audit services:		
- Statutory Audit of Annual Financial Statements and Interim Review	55 000	68 500
- Reliability and Assurance Services	15 000	5 000
Other services	7 500	7 500
	77 500	**81 000**

As at 31 December 2020 and 2019, 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 Banco de Portugal), the Process of Quantification of Impairment of the Loan Portfolio as at 30 June and 31 December (Instruction No. 18/2018 of Banco de Portugal which revokes Notice No. 5/2013) and the revision of the financial reporting for the purposes of the Statutory Audit of BAIE's parent company.

Costs incurred for these services are recorded under Specialised services.

27. Income taxes

The nominal tax rate is detailed as follows:

	31-Dec-20	31-Dec-19
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 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%, taxable income above Euro 7,500,000 and up to Euro 35,000,000 is levied at an additional rate of 5% and taxable income above Euro 35,000,000 is levied at an additional rate of 9%.

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 2020 and 2019, 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-20	**31-Dec-19**
Current taxes		
For the period	(617 377)	(1 287 836)
Changes related to previous periods	(72 058)	26 990
Deferred taxes		
Record and reversal of temporary differences (Note 13)	(70 220)	(53 619)
Total income tax expense	**(759 655)**	**(1 314 465)**
Profit/ (loss) before tax	930 115	4 243 335
Effective tax rate	**81.7%**	**31.0%**

The reconciliation between the nominal tax rate and the effective tax rate in 2020 and 2019 is presented as follows:

	31-Dec-20		31-Dec-19	
	Rate	Tax	Rate	Tax
Profit/ (loss) before tax		930 115		4 243 335
Tax based on the nominal rate – First tax level	0.0%	-	0.0%	-
Tax based on the nominal rate – Tax level above	-21.0%	(195 325)	-21.0%	(891 100)
Changes in equity not reflected on the net profit	0.2%	1 616	0.2%	6 902
Extraordinary contribution over the banking sector	-23.2%	(216 124)	-5.2%	(220 282)
Provisions and adjustments of asset values	-14.8%	(137 856)	-0.6%	(23 447)
Other taxable income and expenses	-1.1%	(10 073)	-0.1%	(4 601)
Pension funds and other benefits	0.5%	4 428	-0.2%	(9 347)
Taxable provisions in previous taxable periods	6.1%	56 682	0.5%	21 551
Tax benefits	0.0%	256	0.3%	12 900
Accounting gains	0.0%	-	1.0%	43 792
Elimination of international double taxation	0.2%	1 737	0.0%	399
Autonomous taxation and surcharges	-13.2%	(122 719)	-5.3%	(224 604)
Changes related to previous periods	-7.7%	(72 058)	0.6%	26 990
Deferred taxes:				
Financial assets mandatorily measured at fair value through profit or loss	2.4%	22 499	1.3%	56 902
Provisions for overdue loans and non-deductible write-offs	-2.4%	(22 077)	-3.6%	(154 818)
Provisions for other risks	-6.8%	(63 686)	0.8%	36 011
VCLA end-of-career bonus	-0.1%	(1 107)	0.0%	(782)
Pension funds and post-employment benefits	-0.6%	(5 849)	0.2%	9 068
	(81.7%)	**(759 655)**	**31.0%**	**(1 314 465)**

28. Off-balance sheet items

This balance is analysed as follows:

	31-Dec-20	31-Dec-19
Contingent liabilities		
Guarantees and commitments (a)	910 088	681 960
Open documentary credits (a)	90 655 885	107 940 038
Guarantees granted (Notes 6, 7 and 9)	4 665 860	4 271 236
Securities 500	500	500
Commitments to third parties		
Irrevocable credit facilities (a)	31 864 560	46 837 047
Commitments from third parties		
Irrevocable credit facilities	29 473 605	32 102 906
Guarantees and commitments received (Notes 15 and 16)	146 635 664	173 782 421
Exchange transactions to be settled	3 600 155	20 480 029
	307 806 317	**386 096 137**

(a) Balances identified are subject to the accounting of provisions, calculated as disclosed in Note 2.2 (2019: Euro 123,430,533 and 2019: Euro 155,459,045).

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 2020 and 2019, Guarantees received is analysed as follows:

	31-Dec-20	31-Dec-19
Collaterals (Notes 8, 15 and 16)	43 017 083	63 438 848
Pledge and security deposits	12 362 063	25 548 427
Mortgages (Real estate and land)	25 812 324	17 301 517
Commitments and other personal guarantees	65 390 194	67 493 629
	146 635 664	**173 782 421**

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 by the value of the evaluations carried out by independent specialised technicians, in compliance with the requirements of the Circular Letter of Banco de 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.

29. Employee benefits

As described in Note 2.10.1, the Bank grants to its employees covered by the VCLA or to their families, monetary 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 leaves, 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 responsibilities 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, with the purpose 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 now on the evolution of the average life expectancy (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 not be 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 2020 and 2019 employees and pensioners who benefit from pension plans financed by the pension fund are:

	31-Dec-20	**31-Dec-19**
Employees – workforce	8	9
Pensioners	1	1
Old age retirement pensioners	2	2
Former employees	21	20

As at 31 December 2020 and 2019, the main actuarial and financial assumptions used for calculating pension liabilities are:

	Assumptions		Verified	
	31/12/2020	**31-Dec-19**	**31/12/2020**	**31-Dec-19**
Verified financial assumptions:				
Fund income rate	0.87%	1.10%	0.87%	9.36%
Wage growth rate	2.00%	2.00%	2.00%	1.29%
Technical interest rate	0.87%	1.10%	0.87%	1.10%
Pension growth rate	1.50%	1.50%	1.50%	1.50%
Verified demographic assumption:				
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 2020 and 2019, 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 liabilities in December 2020 is 25.7 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-20	**31-Dec-19**
Past service liabilities with medical care - SAMS (Notes 14 and 18)	161 033	179 338
Changes in loss/ (gains) for the period	(18 305)	47 986
Past service liabilities with end-of-career bonus – VCLA (Notes 14 and 18)	30 729	35 649
Changes in loss/ (gains) for the period	(4 920)	(3 478)

The financial coverage of past service liabilities is as follows:

	31-Dec-20	31-Dec-19
Total past liabilities		
Liabilities with the payment of pensions	289 623	316 356
Liabilities with past services of active employees	2 553 874	2 945 923
	2 843 497	**3 262 279**

As at 31 December 2020, 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	(174 851)	189 548
Total	**(174 851)**	**189 548**

Pension fund assets are as follows:

	31-Dec-20	31-Dec-19
Pension fund assets		
Opening balance	3 283 643	3 044 931
Net income from pension funds	105 694	265 242
Pension funds contributions	-	-
Retirement pensions paid by the pension fund	(23 846)	(13 339)
Survival pensions paid by the pension fund	(13 159)	(13 192)
Commissions	-	-
Closing balance	3 352 332	3 283 643
Of which: captive balance for Complementary Plan	-	-
	3 352 332	**3 283 643**
Coverage level according to actuarial report	123.4%	105.4%
Minimum level of responsibilities to be covered [95% of (b) + 100% of (a)]	2 715 803	3 114 983
Required value to be transferred to the pension funds	-	-

In 2020 and 2019, 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, workers bound on 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 an individual membership or to another pension fund that complies with the legislation in force, in 2010 the respective individual memberships were transferred in the amount corresponding to Euro 93,633.

As at 31 December 2020 and 2019, the financial statements included the following items related to the coverage of pension liabilities:

	31-Dec-20	31-Dec-19
Total liabilities		
Total liabilities for pensions payable	289 623	316 356
Total liabilities for past services	2 553 874	2 945 923
	2 843 497	**3 262 279**
Pension fund assets (Note 18)	3 352 332	3 283 643
Provision for liabilities with retirement pensions (Note 18)	2 843 497	3 262 279
Actuarial gains/ (losses) recognised in retained earnings (Note 19):		
Annual variation	530 427	(25 173)
Accumulated amount (Note 29)	(1 371)	(531 798)

In the composition of the 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 25) with the Bank's retirement pensions liabilities in 2020 and 2019 are as follows:

	31-Dec-20	31-Dec-19
Net financial costs:		
Current service expense	22 190	20 351
Interest expense	35 682	58 779
Expected income from pension fund assets	14 917	41 037
Contributions from employees	8 126	(8 044)
Total	**80 916**	**112 123**

The changes during 2020 and 2019, in the present value of liabilities for past services, were as follows:

	31-Dec-20	31-Dec-19
Liabilities at the beginning of the period	**3 262 279**	**2 960 300**
Current service expense	22 190	20 351
Interest expense	35 682	58 779
Expected income from pension fund assets	14 917	41 037
Actuarial gains/ (losses) recognised under retained earnings (Note 19)	(530 427)	25 174
Retirement pensions paid by the pension fund	(23 846)	(13 339)
Survival pensions paid by the pension fund	(13 159)	(13 192)
Net income of the Fund	105 694	265 242
Commissions	-	1
Liabilities at the end of the period	**2 843 496**	**3 262 279**

The actuarial deviations occurred in 2020 and 2019 were recorded as follows:

	31-Dec-20	31-Dec-19
Actuarial gains/ (losses)		
Relating to differences between assumptions and actual values	(530 427)	25 174
Total	**(530 427)**	**25 174**

As at 31 December 2020 and 2019, the items comprising the value of the pension fund assets are as follows:

	31-Dec-20	31-Dec-19
Liquidity	5.01%	4.60%
Bonds	63.68%	64.62%
Shares	27.30%	26.12%
Real estate and hedge funds	4.01%	4.66%
Total	**100.00%**	**100.00%**

30. 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 2020, the Bank's statement of financial position and off-balance sheet items include the following balances with related entities:

	Associates	Corporate bodies of BAI Group	Companies from BAI Group	Other related parties	Total
Assets					
Other loans and advances to credit institutions (Note 8)	-	-	41 565	-	41 565
Financial assets mandatorily measured at fair value through profit or loss (Note 5)	-	-	274 267	74 860	349 127
Loans and advances to customers (Note 9)	-	288 900	2 175 000	13 186 059	15 649 959
Investments in subsidiaries and associates (Note 12)	-	-	-	-	-
Other Assets (Letters of Credit)	-	-	17 284 219	-	17 284 219
Liabilities					
Deposits from credit institutions (Note 15)	-	-	242 737 595	-	242 737 595
Deposits from customers (Note 16)	-	8 516 248	1 545 794	21 342 279	31 404 321
Off-balance sheet items (Note 28)					
Guarantees and commitments	-	-	353 304	-	353 304
Open documentary credits	-	-	69 048 007	-	69 048 007
Guarantees received	-	-	16 185 530	11 272 224	27 457 754
Irrevocable credit facilities					
Granted	-	42 500	-	79 000	121 500
Provided	-	-	-	-	-
Total	**-**	**8 847 648**	**369 645 281**	**45 954 422**	**404 447 351**
Income					
Interest and similar income (Note 20)	-	4 845	498 127	586 914	1 089 886
Fees and commission income (Note 21)	-	1 483	3 656 987	33 057	3 691 527
Expenses					
Interest and similar expense (Note 20)	-	(79 076)	(2 322 471)	(242 491)	(2 644 038)
Financial assets mandatorily measured at fair value through profit or loss (Note 23)	-	-	8 850	-	8850
Fees and commission income (Note 21)	-	-	325	(5 069)	(4 744)
General administrative expenses (Note 26)	-	-	-	(42 735)	(42 735)
Loans impairment net of reversals and recoveries (Note 17)	-	(59 197)	198 040	(26 961)	111 882
Total	**-**	**(131 985)**	**2 039 858**	**302 715**	**2 210 628**

As at 31 December 2019, the Bank's statement of financial position, income statement and off-balance sheet items include the following balances with related entities:

	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
Liabilities	-	-	512 102 100	-	512 102 100
Deposits from credit institutions (Note 15)	-	7 293 017	3 848 629	38 597 037	49 738 683
Deposits from customers (Note 16)					
Off-balance sheet items (Note 28)	-	-	353 304	-	353 304
Guarantees and commitments	-	-	100 322 062	-	100 322 062
Open documentary credits	-	-	47 070 109	11 112 946	58 183 055
Guarantees received					
Irrevocable credit facilities	-	42 500	-	70 000	112 500
Granted	-	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 20)	1 624	6 678	429 561	911 908	1 349 771
Fees and commission income (Note 21)	10	2 250	4 908 286	7 742	4 918 288
Expenses					
Interest and similar expense (Note 20)	-	(50 107)	(10 879 713)	(195 394)	(11 125 215)
Financial assets mandatorily measured at fair value through profit or loss (Note 23)	-	-	(11 100)	-	(11 100)
General administrative expenses (Note 26)	-	(3)	-	(1 123)	(1 126)
Loans impairment net of reversals and recoveries (Note 17)	-	-	-	(68 672)	(68 672)
Total	**1 634**	**(49 851)**	**(5 815 936)**	**438 618**	**(5 425 536)**

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.

31. Financial instruments: Disclosures (IFRS 7)

In addition to other disclosures already made in this context throughout some of the previous notes, below we present additional information required under IFRS 7 and, in what concerns 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 Banco de 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-20	31-Dec-19
Total own funds (1+2+3+4)	**89 270 767**	**84 909 508**
1. Base Own funds (Tier 1)	**89 270 767**	**84 909 508**
Base Own funds Core (Common Equity Tier 1 - CET 1)	**89 270 767**	**84 909 508**
Paid-up share capital (Note 19)	40 000 000	40 000 000
Legal reserve (Note 19)	8 673 348	8 380 461
Deferred tax reserve	-	-
Unrealised losses on financial assets at fair value through other comprehensive income	(19 123 179)	(11 133 518)
Unrealised losses on financial assets at fair value through other comprehensive income	21 969 254	11 263 733
Adjustment for credit risk – Securities at FVOCI (IFRS 9)	343 952	81 187
Adjustments of Base Own funds Core (CET 1) due to prudential filters	(138 602)	(137 379)
Deferred tax assets that depend on future profitability	(373 535)	(346 390)
Retained earnings (Note 19)	37 946 831	35 310 849
Net intangible assets (Note 12)	(25 931)	(173 465)
Net profit for the first semester audited (Note 19) (a)	-	2 195 828
Actuarial losses with liabilities related to pensions (Notes 19 and 29)	(1371)	(531 798)
2. Complementary Own funds (Tier 2)	**-**	**-**
Provisions for general credit risks (Note 17)	-	-
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/(loss) for the period for 2020 and 2019 will only be eligible for own funds after the date of issue of the respective limited review report by the Statutory Auditor of the Bank. In 2020, the Bank did not issue a half-yearly report, so the profit/(loss) for this period is not eligible for own funds.

	31-Dec-20	31-Dec-19
Total own funds	89 270 767	84 909 508
Requirements for credit risk (on-balance and off-balance sheet) and operational risk	350 376 290	332 529 764
Total own funds ratio	25.5%	25.5%
Base own funds ratio (Tier 1)	25.5%	25.5%
Common equity Tier 1 ratio (CET 1)	25.5%	25.5%

During 2020 and 2019, the Bank complied with all capital requirements defined by the banking supervision entity, Banco de 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 instead from a market risk perspective, considering that the position adopted for these assets is done from an investment perspective and does not aim for the generation of capital gains with anticipated sale. In addition, there is a portfolio of equity securities that represents a portion without any significant expression of 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).

In the most recent exercise performed by BAIE, market risk is not considered material, as the Bank does not have a trading book investment strategy, thus not considering the market risk.

Liquidity and financing risk

Liquidity and financing risk is defined as the likelihood of negative impacts on profit or loss or on equity resulting from the Bank not having liquid funds to meet its financial liabilities upon maturity. An integral part of this risk is the risk of liquidity and financing concentration, which results from the concentration of sources of liquidity in a reduced number of counterparties or geographies.

BAIE assumes a low risk appetite, ensuring for this purpose the management of this risk based on the maintenance of a prudent net position, in order to guarantee the fulfilment of the financial obligations at maturity. Regarding the risk of liquidity and financing concentration, given the framework of the financial group in which BAIE is inserted, the Board defined the objective of adopting an appetite for moderate risk in view of the concentration of sources of liquidity in Angola.

The management of liquidity risk is superimposed on the management of interest rate risk, so that the coverage between assets and liabilities with respect to maturity terms or any possible interest rate review should only be performed after the defined liquidity limits have been met.

Liquidity risk is managed on a daily basis by the Market Room based on maps produced daily with information on 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 developed throughout 2020 initiatives to increase its long-term resources to ensure compliance with this ratio on a permanent basis.

As at 31 December 2020, 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	84 537 659	-	-	-	84 537 659
Loans and advances to credit institutions repayable on demand	132 692 744	-	-	-	132 692 744
Financial assets mandatorily measured at fair value through profit or loss	-	-	174 189	372 205	546 394
Other financial assets at fair value through profit or loss	-	-	-	294 405	294 405
Financial assets at fair value through other comprehensive income	13 205 149	11 669 985	98 684 091	15 467 499	139 026 724
Loans and advances to credit institutions repayable on demand	60 949 314	15 535 109	35 864 608	-	112 349 030
Loans and advances to customers	2 578 943	26 063 999	45 536 332	8 051 593	82 230 867
Other financial assets at amortised cost	25 138 856	-	2 059 053	-	27 197 909
	319 102 664	**53 269 093**	**182 318 272**	**24 185 702**	**578 875 732**
Liabilities					
Other financial liabilities at fair value through profit or loss	-	-	-	(294 405)	(294 405)
Deposits from central banks	-	-	-	-	-
Deposits from other credit institutions	(312 155 208)	-	-	-	(312 155 208)
Deposits from customers	(105 484 067)	(35 319 363)	(34 125 671)	-	(174 929 101)
Lease liabilities – IFRS 16 (Note 18)	-	-	-	(2 060 785)	(2 060 785)
	(417 639 275)	**(35 319 363)**	**(34 125 671)**	**(2 355 190)**	**(489 439 499)**
Derivatives and foreign exchange operations pending settlement (net flow)	(155)	-	-	-	(155)
Difference / Gap	**(102 764 386)**	**17 949 730**	**148 192 602**	**21 830 511**	**85 208 458**
Difference / Accumulated Gap	**(102 764 386)**	**(84 814 565)**	**63 377 946**	**85 208 458**	

As at 31 December 2019, 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	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	328 523 849	600 000	39 187 989	-	368 311 838
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	53 516 852	-	-	-	53 644 852
Investments in subsidiaries and associates	-	-	-	-	-
	595 743 508	**47 481 250**	**104 768 576**	**14 277 618**	**762 270 952**
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 18)	(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**	

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 daily. 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 using derivative financial instruments.

Exchange rate risk is managed by the Market 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 2020, the breakdown by currency of financial instruments is as follows:

	Euro	USD	Other	Total
Assets				
Cash and deposits at central banks	84 490 630	46 686	344	84 537 659
Loans and advances to credit institutions repayable on demand	45 837 741	82 763 620	4 091 654	132 692 744
Financial assets mandatorily measured at fair value through profit or loss	74 860	190 244	281 290	546 394
Other financial assets at fair value through profit or loss	-	294 405	-	294 405
Financial assets at fair value through other comprehensive income	45 542 836	93 483 888	-	139 026 724
Loans and advances to credit institutions repayable on demand	1 086 471	111 262 559	-	112 349 030
Loans and advances to customers	61 048 038	21 182 830	-	82 230 868
Other financial assets at amortised cost	9 951 931	-	-	9 951 931
	248 032 235	**309 224 232**	**4 373 288**	**561 629 755**
Liabilities				
Other financial liabilities at fair value through profit or loss	-	(294 405)	-	(294 405)
Deposits from other credit institutions	(43 668 123)	(264 528 586)	(3 958 499)	(312 155 208)
Deposits from customers	(126 310 684)	(48 490 509)	(127 908)	(174 929 101)
Lease liabilities – IFRS 16 (Note 18)	(2 060 785)	-	-	(2 060 785)
Revaluation reserve at fair value	(230 248)	(2 319 412)	-	(2 549 660)
	(172 269 840)	**(315 632 912)**	**(4 086 407)**	**(491 989 159)**
Spot foreign exchange transactions pending settlement (net amount)	1 800 000	(1 800 155)	-	(155)
	1 800 000	**(1 800 155)**	**-**	**(155)**
Difference/ Gap (Open foreign exchange position)	**N/A**	**(8 208 835)**	**286 881**	**(7 921 954)**

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)
Lease liabilities – IFRS 16 (Note 18)	(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**

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 Banco de Portugal in its Instruction No. 3/2020, of 14 December, the Bank developed a model of analysis (internal approach) that performs on a monthly basis the measurement of interest rate risk by applying the discount factors to daily net cash flows (gap/position), which means, 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 Banco de Portugal, for each materially relevant 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 it is the shock that the BAIE considers more plausible to occur 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 83% of the off-balance-sheet liabilities relate to confirmed documentary credits and 68% of the off-balance-sheet assets relate to guarantees received (of which 41% 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 Bank's internal regulations establish prudent exposure limits, which do not allow the existence of significant amounts of medium and long-term fixed rate operations.

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

As at 31 December 2020, the financial instruments subject to interest rate risk, by type of rate (fixed or variable) by currency, are as follows:

	EUR		USD (In EUR)		Other currencies (In EUR)	Total (In EUR)
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate		
Total Assets	**191 028 148**	**73 664 756**	**192 977 671**	**122 096 142**	**5 851 226**	**585 617 944**
Cash and deposits at c	84 490 630	0	46 686	0	344	84 537 659
to credit institutions repayable on demand	41 609 851	0	82 763 620	0	4 091 654	128 465 124
advances to credit	1 220 300	0	75 380 980	35 856 898	1	112 458 178
Securities portfolio *	31 300 715	24 051 086	31 883 353	61 617 897	281 290	149 134 342
Loans and advances to	9 939 896	49 613 670	0	24 621 347	0	84 174 913
Other assets	22 466 757	0	2 903 033	0	1 477 938	26 847 728
Total liabilities	**-173 575 467**	**0**	**-312 806 630**	**0**	**-4 086 459**	**-490 468 556**
Deposits from other cre	-169 696 361	0	-312 706 415	0	-4 086 407	-486 489 183
Other liabilities	-3 879 106	0	-100 215	0	-52	-3 979 372
Total off-balance she	**-54 649 793**	**0**	**30 814 269**	**0**	**12 550 827**	**-11 284 697**
Off-balance sheet	-54 649 793	0	30 814 269	0	12 550 827	-11 284 697

* Interest receivable excluded.

** Interest receivable, impairment and deferred income excluded.

As at 31 December 2020, the impact of the +2% parallel shock on yield curves on the economic value of financial instruments subject to interest rate risk, using BAIE's internal approach and the approach provided for in Instruction No. 3/2020 of Banco de Portugal (BdP Approach), is as follows:

	+200 bp	
Currency	**BdP Approach**	**Internal Approach**
EUR	-1 251 930	-1 511 813
USD *	-1 024 925	-1 110 687
Total	**-2 276 855**	**-2 622 499**

* Amounts in EUR

In accordance with Instruction No. 3/2020 of the Banco de 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 2020 and 2019, the result of the application of the standard shock (BdP Approach, Instruction No. 3/2020), 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-20	31-Dec-19
Change in the economic value of the banking portfolio resulting from a parallel rise in the yield curve after the supervisor's standard shock	(3 002 028)	(202 177)
Change in the economic value of the banking portfolio resulting from a parallel decline in the yield curve after the supervisor's standard shock	138 141	348 882
Expected net interest income at 1 year without interest rate changes	7 034 148	6 347 624
Change in expected 1-year net interest income resulting from a parallel rise in the yield curve after the supervisor's standard shock	(226 922)	(66 822)
Change in expected 1-year net interest income resulting from a parallel decline in the yield curve after the supervisor's standard shock	(154 183)	44 510

At 31 December 2020, the sensitivity analysis of the Bank's economic value to a parallel increase of 2% in interest rates is as follows:

	31-Dec-20		
	BdP approach, Instruction No. 3/2018		Internal approach
	Prior Model (Without shock)	Post Model (Shock +2%)	(Shock +2%)
Overnight	109 350 500	108 524 611	105 451 184
Greater than overnight and until 1 month	(7 466 922)	(6 472 688)	(11 253 839)
Greater than 1 month and up to 3 months	30 298 545	30 424 946	39 984 134
Greater than 3 month and up to 6 months	(36 699 003)	(37 157 941)	(28 044 317)
Greater than 6 month and up to 9 months	(10 061 693)	(11 466 171)	(12 110 175)
Greater than 9 month and up to 12 months	(9 899 854)	(10 258 922)	(10 739 771)
Greater than 12 month and up to 1.5 years	(12 057 254)	(12 859 849)	(5 286 873)
Greater than 1.5 years and up to 2 years	(1 087 669)	(2 703 072)	(8 095 770)
Greater than 2 years and up to 3 years	3 570 744	1 426 607	5 037 305
Greater than 3 years and up to 4 years	(417 783)	(1 956 610)	9 074 971
Greater than 4 years and up to 5 years	12 449 738	11 111 347	10 422 566
Greater than 5 years and up to 6 years	(1 004 218)	(1 392 853)	625 666
Greater than 6 years and up to 7 years	1 683 018	1 114 108	1 401 766
Greater than 7 years and up to 8 years	1 989 958	1 375 957	1 625 526
Greater than 8 years and up to 9 years	1 653 306	1 051 512	1 244 840
Greater than 9 years and up to 10 years	2 326 154	1 613 852	1 959 403
Greater than 10 years and up to 15 years	5 303 224	2 426 488	3 102 055
Greater than 15 years and up to 20 years	389 645	25 570	35 059
Net position	**90 320 436**	**74 826 891**	**104 433 729**

At 31 December 2019, the sensitivity analysis of the Bank's economic value to a parallel increase of 2% in interest rates is as follows:

	31-Dec-19		
	BdP approach, Instruction No. 3/2018		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
Net position	**83 463 862**	**81 513 079**	**93 883 740**

Encumbered and non-encumbered assets

As at 31 December 2020 and 2019, in compliance with the guidelines of the European Banking Authority (EBA/GL/2014/3) and Instruction No. 28/2014 of Banco de 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-20				31-Dec-19			
	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	4 665 860	4 665 860	585 809 680	579 318 103	4 271236	4 271 236	823 087 344	818 493 825
Equity instruments (Notes 5 and 6)	-	-	559 509	559 509	-	-	720 840	720 840
Debt securities (Notes 5,7 and 10)	1 000 772	1 000 772	148 270 741	148 259 173	1 000 772	1 000 772	168 085 646	168 043 325
Other assets	3 665 088	3 665 088	436 961 575	430 481 566	3 270 464	3 270 464	654 280 858	649 729 660

ii) Collateral received (Model B)

	31-Dec-20		31-Dec-19	
	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	81 245 470	81 245 470	106 288 792	106 288 792
Equity instruments	25 548 427	25 548 427	25 548 427	25 548 427
Other assets	55 697 043	55 697 043	80 740 365	80 740 365

iii) There are no encumbered assets, encumbered collateral received and associated liabilities in accordance with Model C.

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-20 Gross exposure (1)	31-Dec-20 Provisions and impairment	31-Dec-20 Actual exposure (2)	31-Dec-19 Gross exposure (1)	31-Dec-19 Provisions and impairment	31-Dec-19 Actual exposure (2)
Assets						
Financial assets mandatorily at fair value through profit or loss	546 394	-	546 394	660,302	-	660 302
Other financial as sets at fair value through profit or loss	294 405	-	294 405	336 977	-	336 977
Financial assets at fair value through other comprehensive income (3)	139 026 724	-	139 026 724	137 250 776	-	137 250 776
Other loans and advances to credit institutions	112 464 350	115 319	112 349 031	368 511 551	199 714	368 311 838
Loans and advances to cus tomers	85 774 598	3 543 731	82 230 867	81 876 057	2 712 758	79 163 299
Other financial as sets at amortised cost	27 247 718	49 809	27 197 909	53 698 205	53 353	53 644 852
Off-balance sheet						
Guarantees and securities	910 088	372 963	537 125	681 960	373 342	308 618
Commitments to third parties	31 864 560	52 085	31 812 475	46 837 047	15 358	46 821 689
Total	398 128 837	4 133 907	393 994 929	689 852 875	3 354 525	686 498 350

Notas:

(1) Gross expos ure: Book value before provis ions and impairment.

(2) Actual exposure: Gross exposure less provis ions 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 between 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 counterparties.

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

In 2020, the exposure and impairment of financial assets (except the portfolio of loans and advances to customers) presents the following movements:

	Stage1			Stage2			Stage3			Total		
	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment
Loans and advances to cre dit ins titutions repayable on demand												
Balance on 1 January 2020	24 568 769	24 386 977	10 588	192 380	192 380	744	0	0	0	24 579 357	24 579 357	10 588
Changes in cash	103 703 975	103 703 975	39 452	0	0	0	0	0	0	103 703 975	103 703 975	39 452
Stage change	192 380	192 380	744	-192 380	-192 380	-744	0	0	0	0	0	0
Balance as at 31 December 2020	**128 465 124**	**128 446 192**	**50 784**	**0**	**0**	**0**	**0**	**0**	**0**	**128 465 124**	**128 446 192**	**50 784**
Financial asse ts at fair value through other comprehensive income												
Balance on 1 January 2020	137 250 776	137 119 239	81 187	0	0	0	0	0	0	137 250 776	137 119 239	81 187
Changes in financial assets	1 775 948	3 440 879	262 765	0	0	0	0	0	0	1 775 948	3 440 879	262 765
Foreign exchange differences and other movements	0	0	0	0	0	0	0	0	0	0	0	0
Balance as at 31 December 2020	**139 026 724**	**140 560 118**	**343 952**	**0**	**0**	**0**	**0**	**0**	**0**	**139 026 724**	**140 560 118**	**343 952**
Loans and advances to cre dit ins titutions												
Balance on 1 January 2020	390 650 553	390 650 553	210 746	0	0	0	0	0	0	390 650 553	390 650 553	210 746
Changes in financial assets	-276 041 254	-275 970 302	-56 535	0	0	0	0	0	0	-276 041 254	-275 970 302	-56 535
Foreign exchange differences and other movements	-2 144 950	-2 144 950	-650	0	0	0	0	0	0	-2 144 950	-2 144 950	-650
Balance as at 31 December 2020	**112 464 350**	**112 535 301**	**153 561**	**0**	**0**	**0**	**0**	**0**	**0**	**112 464 350**	**112 535 301**	**153 561**
Othe r financial asse ts at amortis ed cost												
Balance on 1 January 2020	31 559 203	31 559 203	42 321	0	0	0	0	0	0	31 559 203	31 559 203	42 321
Changes in financial assets	-21 595 704	-21 645 505	-30 753	0	0	0	0	0	0	-21 595 704	-21 645 505	-30 753
Balance as at 31 December 2020	**9 963 499**	**9 913 698**	**11 568**	**0**	**0**	**0**	**0**	**0**	**0**	**9 963 499**	**9 913 698**	**11 568**

In 2020, the exposure and impairment of the portfolio of loans to customers and provisions for off-balance sheet exposures, presents the following movements:

	Stage1			Stage2			Stage3			Total		
	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment
Balance sheet - 2019	**77 296 038**	**74 055 287**	**1 129 463**	**2 747 071**	**2 747 071**	**302 321**	**2 550 366**	**2 550 366**	**1 280 975**	**82 593 475**	**79 352 724**	**2 712 758**
Change in exposure	-7 746 072	-5 047 786	1 160 740	1 293 667	1 293 667	81 208	-1 680 366	-1 680 366	-410 975	-8 132 771	-5 434 485	830 972
Stage improvements	0	0	0	0	0	0	0	0	0	0	0	0
Stage 2	0	0	0	0	0	0	0	0	0	0	0	0
Stage 3	0	0	0	0	0	0	0	0	0	0	0	0
Stage degradation	-14 817 769	-14 410 304	-1 419 708	14 736 276	14 328 811	313 425	11 439 649	11 439 649	1 106 282	11 358 156	11 358 156	0
Stage 1	-14 817 769	-14 410 304	-1 419 708	14 817 769	14 410 304	350 516	11 358 156	11 358 156	1 069 192	11 358 156	11 358 156	0
Stage 2	0	0	0	-81 493	-81 493	-37 091	81 493	81 493	37 091	0	0	0
Balance sheet - 2020	**54 732 197**	**54 597 197**	**870 495**	**18 777 014**	**18 369 549**	**696 953**	**12 309 649**	**12 309 649**	**1 976 282**	**85 818 860**	**85 276 395**	**3 543 731**
controlo	**0**		0	**0**		0	**0**		0	**0**		0

	Stage 1			Stage2			Stage3			Total		
	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment	Exposure	EAD	Impairment
Off-balance sheet - 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**
Change in exposure	-120 185 076	-35 659 932	1 132 289	8 134	1 627	-296 488	-2 318 894	53 844	-1 105 659	-122 495 835	-35 604 461	-269 858
Stage improvements	0	0	0	0	0	0	0	0	0	0	0	0
Stage 2	0	0	0	0	0	0	0	0	0	0	0	0
Stage 3	0	0	0	0	0	0	0	0	0	0	0	0
Stage degradation	-562 475	-124 295	-1 419 708	562 475	124 295	313 425	0	0	1 106 282	0	0	0
Stage 1	-562 475	-124 295	-1 419 708	562 475	124 295	350 516	0	0	1 069 192	0	0	0
Stage 2	0	0	0	0	0	-37 091	0	0	37 091	0	0	0
Off-balance sheet - 2020	**32 093 213**	**1 839 389**	**35 701**	**573 214**	**126 443**	**16 942**	**296 784**	**66 963**	**66 199**	**32 963 210**	**2 032 795**	**118 842**

As at 31 December 2020, the Bank has a balance in the amount of Euro 1,643,946 in overdue loans and interest in the customer loan portfolio.

As at 31 December 2020, in compliance with Instruction of Banco de Portugal No. 20/2019 of 15 November 2019, the following information is presented:

a) Credit quality of productive and non-productive exposures and respective provisions, for days overdue:

a) Exposure detail by type and segment	Productive Exposures			Non-Productive Exposures									
		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	Total
Loans granted	**126 658 058**	**126 658 058**	**0**	**12 309 649**	**12 062 456**	**247 193**	**0**	**0**	**0**	**0**	**0**	**11 358 156**	**162 635 511**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0
Government	4 583 978	4 583 978	0	0	0	0	0	0	0	0	0	0	4 583 978
Financial institutions	53 148 847	53 148 847	0	0	0	0	0	0	0	0	0	0	53 148 847
Financial companies	10 486 314	10 486 314	0	0	0	0	0	0	0	0	0	0	10 486 314
Non-financial companies	56 671 318	56 671 318	0	12 228 156	11 980 963	247 193	0	0	0	0	0	11 358 156	92 485 786
of which SMEs	24 381 268	24 381 268		11 358 156	11 110 963	247 193	0	0	0	0	0	11 358 156	58 455 735
Retail	1 767 600	1 767 600	0	81 493	81 493	0	0	0	0	0	0	0	1 930 586
Debt securities	**140 560 118**	**140 560 118**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**140 560 118**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0
Government	29 047 831	29 047 831	0	0	0	0	0	0	0	0	0	0	29 047 831
Financial institutions	27 400 249	27 400 249	0	0	0	0	0	0	0	0	0	0	27 400 249
Financial companies	34 801 342	34 801 342	0	0	0	0	0	0	0	0	0	0	34 801 342
Non-financial companies	49 310 696	49 310 696	0	0	0	0	0	0	0	0	0	0	49 310 696
Off-balance sheet exposures	**123 133 753**			**296 784**								**296 784**	**593 568**
Central banks	0			0	n.a	n.a	n.a	n.a	n.a	n.a	n.a	0	0
Government	24 390 600			0	n.a	n.a	n.a	n.a	n.a	n.a	n.a	0	0
Financial institutions	90 467 327			0	n.a	n.a	n.a	n.a	n.a	n.a	n.a	0	0
Financial companies	0			0	n.a	n.a	n.a	n.a	n.a	n.a	n.a	0	0
Non-financial companies	7 951 327			296 784	n.a	n.a	n.a	n.a	n.a	n.a	n.a	296 784	593 568
Retail	324 500			0	n.a	n.a	n.a	n.a	n.a	n.a	n.a	0	0
Total	**390 351 929**	**267 218 176**	**0**	**12 606 433**	**12 062 456**	**247 193**	**0**	**0**	**0**	**0**	**0**	**11 654 940**	**303 789 197**

As at 31 December 2020, 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:

a) 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	**126 658 058**	**107 881 043**	**18 777 014**	**12 309 649**	**0**	**12 309 649**	**1 728 374**	**1 031 421**	**696 953**	**1 976 282**	**0**	**1 976 282**	**0**	**30 921 214**	**8 434 800**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Government	4 583 978	4 583 978	0	0	0	0	344 420	344 420	0	0	0	0	0	0	0
Financial institutions	53 148 847	53 148 847	0	0	0	0	160 926	160 926	0	0	0	0	0	13 001 225	0
Financial companies	10 486 314	9 869 416	616 898	0	0	0	302 066	294 352	7 714	0	0	0	0	0	0
Non-financial companies	56 671 318	40 183 666	16 487 652	12 228 156	0	12 228 156	657 789	231 413	426 376	1 939 192	0	1 939 192	0	17 512 524	8 434 800
of which SMEs	24 381 268	20 468 658	3 912 610	11 358 156	0	11 358 156	329 526	144 763	184 763	1 069 192	0	1 069 192	0	17 512 524	8 434 800
Retail	1 767 600	95 136	1 672 464	81 493	0	81 493	263 173	310	262 864	37 091	0	37 091	0	407 465	0
Debt securities	**140 560 118**	**140 560 118**	**0**	**0**	**0**	**0**	**343 952**	**343 952**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Government	29 047 831	29 047 831	0	0	0	0	18 946	18 946	0	0	0	0	0	0	0
Financial institutions	27 400 249	27 400 249	0	0	0	0	25 055	25 055	0	0	0	0	0	0	0
Financial companies	34 801 342	34 801 342	0	0	0	0	155 059	155 059	0	0	0	0	0	0	0
Non-financial companies	49 310 696	49 310 696	0	0	0	0	144 892	144 892	0	0	0	0	0	0	0
Off-balance sheet exposures	**123 133 753**	**122 560 539**	**573 214**	**296 784**	**0**	**296 784**	**358 382**	**341 440**	**16 942**	**66 199**	**0**	**66 199**		**44 876 505**	**202 562**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Government	24 390 600	24 390 600	0	0	0	0	0	0	0	0	0	0	0	23 171 070	0
Financial institutions	90 467 327	90 467 327	0	0	0	0	305 739	305 739	0	0	0	0	0	21 390 435	0
Financial companies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-financial companies	7 951 327	7 649 113	302 214	296 784	0	296 784	36 295	35 561	734	66 199	0	66 199	0	65 000	202 562
Retail	324 500	53 500	271 000	0	0	0	16 348	140	16 208	0	0	0	0	250 000	0
Total	**390 351 929**	**371 001 701**	**19 350 228**	**12 606 433**	**0**	**12 606 433**	**2 430 708**	**1 716 812**	**713 895**	**2 042 481**	**0**	**2 042 481**	**0**	**75 797 719**	**8 637 362**

In 2020, 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 the above-mentioned 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 has unfulfilled the financial obligations to the institution or, given the available information, if it is expected that the customer will unfulfilled.

The Bank's restructuring procedures include extension of initial payment terms, changing and deferring payments initially estimated, and reinforcing 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, 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 2020, loan operations in the portfolio whose terms and conditions have been subject to renegotiation due to the customer's economic difficulties amounted to Euro 11,702,781 (see paragraphs e) and f) below). These operations are classified in Stage 3. As at 31 December 2019, there were no restructured operations.

Regarding the Commercial Banking and Investment Banking operations, the Credit Risk Unit (URC) of the Credit Risk Department (FGR) 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 normative regulations as well as for group of customers linked between and by business sector by geography. Regarding some credit operations in certain amounts, the Credit Committee has authorised the respective granting decision be taken jointly by the Heads of DBC and FGR (URC).

For the Market Room operations, FGR (URC) 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.

FGR (URC) 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 collaterals' amount in the IT system.

The amount of real guarantees reflects its fair value being 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 the coverage of other exposures of the customers.

FGR (URC) makes a monthly estimate of impairment losses for all exposures with credit risk. Every six months, it prepares a more detailed report of the impairments 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 Banco de Portugal.

The write-off is proposed for operations that are considered totally irrecoverable, considering the position of legal services attached to the respective litigation.

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

Quantitative disclosures on credit risk management policy

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

a) Detail of exposures and impairment by segment	Total exposure	Credit in compliance				Credit in default		Impairment			
		<30 days over due (without signs)	<30 days over due (with signs)	>30 days over due and <90 days over due	Of which restructured	>90 days overdue	Of which restructured	Total Impairment	Credit in compliance <30 days overdue	Credit in compliance between 30-90 days	Credit in compliance >90 days overdue
Public administration (regional and local)	4 583 978	4 583 981	0	0	0	0	0	344 420	344 420	0	0
Construction and CRE	29 777 211	9 549 061	19 454 205	0	10 584 209	773 946	773 946	1 534 971	761 024	0	773 946
Corporate	49 608 577	40 504 027	8 234 560	0	0	870 000	0	1 364 076	494 076	0	870 000
Others	1 849 093	95 136	1 753 957	0	81 493	0	0	300 264	300 264	0	0
Total	**85 818 860**	**54 732 205**	**29 442 723**	**0**	**10 665 702**	**1 643 946**	**773 946**	**3 543 731**	**1 899 784**	**0**	**1 643 946**

a) Detail of exposures and impairment by segment	Total exposure	Credit in compliance				Credit in default		Impairment			
		<30 days over due (without signs)	<30 days over due (with signs)	>30 days over due and <90 days over due	Of which restructured	>90 days overdue	Of which restructured	Total Impairment	Credit in compliance <30 days overdue	Credit in compliance between 30-90 days	Credit in compliance >90 days overdue
Public administration (regional and local)	9 855 463	9 855 463	0	0	0	0	0	516 384	516 384	0	0
Construction and CRE	27 590 814	27 590 814	0	0	0	0	0	61 037	61 037	0	0
Corporate	42 320 034	41 864 190	455 844	0	0	0	0	1 813 797	1 813 797	0	0
Others	2 827 165	2 827 165	0	0	0	0	0	321 540	321 540	0	0
Total	**82 593 475**	**82 137 631**	**455 844**	**0**	**0**	**0**	**0**	**2 712 758**	**2 712 758**	**0**	**0**

b) Detail of the portfolio by level of risk:

a) Detail of exposures and impairment by segment	Exposure as at 31-12-2020				Impairment as at 31-12-2020			
	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
Public administration (regional and local)	4 583 978	0	0	**4 583 978**	344 420	0	0	**344 420**
Construction and CRE	9 549 061	8 869 994	11 358 156	**29 777 211**	39 557	426 222	1 069 192	**1 534 971**
Corporate	40 504 021	8 234 556	870 000	**49 608 577**	486 208	7 867	870 000	**1 364 076**
Others	95 136	1 672 464	81 493	**1 849 093**	310	262 864	37 091	**300 264**
Total	**54 732 197**	**18 777 014**	**12 309 649**	**85 818 860**	**870 495**	**696 953**	**1 976 282**	**3 543 731**

a) Detail of exposures and impairment by segment	Exposure as at 31-12-2020				Impairment as at 31-12-2020			
	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
Public administration (regional and local)	26 591 731	999 083	0	**27 590 814**	58 648	2 389	0	**61 037**
Construction and CRE	39 769 668	0	2 550 366	**42 320 034**	532 822	0	1 280 975	**1 813 797**
Corporate	9 855 463	0	0	**9 855 463**	516 384	0	0	**516 384**
Others	1 079 176	1 747 988	0	**2 827 165**	21 608	299 932	0	**321 540**
Total	**77 296 038**	**2 747 071**	**2 550 366**	**82 593 475**	**1 129 462**	**302 321**	**1 280 975**	**2 712 758**

As at 31 December 2020, there are customers whose exposure is classified under Stage 3, although they do not present any default or restructuring due to financial difficulties, through individual credit analysis.

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

	31/12/2020											
	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
2011	-	-	-	-	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	3	149 233	23 138	1	4 583 978	344 420
2014	-	-	-	1	7 504 147	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	4	908 360	215 436	-	-	-
2016	-	-	-	1	679 531	2 834	-	-	-	-	-	-
2017	-	-	-	-	-	-	1	288 900	61 381	-	-	-
2018	3	10 532 976	229 077	2	2 585 280	350 095	-	-	-	-	-	-
2019	7	8 663 602	776 506	15	18 325 064	936 006	3	417 351	53	-	-	-
2020	27	10 580 634	530 415	45	20 514 566	75 508	2	85 250	257	-	-	-
Total	**37**	**29 777 211**	**1 534 971**	**64**	**49 608 587**	**1 364 442**	**13**	**1 849 093**	**300 264**	**1**	**4 583 978**	**344 420**

	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**

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-20 Gross loan	31-Dec-20 Total impairment	31-Dec-19 Gross loan	31-Dec-19 Total impairment
Angola (AGO)	6 337 935	644 375	12 561 337	779 931
United Arab Emirates (ARE)	-	-	1 679 199	286 380
Gibraltar (GIB)	-	-	-	597
Portugal (PRT)	63 151 654	1 827 116	60 035 267	624 825
United States of America (USA)	635 645	2 781	669 203	2 894
Cayman Islands (CYM)	2 619 416	261 942	4 482 566	152 838
Spain (SP)	44 000	123	102 443	-
Switzerland (CHE)	8 068 100	13 827	-	19 344
Netherlands (NHL)	-	-	2 008 250	13 217
Monaco (MCO)	113 516	153	229 846	-
France (FRA)	773 946	773 946	825 364	-
Nigeria (NGA)	4 074 648	19 468	-	-
Total	**85 818 860**	**3 543 731**	**82 593 475**	**2 712 758**

Detail of gross amount of credit exposure by business sector, including interest receivable:

Business sector	31-Dec-20 Gross loan	31-Dec-20 Total impairment	31-Dec-19 Gross loan	31-Dec-19 Total impairment
Financial activities and insurance	22 065 104	321 534	17 950 046	1 330 431
Real estate activities	19 535 593	498 972	13 352 891	31 083
Public administration (regional and local)	4 583 978	344 420	9 855 463	516 384
Accommodation, restaurants and similar	1 874 109	8 198	2 640 664	7 948
Trade and repair	11 734 714	109 762	5 650 135	12 679
Construction	6 416 385	815 743	7 170 826	18 360
Leather, wood and cork industries	1 199 935	3 006	999 083	2 389
Food, beverage and tobacco industries	6 208 333	26 277	670 954	413
Metal industries	-	-	-	-
Machinery and equipment	1 020 000	870 086	871 167	435 583
Other activities and Retail	1 849 093	300 264	2 827 165	321 540
Other business services	7 502 572	238 814	19 617 568	35 591
Textiles	-	-	-	-
Transportation and storage	1 829 044	6 656	987 515	358
Total	**85 818 860**	**3 543 731**	**82 593 475**	**2 712 758**

e) Detail of the restructured credit portfolio, by restructuring measure applied:

	31/12/2020								
	Performing loans			Non-performing loans			Total		
Measure	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Term extension	3	10 665 702	332 336	4	773 946	773 946	7	11 439 649	1 106 282
Transfer of credit	0	0	0	-	-	-	-	-	-
Conversion into M/L term with the repayment plan	0	0	0	-	-	-	-	-	-
Definition of repayment plan	0	0	0	-	-	-	-	-	-
Total	**3**	**10 665 702**	**332 336**	**4**	**773 946**	**773 946**	**7**	**11 439 649**	**1 106 282**

	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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

f) Changes in inflows and outflows in the restructured credit portfolio:

	31-Dec-20	31-Dec-19
Opening balance	-	45 992
Restructured loans for the period	11 439 649	-
Accrued interest of the restructured credit portfolio	263 132	-
Settlement of restructured loans (partial or total)	-	(6 619)
Credits reclassified from "restructured" to "normal"	-	(39 374)
Credits write-offs	-	-
Others	-	-
Closing balance	**11 702 781**	**-**

g) Detail of the fair value of the collateral underlying the loan portfolio by segment:

	31/12/2020							
	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€	-	-	-	-	1	438 000	1	135 000
>= 0,5 M€ and < 1 M€	-	-	-	-	-	-	-	-
>= 1 M€ and < 5 M€	3	8 999 024	-	-	-	-	-	-
>= 5 M€ and < 10 M€	2	16 375 300	-	-	-	-	-	-
>= 10 M€ and < 20 M€	-	-	-	-	-	-	-	-
>= 20 M€ and < 50 M€	-	-	-	-	-	-	-	-
>= 50 M€	-	-	-	-	-	-	-	-
Total	**5**	**25 374 324**	**-**	**-**	**1**	**438 000**	**1**	**135 000**

	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**

In 2020, 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:

	31/12/2020									
	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. 11 505 549	14 985 212	14 211 265	773 946	1 269 536	n.a. 11 505 549	49 328 577	48 458 577	870 000	1 363 363
With other real collaterals	n.a. 11 505 549	-	-	-	-	n.a. 11 505 549	150 000	150 000	-	86
LTV <60%	2	4 065 733	4 065 733	-	18 151	1	130 000	130 000	-	627
LTV >= 60% and < 80%	3	10 726 267	10 726 267	-	247 283	-	-	-	-	-
LTV >= 80% and < 100%	-	-	-	-	-	-	-	-	-	-
LTV >= 100%	-	-	-	-	-	-	-	-	-	-
Total	**5**	**29 777 211**	**29 003 265**	**773 946**	**1 534 971**	**1**	**49 608 577**	**48 738 577**	**870 000**	**1 364 076**

	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. 11 505 549	16 270 818	16 270 818	-	38 143	n.a. 11 505 549	32 561 698	32 105 854	455 844	1 799 101
With other real collaterals	n.a. 11 505 549	2 761 428	2 761 428	-	8 204	n.a. 11 505 549	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**

Impact of the COVID-19 pandemic

However, on 11 March 2020, the World Health Organization declared the existence of a worldwide pandemic associated with the rapid growth and proliferation of the number of COVID-19 cases.

In order to contain the spread of the pandemic, extraordinary measures of containment and mitigation were imposed by authorities around the world, such as the suspension of some activities, the insertion of restrictions on the mobility of the population, the call for social distance, closing of borders, or even extensive periods of general confinement. This whole context has severely affected global economic activity and international financial markets.

Due to the pandemic, the Portuguese Government has developed support programs to the economy that allow companies to access credit on favourable terms. This support has been made available in a phased manner and distributed in specific lines for the different business sectors. These lines are guaranteed by the Portuguese State in 90% in the case of credit granted to micro and small companies and in 80% in the case of larger companies.

Also at the national level, the moratorium regime was published through Decree-Law No. 10-J/2020 of 26 March, which introduced exceptional measures to protect the credits of families, companies, private institutions of social solidarity and other entities of the local economy, and also came to provide for a special regime of personal guarantees of the State, within the scope of the pandemic.

In order to ensure the consistency and comparability of the metrics, principles and requirements set out in the International Financial Reporting Standards (IFRS), supervisors and regulators, including the European Central Bank, the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA) and the International Accounting Standards Board (IASB) issued guidelines and recommendations, with a focus on:

- Declaration on the application of the prudential framework on default, restructuring and IFRS 9, in the light of the measures approved in the context of the COVID-19 pandemic, issued by EBA on 25 March 2020;

- IFRS 9 and COVID-19 - Accounting for expected credit losses using IFRS 9 - Financial Instruments in light of the current uncertainty resulting from the COVID-19 pandemic, issued on 27 March 2020 by the IASB;

- Guidelines on public and private default on credit operations in the context of the COVID-19 pandemic, issued by EBA on 2 April 2020 (EBA/GL/2020/02) and updated on 25 June 2020 and thereafter on 2 December 2020;

- IFRS 9 in the context of the coronavirus pandemic (COVID-19), issued on 1 April 2020 by the ECB;

- Guidelines (EBA/GL/2020/12) amending the EBA guidelines (EBA/GL/2018/01) on uniform disclosure (CRR Article 473-A) regarding the transitional regime to reduce the impact of the introduction of IFRS 9 on equity to ensure compliance with CRR's "Quick Fix" in response to the COVID-19 pandemic;

- Commission Regulation (EU) 2020/1434 of 9 October 2020 amending Regulation (EC) No. 1126/2008 adopting certain international accounting standards under Regulation (EC) No. 1606/2002 of the European Parliament and the Council, regarding the International Financial Reporting Standard 16 (IFRS 16).

As at 31 December 2020, exposures subject to a moratorium are broken down as follows:

Detail of exposures by segment	Gross amount								
		Performing				Non-performing			
			Of which: with grace period for interest and capital	Of which: forbearance	Stage 2		Of which: with grace period for interest and capital	Of which: forbearance	Of which: unlikely to pay (less than 90 days)
Moratorium	**33 040 726**	**27 121 261**	**5 404 428**	**-**	**15 226 519**	**5 919 465**	**5 919 465**	**-**	**5 919 465**
Private customers	-	-	-	-	-	-	-	-	-
Non-financial companies	33 040 726	27 121 261	5 404 428	-	15 226 519	5 919 465	5 919 465	-	5 919 465

Detail of impairment by segment	Impairment								
		Performing				Non-performing			
			Of which: with grace period for interest and capital	Of which: forbearance	Stage 2		Of which: with grace period for interest and capital	Of which: forbearance	Of which: unlikely to pay (less than 90 days)
Moratorium	**(554 947)**	**(530 085)**	**(22 684)**	**-**	**(303 554)**	**(24 862)**	**(24 862)**	**-**	**(24 862)**
Private customers	-	-	-	-	-	-	-	-	-
Non-financial companies	(554 947)	(530 085)	(22 684)	-	(303 554)	(24 862)	(24 862)	-	(24 862)

Detail of exposures by industry	Non-financial companies		
	Moratorium	**Forbearance measures due to Covid-19**	**Credit originated due to the measures to support the economy, guaranteed by the State**
Real estate activities	8 980 470	-	-
Financial activities and insurance	7 504 147	-	-
Accomodation, restautants and similar	1 925 548	-	-
Trade and repair	3 119 180	122 365	-
Construction	3 084 958	773 946	-
Manufacturing industry	-	-	150 056
Other business services	7 427 625	-	-
Transportation and storage	998 797	-	-
TOTAL	**33 040 726**	**896 311**	**150 056**

As at 31 December 2020, all exposures subject to a moratorium have residual maturities between 3 and 6 months. During the moratorium period, the Bank developed monitoring procedures for clients inherent to these exposures.

32. 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 active market available and understand that 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. Thus, 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:

	31/12/2020			
	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	-	-	117 902	117 902
Debt instruments	-	281 290	-	281 290
Investment funds	-	-	147 202	147 202
Other financial assets at fair value through profit or loss				
Investment funds (Note 6)	-	-	294 405	294 405
Financial assets at fair value through other comprehensive income (Note 7)				
Debt instruments	133 949 776	5 094 803	-	139 044 579
Total	**133 949 776**	**5 376 093**	**559 509**	**139 885 378**
Other financial liabilities at fair value through profit or loss				
Structured financial resources received (Note 6)	-	-	(294 405)	(294 405)
Total	**-**	**-**	**(294 405)**	**(294 405)**

	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)**

As at 31 December 2020, the exposures of financial instruments accounted by the tier one valuation method are as follows:

Grade	31/12/2020	
	Securities (level 1)	
	Exposure (accrued interest included)	Impairment
Prime	8 561 467	599
High grade	17 997 426	3 202
Upper medium grade	35 333 338	10 976
Lower medium grade	47 326 599	45 995
Non-Investment grade	99 226	250
Speculative	2 220 275	15 914
Highly Speculative	-	-
Substantial risks	-	-
Extremely speculative	-	-
Unrated	27 506 248	267 016
Total	**139 044 579**	**343 952**

There were no transfers between levels of classification since the nature of the financial instruments did not have significant changes.

The Bank's assets and liabilities at fair value are accounted 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 2020 and 2019 can be analysed as follows:

	31/12/2020			
	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	383 863	336 977	(336 977)	383 863
Acquisitions	-	-	-	-
Exits by maturity	-	-	-	-
Exits by settlements	(51 978)	-	-	(51 978)
Transfer by acquisitions	-	-	-	-
Transfer by exits	-	-	-	-
Fair value change (Note 23)	(45 841)	(14 095)	14 095	(45 841)
Exchange rate revaluation	(20 940)	(28 477)	28 477	(20 940)
Closing balance	**265 104**	**294 405**	**(294 405)**	**265 104**

	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 23)	(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**

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 in the amount of Euro 147,202 (31 December 2019: Euro 168,489).

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 in the amount of Euro 294,405 (31 December 2019: Euro 336,977), which are directly related and guaranteed by Other financial liabilities at fair value through profit or loss, which use that fund as underlying asset, in the same amount, as referred in Note 5.

As at 31 December 2020 and 2019, the fair value of assets and liabilities is the result of the quotation 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 to the main variables underlying the quotations calculated by these entities.

34. Recently issued accounting standards and interpretations

34.1 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.

34.2 Accounting standards and interpretations applicable to the 2020 period

Amendment to IFRS 3: Business definition
Corresponds to amendments to the definition of business, aiming to clarify the identification of business acquisition or acquisition of a group of assets. The revised definition further clarifies the definition of a business output as the supply of goods or services to customers. The changes include examples for identifying a business acquisition.

There were no material impacts on the application of this amendment to the Bank's financial statements.

Amendment to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform – Phase 1
Corresponds to Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 (known as “IBOR reform”), in order to reduce the potential impact of changes in interest rate benchmark on financial reporting, namely in hedge accounting.

There were no material impacts on the application of this amendment to the Bank's financial statements.

Amendment to IAS 1 and IAS 8: Definition of Material
Corresponds to amendments to clarify the definition of "material” in IAS 1. The definition of material in IAS 8 now refers to IAS 1. This amendment changes the definition of "material” in other standards to ensure consistency. 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.

There were no material impacts on the application of this amendment to the Bank's financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards
Corresponds to amendments to several standards (IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32) regarding references to the Conceptual Framework revised in March 2018. The revised Conceptual Framework includes revised definitions of an asset and a liability and new guidance on measurement, derecognition, presentation and disclosure.

There were no material impacts on the application of this amendment to the Bank's financial statements.

Amendment to IFRS 16: Covid-19-Related Rent Concessions
This amendment permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications. A lessee who uses this option must account for any rent concession

in the same way that he would do it in application of IFRS 16 - Leases if this change did not constitute a lease modification.

This standard had no impact on the Bank's Financial Statements.

34.3 Standards, interpretations, amendments, and revisions that will come into effect in future financial years

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:

Amendment to IFRS 4: Extension of the temporary exemption from applying IFRS 9 – Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2021)
This amendment aims to extend the temporary exemption from applying IFRS 9 – Financial Instruments from 1 January 2021 to 1 January 2023, thus aligning itself with the date from which the adoption of IFRS 17 - Insurance contracts becomes applicable.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2 (effective for annual reporting periods beginning on or after 1 January 2021)
These amendments aim to respond to the effects on the financial reporting of replacing the current interest rate benchmark
with alternative benchmark rates, providing for an accounting treatment that allows for the phased distribution of changes in the value of financial instruments or lease contracts, mitigating the impact on profit or loss and avoiding consequences in terms of hedge accounting.

Although endorsed by the European Union, these amendments were not adopted by the Bank in 2020 since their application is not yet mandatory.

34.4 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:

IFRS 17 – Insurance contracts (effective for annual reporting periods beginning on or after 1 January 2023)
This standard establishes, for insurance contracts within its scope, the principles for their recognition, measurement, presentation, and disclosure. This standard replaces IFRS 4 - Insurance Contracts.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual reporting periods beginning on or after 1 January 2016)
These amendments aim to clarify an inconsistency detected between the requirements of IAS 28 and IFRS 10. Its main objective is to establish that in a transaction between an investor and its associate or joint venture, the extent of recognition of the gain or loss depends on the fact that the traded assets constitute, or not, a business. In this sense, these amendments define that a gain or loss should be recognised in its entirety when a transaction involves an asset identified as a business (whether inserted in a subsidiary or not) and, in turn, a gain or loss should be partially recognised when a transaction involves assets that are not identified as business (even if they are part of a subsidiary).

Amendment to IAS 1: Classification of Liabilities as Current or Non-current – Postponement of the effective date (effective for annual reporting periods beginning on or after 1 January 2023)
As at 23 January 2020, the amendment to IAS 1: Classification of Liabilities as Current or Non-current was issued. This amendment intends to clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period, being unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, and also make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

On 15 July 2020, it was decided to defer the effective date by one year to annual reporting periods beginning on or after 1 January 2023.

Amendment to IFRS 3: Reference to the Conceptual Framework (effective for annual reporting periods beginning on or after 1 January 2022)
This amendment is intended to update IFRS 3 so that it refers to the 2018 conceptual framework. There are no significant changes in the requirements of this standard.

Amendment to IAS 16: Property, Plant and Equipment — Proceeds before Intended Use (effective for annual reporting periods beginning on or after 1 January 2022)
This amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

Amendment to IAS 37: Onerous Contracts — Cost of Fulfilling a Contract (effective for annual reporting periods beginning on or after 1 January 2022)
This amendment clarifies the costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. It also specifies that the cost of fulfilling a contract comprises only the costs that relate directly to the contract. Costs that relate directly to a contract can either be incremental costs or an allocation of other costs that relate directly to fulfilling contract.

Improvements to international financial reporting standards (2018-2020) (effective for annual reporting periods beginning on or after 1 January 2022)
These improvements involve clarifying some aspects related to: IFRS 1 - First-time Adoption of International Financial Reporting Standards: allows a subsidiary that adopts IFRS for the first time to measure accumulated translation differences based on the book values presented in the consolidated financial statements of its parent company, in accordance with the transition date of the parent company to IFRS; IFRS 9 - Financial instruments: clarifies that, when assessing the derecognition of a financial liability, an entity should only consider fees paid or received between the entity and the funder, including fees paid or received by one on behalf of the other; IFRS 16 - Leases: amendment to illustrative example 13 inserted in the standard, in order to avoid doubts regarding the treatment of lease incentives; IAS 41 - Agriculture: removal of the requirement to exclude tax cash flows when calculating the fair value of a biological asset, thus ensuring consistency with IFRS 13 - Fair Value Measurement.

Building a better
working world

Ernst & Young
Audit & Associados - SROC, S.A.
Avenida da República, 90-6º
1600-206 Lisboa
Portugal

Tel: +351 217 912 000
Fax: +351 217 957 586
www.ey.com

Statutory Auditor's Report

(translation of a report and annual accounts originally issued in Portuguese. In the event of discrepancy, the Portuguese-language version prevails – Note 36)

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

Opinion

We have audited the attached financial statements of Banco BAI Europa S.A. (the Bank), which comprise the Statement of Financial Position as of December 31, 2020 (showing a total of 586,404,245 euro and a total equity of 89,338,929 euro, including a net income of 170,460 euro), the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and the notes attached to the financial statements that include a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Banco BAI Europa S.A. as at 31 December 2020 and its financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union.

Basis for opinion

We conducted our audit in accordance with International Audit Standards (ISA) and other technical and ethical standards and guidelines of the Order of Statutory Auditors. Our responsibilities under these standards are described in the "Auditor's responsibilities for auditing the financial statements" section below. We are independent of the Bank in accordance with the law and comply with the other ethical requirements under the Code of Ethics of the Order of Statutory Auditors.

We are convinced that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key Audit Matters are those that, in our professional judgment, were most important in auditing the financial statements of the current year. These matters were considered in the context of auditing the financial statements as a whole, and in the forming our opinion thereon, and we do not give provide a separate opinion on these matters.

We describe below the Key Audit Matters for the current year:

1. **Expected credit losses on credit Loans**

Description of the most significant material misstatement risks	Summary of our response to the most significant material misstatement risks
Loans and Advances to Customers, as described in Note 9 to the Financial Statements, as of 31 December 2020, presents an amount of 82,230,868 euro (79,163,299 euro as of December 31, 2019), corresponding to credit to customers, net of impairment (Notes 9 and 32) amounting to 3,543,731 euros at 31 December 2020 (2,712,758 euros as of December 31, 2019). The detail of the accounting policies, methodologies, concepts and assumptions used are disclosed in the accompanying notes of the financial statements (Note 2.4.1, Note 9 and Note 17).	We carried out the identification and evaluation of the audit risk which led to the definition of the audit approach to respond to the risk of material misstatement. This approach included (i) an overall response with effect on the way the audit was conducted and (ii) a specific response that resulted in the design and subsequent implementation of additional procedures that included testing of substantive controls and procedures, including: ▸ Analytical review procedures regarding the evolution of credit impairment losses levels, comparing it with the same period and with the expectations formed, which are to highlight the understanding of the

Description of the most significant material misstatement risks	Summary of our response to the most significant material misstatement risks
The impairment losses in loans to customers represents the Bank's management best estimate of the expected loss of the credit portfolio to clients with reference to December 31, 2020. For the calculation of this estimate, Bank's management established assumptions, used external models (ECAIs), interpreted concepts and devised a model for calculating expected loss. In addition to the complexity of the models described, their use requires processing of a significant amount of data that is not always available in the Bank's central systems, such as information on risk parameters. In response to the COVID-19 pandemic, the Protocol of the Portuguese Association of Banks introduced a range of moratoriums programs that allow debtors to defer payment of capital and interest without being considered defaults. Moratoriums start counting days in arrears, which increases the judgment associated with identifying loans with a significant increase in credit risk. Additionally, the pandemic decreased the predictability of the economy's evolution. Consequently, the determination of the scenarios and weightings used to calculate the expected loss of the credit portfolio to customers is even more uncertain. The use of alternative approaches, models or assumptions may have a material impact on the estimated losses value. In view of the degree of subjectivity and complexity that the estimate of losses involves and the materiality of its value, we consider this theme as a key audit matter.	variations occurred in the credit portfolio and changes in the assumptions and methodologies on impairment losses; ▸ We have obtained an understanding of the internal control procedures in the process of calculation impairment losses and the methodology of calculation of impairment losses, regarding the attribution of responsibilities in the performance of these functions and methodologies applied. ▸ We selected a sample of clients subject to individual analysis of impairment losses, for evaluation of the assumptions used by management in the quantification of the impairment loss. This analysis included the following: the validation of information with business models, with the economic and financial situation of debtors and with collateral assessment reports; inquiry with the Bank's experts to determine the defined recovery strategy and confirm the assumptions applied; ▸ With the support of internal risk specialists, we evaluated the reasonableness of the parameters used in the calculation of the impairment losses, highlighting the following procedures performed: i) understanding of the methodology formalized and approved by management and comparison with the one effectively used; ii) evaluation of changes to models to determine parameters to reflect the expected loss; iii) analysis of the changes made during the financial year 2020 to the risk parameters (PD, LGD and EAD); (iv) on a sampling basis, comparison of the data used in the clearance of risk parameters with source information; and v) inquiries to the experts responsible for the models, in particular on the methodology of incorporating prospection information in the context of the current Covid-19 pandemic; ▸ We have obtained the understanding and evaluated the design of the ECL model, recomputed the calculation, compared parameters used with the results of the ECL model, through the reconciliations prepared by the Bank, with the source information, evaluated the assumptions used to fill gaps in the data, compared the parameters used with the results of the estimation models, compared the results with the values in the financial statements; ▸ Analysis of disclosures included in the accompanying notes of the financial statements, based on the requirements of international financial reporting standards and accounting records.

Responsibilities of the management body and the supervisory body for the financial statements

The management body is responsible for:

- preparation of financial statements that presents in a true and fair view the Bank's financial position, financial performance and cash flows in accordance with international financial reporting standards (IFRS) as adopted in the European Union;
- preparation of the Management Report in the applicable legal and regulatory terms;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements free from material misstatement due to fraud or error;
- adoption of appropriate accounting policies and criteria in the circumstances; and
- assessment of the Bank's ability to continue as going concern, and disclosing, if applicable, matters that may raise significant doubts to continue as going concern

The supervisory body is responsible for supervising the preparation and disclosure process of the Bank's financial information.

Auditor's responsibilities for auditing the financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements due to fraud or error, and to issue a report containing our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit performed in accordance with ISA will always detect material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, alone or jointly, they can reasonably be expected to influence economic decisions of users taken based on those financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgments and maintain professional skepticism during the audit. We also:

- identify and assess the risks of material misstatement of the financial statements due to fraud or error, design and perform audit procedures that respond to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatement due to fraud is higher than the risk of not detecting material misstatement due to error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override internal control;
- obtain an understanding of the internal control relevant to the audit with the aim of designing audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Bank's internal control;
- assess the adequacy of the accounting policies used and the reasonableness of the accounting estimates and their disclosures made by the management body;
- conclude about the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether there is any material uncertainty related to events or conditions that may raise significant doubts about the Bank's ability to continue its activities. If we conclude that there is material uncertainty, we should draw attention in our report to the related disclosures included in the financial statements or, if such disclosures are not appropriate, modify our opinion. Our findings are based on audit evidence obtained so far from our report. However, future events or conditions may lead the Bank to discontinue its activities;
- evaluate the presentation, structure and overall content of the financial statements, including disclosures, and whether these financial statements represent the underlying transactions and events in order to achieve an appropriate presentation;

- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the scope and timing of the audit and the significant audit findings including any significant internal control deficiency identified during the audit;
- from the matters we communicate with those charged with governance, including the supervisory body, we have determined which were the most important in the audit of the financial statements for the current year and which are the key audit matters. We describe these matters in our auditor's report, except where the law or regulation prohibits their public disclosure; and
- provide the supervisory body with a statement that we comply with the relevant ethical requirements regarding to independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, what measures are taken to eliminate the threats or what safeguards are applied.

Our responsibility also includes verifying the agreement of the information contained in the Management Report with the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

About the Management Report

In accordance with Article 451 nº3 paragraph. e) of the Code of Commercial Companies, it is our opinion that the Management Report has been prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is in agreement with the audited financial statements and, taking into account the knowledge and appreciation of the Bank, we do not identify material inaccuracies.

On the additional elements provided for in Article 10 of Regulation (EU) No 537/2014

In compliance with article 10 of Regulation (EU) No 537/2014 of the European Parliament and the Council of 16 April 2014, and in addition to the relevant audit matters set out above, we also report the following:

- We were appointed auditors of the Bank for the first time at the General Meeting of Shareholders held on May 16, 2017 for a term between 2017 and 2020.
- The management body has confirmed to us that it is not aware of any fraud or suspected fraud with material effect in the financial statements. In the planning and execution of our ISA-based audit we have maintained professional skepticism and designed audit procedures to respond to the possibility of material misstatement of financial statements due to fraud. As a result of our work we have not identified any material misstatement in the financial statements due to fraud;
- We confirm that the audit opinion we issue is consistent with the additional report we have prepared and delivered to the Bank's supervisory body on this date;
- We declare that we have not provided any prohibited services pursuant to Article 77º, nº8 of the Statute of the Order of Statutory Auditors and that we maintained our independence from the Bank in conducting the audit; and
- We inform you that, in addition to the audit, we provide the Bank with the following services permitted by law and regulations:
    - Agreed procedures in support of the supervisory body in the context of the opinion on the internal control report, pursuant to Article 25 nº 5 paragraph a) of Notice No 5/2008 of Banco de Portugal;
    - Procedures to support the issuance of the Statutory Auditor's Report on the internal control system underlying the Financial Reporting, pursuant to article 25 nº5 paragraph b) of Notice No. 5/2008 of Banco de Portugal;

- Procedures for issuing the semiannual evaluation reports of the process of quantifying the impairment of the Group's credit portfolio pursuant to Banco de Portugal's Instruction 5/2013, republished by Banco de Portugal Instruction No. 18/2018;

Lisbon, 29 April 2021

Ernst & Young Audit & Associados – SROC, S.A.
Society of Statutory Auditors
Represented by:

Silvia Maria Teixeira da Silva - ROC No. 1636
Registered at CMVM with no. 20161246